

TDK Ventures, aligning corporate strategy with venture innovation

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Introduction

In the bustling heart of Silicon Valley, Nicolas Sauvage, president of TDK Ventures, focused intently on his work following an intense day of meetings. It was the spring of 2023, and the skyline, dotted with the logos of tech giants and start-ups, served as a constant reminder of the rapid pace of innovation. TDK Ventures, the corporate venture capital (CVC) arm of TDK Corp. (TDK), had carved a unique niche in this landscape while managing a delicate balance between corporate interests and an entrepreneurial spirit.

However, this balance came with its own set of challenges. The venture's success had been built on a foundation of strategic alignment with TDK while also maintaining the agility and innovation typical of start-ups. But, as TDK Ventures grew, new challenges emerged. The increasing visibility of the venture in the industry posed risks to talent retention. Additionally, the team's passionate drive, which had been a strength, now raised concerns about work-life balance, and TDK's recent downward financial forecast added another layer of complexity to the venture's strategic decisions.

Sauvage was preparing for an upcoming strategy meeting with key stakeholders, including members of TDK's board. The agenda was packed:

- Discuss the venture's future direction.
- Address the challenges of talent retention and compensation.
- Explore the potential of deploying thematic funds.

This case was prepared by Professor M^a. Julia Prats and Carolina Donnelly, external collaborator. April 2024.

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This case was written with the support of the EIC (Entrepreneurship and Innovation Center) and Bertrán Foundation Chair of Entrepreneurship, IESE.

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Last edited: 12/4/24



However, underlying these topics was a more profound question: How could TDK Ventures continue to innovate and grow while staying true to its core values and alignment with its mothership?

Overview of TDK Corp.

Founded in 1935, TDK Corp. had grown into a global leader in the electronics industry. The company's journey began as a venture enterprise with the purpose of industrializing a magnetic material called ferrite, which was invented at the Tokyo Institute of Technology. In 2022, TDK was a multinational corporation headquartered in Tokyo, Japan, with a workforce of 117,000 employees and a global network of research and development (R&D), sales offices, and over 250 factories in more than 30 countries.

TDK's business operations were diverse, encompassing four main sectors:

- Passive components
- Sensor application products
- Magnetic application products
- Energy application products

These products were integral to many aspects of daily life and were used in various industries, including the information and communication technology, automotive, and industrial and energy sectors.

In terms of financial performance, TDK reported net sales of 2,180 billion JPY and a net income of 169 billion JPY as of April 2023 (see **Exhibit 1**). More than 90% of TDK's sales and more than 85% of its production were overseas, reflecting the company's global reach and influence.

TDK's leadership, under CEO Noboru Saito since April 2022, focused on riding the digital transformation (DX) and energy transformation (EX) trends. The company saw these changes in the social environment as opportunities for new social contributions and business growth. TDK's medium- and long-term management strategy involved tackling seven fields, known as the "Seven Seas," over the medium to long term:

- Beyond 5G
- Internet of Things (IoT)
- Robotics
- AR/VR
- Medical/health care
- Mobility; Advanced driver assistance systems (ADAS) and electric vehicles (EV)
- Renewable energy



TDK Ventures emerges with a strategic leap

Amid the ever-changing terrain of the business world, TDK Corp. launched a CVC called TDK Ventures in 2019 (see **Exhibit 2**). This venture capital (VC) arm represented a strategic move by TDK to foster innovation, drive growth, and stay at the forefront of technological advancements in the electronics industry.

The genesis of TDK Ventures can be traced back to when TDK acquired InvenSense, a company in which Sauvage had been a part. Before establishing TDK Ventures, Sauvage was the senior director of the ecosystem and had been in the company since 2016. An engineer by training and a visionary by nature, Sauvage attended the Stanford Executive Program in the summer of 2018. There, he was introduced to the transformative potential of CVC through enlightening sessions led by Profs. Jesper Sørensen and Ilya Strebulaev and venture veteran Paul Holland.

By the end of the program, Sauvage was convinced that TDK needed a CVC and that he was the one to spearhead it. He was not alone in this vision. Back in Japan, Taro Ikushima, TDK's head of corporate planning, had been considering a similar idea. Together, they embarked on a mission to bring TDK Ventures to life.

Sauvage's pitch to TDK CEO Shigenao Ishiguro in December 2018 was brief yet impactful. He only had 20 minutes with Ishiguro but chose to use just seven minutes. Instead of delving into operational details, Sauvage emphasized the "why":

My message was that it was all about exploration. We already have R&D and M&A [mergers and acquisitions] teams, but they're looking to bring new products into an existing market or an existing product into new markets. No one is looking for disruptions coming from new products in new markets.¹

Sauvage's message resonated deeply with TDK's leadership, and in an interview for this case study, Ishiguro shed light on the company's initial considerations leading up to the establishment of the CVC:

The idea of TDK engaging in start-up investments, especially in technology start-ups, was not new for us. We had made some investments in the field before, sporadically. However, these were often ad hoc, driven more by individual decisions from roles like CEOs or CTOs [chief technology officers], rather than following a systematic approach. This approach didn't always yield the outcomes we hoped for. It became clear for us that we needed a more structured and strategic method. Establishing a dedicated arm for start-up investments would allow us to systematically identify, evaluate, and invest in promising companies with a more focused and effective strategy.²

The firm approved a robust fund of \$50 million to establish the CVC. The funding would be drawn from TDK's resources, with a strategic vision to establish a good network with TDK business units and create synergies with existing TDK innovation initiatives. The primary success metrics would be based on this impact of TDK Ventures in the organization during its first years of operation.

¹ "TDK Ventures: Innovating from the Inside Out," Venture Capital, *The Generalist*, last modified April 6, 2022, <https://www.generalist.com/briefing/tdk-ventures>

² Unless otherwise stated, quotes were derived from interviews conducted with key stakeholders, including Anil Achyuta, Shuichi Hashiyama, Shigenao Ishiguro, Andreas Keller, Arch Rao, Eric Rosenblum, Nicolas Sauvage, Russell Tham My, Steven Vassiloudis, and Chiaki Yoshikawa. Interviews were held between August 2023 and October 2023. These interviews provided valuable firsthand perspectives and insights that have been integral to the development of this case.