How Up.Labs threads the needle between corporate venture capital and accelerators

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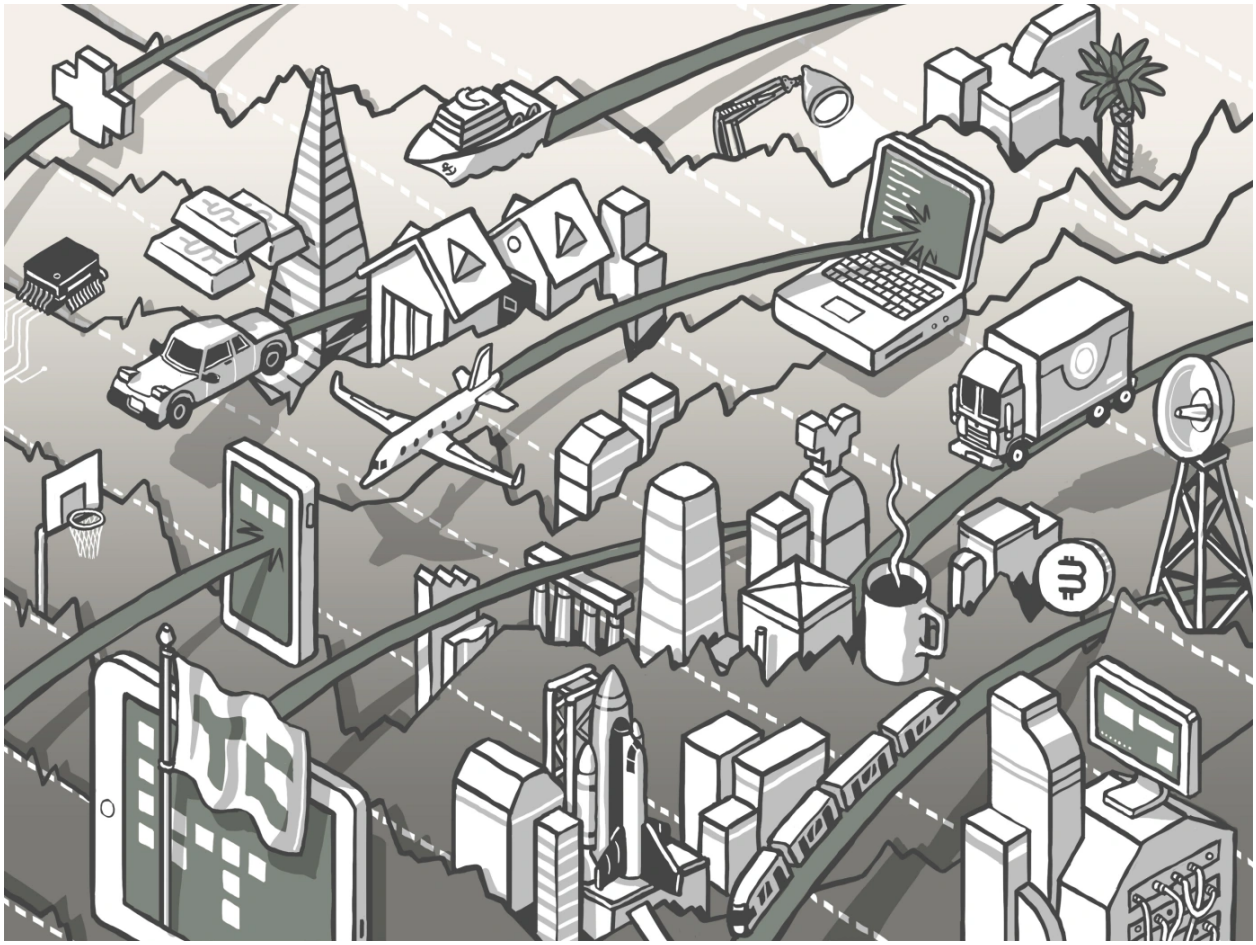

One element of the 2021 venture capital apotheosis that doesn't get enough attention is corporate venture capital. CVC boomed through last year, leading TechCrunch to interview a number of CVC investors last August to better understand the trend.

As with other forms of venture capital, CVC has pulled back some this year.

Accelerators also had a pretty good run through 2021: Recall that Y Combinator cohort sizes reached new records and the group boosted the amount of capital that it invested in batch companies.

