

## Interview with Phil Giesler

### Director of Innovation Unilever Corporate Ventures



Phil is a full-time operating member with Physic Ventures, a venture capital fund located in San Francisco, where Unilever is a strategic investor. Physic is focused on keeping people healthy and sustainable living. Phil is responsible for maximizing the strategic benefit of the relationship between Physic and Unilever.

Phil was formerly a Board Director of Textronics Inc., a Unilever portfolio company recently and successfully sold to Adidas Inc. He is a member of the NVCA's Corporate Venture Advisory Group. He led the Global Technology Center for Unilever's \$1.5 billion Household Care business. Phil has extensive experience in R&D, Innovation, Category Management, and Supply Chain.

He has a degree in Industrial Chemistry from York University, and an MBA from Bradford University. Phil can be reached at [phil.giesler@unilever.com](mailto:phil.giesler@unilever.com)

Interview conducted by Doug Berger, INNOVATE [doug@innovate1st.com](mailto:doug@innovate1st.com)

**Doug:** You are responsible for Unilever Corporate Ventures investments on the west coast. Why don't you give us some background on corporate ventures within Unilever?

**Phil:** We started corporate ventures in 2001. There were a number of trends happening in the company at the time. There was a clear need for new growth opportunities. While existing markets were secure, there was a need to push outside the box, to stretch the brands and monetize new technologies. Unilever had realized that open innovation needed to form a much stronger part of our overall approach. During the 1990's the company had started a number of new businesses, including new channel ideas and brand stretch opportunities. Every single one of them had failed. It wasn't because they were bad ideas. It was simply because by doing it ourselves we had neither the competencies nor the capital to make these successful. We needed alternative ways of financing and building businesses.

**Doug:** Are you referring to capital as financing or in some other way?

**Phil:** I am referring to it as finance. I was in Unilever's European group and we had a five billion Euro turnover. Europe started three stand-alone businesses. 1) a very up-market retail operation in personal care; 2) a chain of barber shops under one of our deodorant brands; 3) a home cleaning service in the UK. Unilever was great at starting these businesses and had no problem putting people into those businesses. However after a year or two, Unilever realized that if it was going to really turn those businesses into ones that had critical mass and were able to move the needle, it didn't have the necessary expansion capital. It's great, for instance, to have one high chain retail

outlet in Amsterdam, but to really move the needle you need to build 20 or 30 more of them. We were a five billion dollar operation that couldn't afford the risk capital.

Doug: With that background, let's talk about the strategic elements of Unilever's corporate ventures.

Phil: We put together our first fund late in 2001, with 250 million Euros, and we used that to invest in three significant entities. One of them was Unilever Ventures, which focused on spinning out new technology and new consumer ventures that didn't fit within the existing brand models. The second group, Langholm Capital, was a mid-market consumer growth fund. We co-invested with Rabobank in that group. Our third was called Unilever Technology Ventures (UTV), and that's where I came in. We were based in California, and were focused on spinning in technology in the life and material sciences sectors. In 2006, Unilever agreed to fund an additional 350 million Euros and we established Physic, a true independently governed venture fund. Physic was formed by bringing together the teams previously involved in UTV and Brand New Brands, a functional food incubator which Unilever had supported.

Doug: What strategic elements would you like to highlight?

Phil: There are five building blocks in how we put the venturing model together.

(1) We create dedicated investment funds, each set up as a normal fund with a fixed life and investment period.

(2) Each of those funds is managed for financial return, and the guidelines for financial return are established up front. This includes placing a maximum on cash exposure. At the end of the day, this needs to be a sustainable model from a financial and a strategic angle, on a 10+ year timeframe. We believe that the best funds attract the best deal flow. Within the Physic fund, we're now seeing about 1,000 deals per year, the vast majority of which are within the fund's scope. Physic can lead deals and can attract strong VC syndicate partners.

(3) We have a tailored governance framework. Each of the funds that Unilever invests in, whether they are captive or independent, provide the general partner of that fund with total discretion regarding how to spend the money. The partnership decides on its investments. It's not a situation in which each individual investment decision goes up inside the Unilever corporation for approval.

(4) The portfolio investments are well spread in terms of geography and in terms of stage. Physic is investing in venture stage start-ups. Unilever investments in mid-market growth funds such as Catterton Growth Partners and Swander Pace, ensure that we also see companies from the \$30-50MM turnover level, up to \$300 -500MM. That portfolio approach is very important for a business like Unilever. Unilever is a \$50 billion global business. It has to think about how it grows portfolio investments into big opportunities that would be capable of moving the needle, such as the recent acquisition of Tigi, a global hair salon business.

(5) There is third party involvement. We are very keen to make sure that we aren't the only investors. Unilever Technology Ventures was a dedicated and captive fund with Unilever as the sole investor. At Physic, Unilever is the biggest investor, but there are seven other limited partners. This gives us much more strategic value than the original UTV fund.

Doug: The point that I'd like to highlight here is that in establishing Physic you established a true venture fund under the same of rules of engagement as other venture capital funds. You've built it from a VC framework, not a Unilever framework. That's why you are able to attract the quality of business plans.

Phil: That's exactly right. A benefit of this structure is that we are leading deals. We are setting terms sheets. We are bringing in good quality and reputable syndicate partners.

Doug: Let's zoom in and define Physic.

Phil: Physic is a consumer focused venture fund that is investing in *keeping people healthy* and *sustainable living*, differing from the traditional life science or even clean technology funds, which focus more on a B2B model. Physic is a \$160 million fund. We have eight investment professionals in the group. It brings together Dion Madsen and me from Unilever Technology Ventures, and Will Rosenzweig and Andy Donner who founded Brand New Brands. In addition we have recruited an excellent material scientist, Andrew Williamson, whose background includes NREL and the Lawrence Livermore lab; one of Genentech's top business development directors, Stacy Feld; Susannah Kirsch, who worked at the Institute of the Future with FMCG companies, such as P&G; Karin Rotem, who represents another of our strategic investors, PepsiCo. In addition to Pepsi-Co, we have a 3<sup>rd</sup> strategic in Humana, a big health insurance business. In addition, we've got pure financial investors such as CalSTRS and CalPERS.

Physic invests in three dimensions: (1) **Enabling technologies.** We believe that all of our investments must have an enabling technology that will give lasting and sustainable value ... protectable, unique or trademarkable IP. One of our investments, Espresso Fitness, is an exercise bike company in Sunnyvale, Ca. They have screens on the bikes which enable you to race on real circuits against other people. It's interactive. Their IP is software and connectivity.

(2) **Branded products.** We believe very much in what the brand proposition could be. For example, one of our products is Dreamerz, a range of food products designed to help you sleep at night.

(3) **Innovative Channels.** Innovative channels are new ways of delivering to the consumer. They could be anything from Internet supported systems to working through gyms and professional outlets, to corporate wellness packages. A perfect illustration of this is our retail investment in Pharmaca, an integrative pharmacy retail chain.

Doug: Let's talk about lessons learned that are applicable to major companies.

Phil: We are seeing about 1,000 business plans or business concepts a year. Approximately 100 of those get into what we call our more active scouting list, where we'll spend a bit more time understanding the technology. The rest get quickly rejected. We work with serious due diligence to get those 100 into the 20 that make up our "venture ballpark process." We will invest in about three to four a year.

Doug: The first set of lessons might then relate to ways in which you screen concepts.

Phil: Even before we screen, we are open to unsolicited business concepts from a multitude of sources. This is the first lesson for corporations, which tend to set tight boundaries on where and how concepts can be sourced. Venture Capital firms are very porous to new ideas for anyone, anywhere.

Secondly, we are very efficient in screening. We quickly screen out that first 90% on the basis of three criteria. Are concepts within our investment scope? Are concepts at the right stage for us? Are concepts at the right level of capital for us, neither too small nor too large?

We really are keen to invest in businesses with a proof of concept and where we see a path to exit with a total investment of less than 50 million additional dollars. Our second round of screening requires some investigation. Is the technology close to commercialization or does it still require significant scientific development? The link to Unilever and to Pepsi-Co is very helpful. We have high quality science groups in certain areas. At a non-confidential stage we can share some of the ideas that come to us and we can quickly get a feedback from our colleagues. They can tell us whether there are other companies in that technology space, and about the issues by which they are getting hit.

At this 2<sup>nd</sup> screen we frequently find that we don't have a management team in whom we can invest. We're fundamental believers in backing management teams. We are not a fund that says, "Here's a great idea and what we're going to do is put our own management team onto it to do with it what we want." We do believe that if the team is backable, they should have a decent and sound business plan. They should have a clear idea as to where their first market exploitation is going to come from. Finally, we're looking for the platform potential, beyond that first application.

The 3<sup>rd</sup> stage is the 'Venture Ball Park' process for serious scrutiny of the companies that we are the most excited about. Out of these, we will probably make 3-4 investments each year. It's like a baseball diamond. Up to second base, we are fairly internal and we dive into due diligence on the proof of concept, on the people and on the business plan. We tend to double up on deals and bring together a technologist and a brand or channel expert to make sure that we're not just seeing a deal from one side. We also significantly involve our outside Strategic Advisory Board with experts in technology, branding and sustainability. As we move around that diamond, we get into the structure of the deal, term sheets, syndication and valuation. The proposal can still fall apart as we work through these.

Doug: A lesson might be that you're not caught up in the optimism of the deal such that the longer you're in the game the harder it is to say no. You're actually being very deliberate at every step in looking for what would cause you to pull the plug on the deal. As a culture, you are looking for the basis to not go ahead.

Phil: You are absolutely right. I remember working on projects within Unilever which quickly became too big to kill. Everybody might have felt that it wasn't going anywhere, but so much had been invested and too many heads were on the line to turn it off.

Doug: What can you say about managing ventures ... ongoingly reviewing the progress ... interacting with the management of the venture?