There was a lot of money flying around, and it seemed to come from every corner of the business world; hell, how many corporate-sponsored Techstars programs are there today? It makes sense that if we saw more corporate venture money and more aggressive accelerator activity through the last boom, the two would at times overlap.

Corporate interest in startup investing has cooled this year, posting declines in deal value for four quarters and deal volume for two. And the massive accelerator cohorts of yesteryear seem slightly out of tune with the current market; who is going to fund all the Series A rounds for those startups, given that we're seeing kinks develop in the venture pipe?

The up-and-down CVC world is not putting some folks off. TechCrunch covered an interesting new fund-accelerator-CVC-ish group called UP.Labs earlier this year. Its model brings together the corporate desire to leverage new technologies and the big company needed to innovate faster than startup scale would normally allow, crossing the combination with targeted startup construction. (The group isn't into the "incubator" tag, we noted previously; it calls its accelerator a "venture lab." More on that in a moment.)

The UP.Labs' model won't scale to Y Combinator size — on purpose, given how few corporate partners the group intends to onboard, at least for now — but it does meld two interesting, formerly booming trends in a manner that could be a sort of *third* option for startups: fusing corporate money and corporate demand into an accelerator format.

I wanted to learn a bit more, so I called UP.Partners' John Kuolt and Katelyn Foley to chat through their model.

UP.Labs

UP.Partners is part venture fund, part startup builder. On the investing side, Kuolt confirmed to TechCrunch that the group raised a $230 million first fund, which, along with a separate "sidecar" pool of capital worth $20 million, gives it a quarter billion dollars to put to work. The two UP.Partners execs said that their first fund is around 75% committed to date, counting capital set aside for follow-on dealmaking and the funds needed for its Labs effort.

Why build Labs alongside its main fund?

"Right now, there's really no way to align good entrepreneurs and large corporations," Kuolt said. That's where UP.Labs comes into the picture. The effort wants to "get aligned and attack the biggest strategic problems of the world's most important companies," he explained.

It works like this: UP.Labs picks two corporate partners and then determines where they are seeing the most friction. Foley said that her group's ability to figure out where startups might be able to help is partially predicated on prior experience doing related work at major consultancies.

Once the corporate partner's startup-attackable issues are identified by the UP.Labs team, they build new companies to create what is needed for those corporate partners. That is why the group doesn't vibe with the "accelerator" moniker — Foley argued that because her team creates targeted new companies "from scratch," it is not an accelerator.

This is a fair point; “accelerator” implies the taking of something already in motion and giving it a nudge. UP.Labs, in contrast, finds a corporate pain point and fashions a company around it. “Incubator” is a fine word here, even if it is at times used interchangeably with “accelerator.”

So corporate partners provide problems. How else do they participate? Porsche, the UP.Labs partner that TechCrunch noted in our first look at the group, has a cap on the fraction of the startups that it can own to start. But at the end of a multi-year period, corporate partners can snap up the startups built to solve their problems.

Foley and Kuolt think that their pitch to founding teams is attractive. They have a known problem, a customer waiting, and capital to help get things going. Hell, there’s even an exit waiting in the wings if things go well. We’ll vet the strength of this pitch by the caliber of the talent it attracts.

There are downsides to the UP.Labs model. One that is throughput; the model is pretty bespoke in terms of finding startup-friendly issues at its partner companies, so the startup incubator setup won’t ever reach the scale that we see at Y Combinator or Techstars. And because the UP.Labs team choosing the pain points to attack, their judgment will prove paramount to the success of startups they spin up — the method concentrates risk in the hands of a few leaders instead of spreading it out among a host of CEOs that choose their own problem area.

We also have questions concerning signaling risk — it would say something if a corporate partner bought one startup built to attack its issues and not another — that won’t be answered until the group has gone through a full cohort cycle or two.

That said, it’s neat to see corporate money get active in startups in a more targeted fashion. There’s a natural tension between financial

and strategic results at CVC players generally. UP.Labs, if it works as planned, will cut some of the dissonance between the two goals. Every company's strategy involves unknotting its thorniest issues, and if incubated startups from the group can solve real problems at big companies, they will save enough money for their potential future owners to make the math square up.

So we'll see how things shake out at Up.Labs when results come in. Until then, it's a neat way to try to fuse corporate money and startup know-how. More innovation of this sort, please!