Phil: Physic will have at least one Board of Director seat in every one of the companies in which they invest. We're heavily involved with the management team of our companies in helping them to put in place the best strategies for their respective marketplace. We are involved with recruiting, and increasingly looking at the quality and dynamics of the management team. Of course we're also making strong links between those companies and Physic's strategic investors, be it Humana, Unilever or Pepsi. Where can the actual purchasing power of the strategic help that company? We are also independently anticipating their requirements for additional capital. Venturing

has more independent checks and balances built in than do corporate stage-gate processes.

Doug: As we round out this topic, what are other noteworthy lessons that corporate people can use in how they manage their portfolios, or in how they go about managing some of their own internal growth initiatives?

Phil: One lesson is the application of the due diligence process with internal projects. It's a good idea to make sure that you are monitoring progress and scrutinizing on all fronts of a business idea in parallel, not doing just it in series. Scrutinize IP, brand, management team, cash flow all in parallel. Recognizing future funding requirements and being very clear about milestones that need to be met would avoid projects taking on a life of their own.

Doug: If you want the next level of investment you have to earn it. You have no intrinsic right to ongoing funding.

Phil: That's exactly right. All too frequently companies forget that and people just carry on working things through on an annual budget basis, neglecting to think carefully about the end point. This whole business about keeping your mind focused on the business opportunity at every stage, being well rounded, and very clear about the next gate for funding is a key lesson that could come from how ventures tackle things.

Doug: What does Unilever see as its strategic goals for corporate venturing? What do they want to get out of it?

Phil: We see three big picture stories here:

1. **Creating growth options.** Corporate venturing gives Unilever the ability to examine alternative ways to commercialize and grow its innovations. It's a fairly low risk way of doing this and allows us to look at a higher number of options.
2. **Unlocking hidden value.** Unilever develops much intellectual property itself. It can be difficult to exploit that using only our current brands in their current channels. Venturing means that we can start to use that IP in other areas. It's another way of monetizing our technology and ideas.
3. **Establishing new external links.** We are talking to and seeing a diverse range of people. Via our investment in Physic, we have access to academic institutions, different VCs, and the other strategics. Unilever and Humana have had some interesting discussions simply because both are limited partners in Physic.

We have a program in Physic called our Visiting Associates Program, for example. We bring in people from Unilever who are either in R&D or in the marketing and brand organization, and have them scout for new ideas and new technology within a completely different community. There's a chap from our research and development group in India. He is part of the team that's leading very exciting work on a water purification brand aimed at low income consumers. He's scouting for new technology, ideas and business models that we have access to here. By being on the ground here in Physic, he can accelerate that to an incredible degree.

Doug: How is Unilever using corporate ventures to influence its entire internal ecosystem?

Phil: One of the benefits of ventures is that it enables us to look at the landscape in which Unilever is playing and think about what that landscape will be like in three to five

years; who the influencers on that landscape are, and how we can get a strong position in that landscape.

For instance, we have now formed a partnership with the UC Davis campus, one of the biggest universities focusing on food and nutrition. Unilever is becoming one of the lead sponsors of their Food for Health Initiative. This enables Unilever to work with the academics in that whole program, who can be involved in the nutrition or behavioral science of foods. We are also involved with The Food and Health Entrepreneurship Academy. This takes a number of people who have brilliant ideas in food sciences and food technology, and gives them entrepreneurial skills. In addition, a number of Unilever scientists from all over the world are taking part.

A second example is the American College of Preventive Medicine. The College is made up of several thousand physicians in the US, who really do believe in prevention, lifestyle and wellness, not just in treatment. We joined up with their corporate roundtable and became part of that community. For the first time there is now a venture capital fund coming into a group, which previously was predominantly about insurers and pharmaceutical companies. We now will be working with this leading group of physicians in the area of prevention.

Doug: Can you identify a couple of the ventures that Unilever Corporate Ventures invested in, and what they are bringing to market?

Phil: Textronics was a spinout from DuPont. Their IP integrates digital technology into fabrics and clothing. They make smart apparel like sports bras and tank tops, which enable a runner to monitor their heart rate without straps around the chest. They have clothing under a brand called NuMetrex. They have been looking at how data from their clothing can be captured by mobile devices to record individual health profiles. We sold this business last year to Adidas at a successful multiple and IRR. It's a great example of the type of business that would fit into the scope of Physic.

One of our companies is called Attune, which produces probiotic granola and chocolate bars (containing healthy bacteria, as in yogurt). This is something that Unilever would never have launched themselves.

Pharmaca is a retail pharmacy chain, comprised of about 25 pharmacies across the western part of the USA. It is an integrative model exploiting the areas of health and prevention, which is an unoccupied franchise in the States. The pharmacy market in the USA is filled with the big box model, like CVS and Walgreens. You go in and get out as quickly as you can. The Pharmaca brand and identity is much more of an experiential brand. You might go for advice on health and wellness, for a functional food, for advice on sleeping, or a broader lifestyle product. We might exit with a pharmacy chain who wants to upscale their own roots by buying this chain.

In summary, Unilever has found that the ventures model has been a strong platform for growth. We are participating and often leading new business creation that would not happen through purely internal, organic growth. We have a view of the technology landscape, a view from various expert communities, and a view from colleagues in other venture capital companies that were not previously possible. And we are becoming increasingly effective in linking with people within the Unilever brands.



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