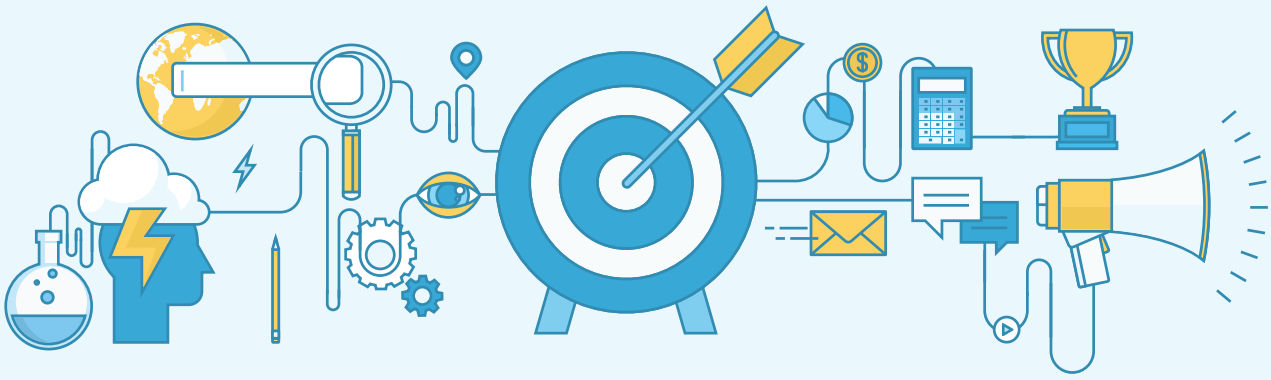


5 STEPS TO SUCCESSFULLY COLLABORATE WITH STARTUPS

CORPORATES MEET STARTUPS

what a VENTURE

INTRODUCTION

After five years of experience and supporting more than 600 startups, 30+ accelerator programs and setting up a number of corporate accelerator programs, we are happy to share with you some of our learnings on how to successfully collaborate with startups.
www.whataventure.com

About WhatAVenture

WhatAVenture is a worldwide operating innovation consultancy. It has expertise in guiding new business ideas to success. The focus of our work is the combination of corporate power with startup agility. Our proved methods enable intrapreneurs to quickly validate and implement their business ideas. WhatAVenture serves both as a sparring partner for CEOs and innovation managers in creating an innovation culture, as well as an external team for the execution of new business ideas. Our client base ranges from energy suppliers, banks, transportation and IT companies, to aid organizations and international universities.

About the author

Dr. Stefan Perkmann Berger

Stefan has a strong research background in the field of open innovation and has been running many initiatives in the startup scene. He is well-informed in both the corporate and startup worlds in order to bring ideas to success. Stefan strongly believes in the positive synergies between startups and established companies and loves to support technologies that make the world a better place.

The innovation potential does not stop at the boundaries of established corporates. This became common understanding since companies like Uber, Airbnb and Facebook disrupted traditional markets. Open innovation has become a widely-accepted approach and we have seen many different ways in which companies try to harness innovation by tapping outside potential. Well-known open innovation formats are online communities, idea contests and involvement of leading experts. In recent years there has been an increasing corporate shift to collaborate with startups and/or to adopt lean startup methodologies. In fact, a study by KPMG revealed that 88% of corporate respondents believe that collaborating with startups is essential to staying innovative[1]. Although many see the potential, very few succeed in fostering a long-term win-win situation.

This paper is a guide for innovation managers and executives on how to find the right form of cooperation. We provide answers to the following questions:

- Why should you collaborate with startups or make use of startup methodologies?
- What are the different ways of collaboration with startups and what is the right strategy for your company?
- How do startups differ from you as an established organization and what does that mean in terms of choosing the right collaboration form?
- What are the first steps to innovate successfully with startups?

"The collaboration of corporates and startups has a great potential to help corporates stay competitive and help startups to grow and flourish. However, the success of such initiatives is highly dependent on the commitment of the top management and excellence in execution by the innovation functions. Clear and transparent goals and a thought through methodology are imperative for success."

Heinrich Schmid-Schmidsfelden, Innovationsmanagement, Kapsch

kapsch >>>

Why should you care about collaborating with (and not just investing in) startups

For sure the number one reason corporate actors need to collaborate with startups is that we see more and more startups disrupting entire markets. This is not only the case in the B2C software domain but also in the domains of B2B market and hardware.
A nice example is the car company Tesla: In 2015, the Tesla Model S sold significantly more cars than the very popular BMW 7 Series and the Audi A8, and is right on the tails of the ever-popular Mercedes S Class[2]. In the banking sector, startups like Ripple and Stripe are setting new standards in the industry. Even in the most complex industries, such as aerospace and aircraft, we see strong companies emerging. Examples include Spire, which is building nanosatellites and shoots them into space, and Boom, a newly-formed group of experts getting ready to build a supersonic plane. An important driver behind this change is the digitalization of entire industries: the media by Facebook and Vice, the taxi service industry by Uber and the hotel industry by Airbnb.

Here are some of the benefits of collaborating with startups or embracing startup methodologies:

- Testing and learning about new technologies
- Improving your brand recognition in the market
- Spotting and attracting fresh talents
- Having leaner and faster innovation cycles
- Entering new markets
- Learning about customer trends faster and more in depth
- Making better use of your assets
- Electrifying your employees and positively changing your company culture
- Helping you as a company to stay competitive

Why is it then that despite these benefits many companies still fail to successfully collaborate with startups? Key to a successful collaborative relationship between startups and corporates is that it is mutually beneficial. Many initiatives fail due to a lack of understanding of the very different DNA of startups and corporates.

TABLE OF CONTENTS

STEP 1

Understand startups and how they differ

A very general definition by Eric Ries, author of the book The Lean Startup, is that "a startup is a human institution designed to create a new product or service under conditions of extreme uncertainty" (Ries, 2014).

Here are some of the major dimensions in which startups significantly differ from corporates:

They follow a new innovative approach

They tend to think outside of industry norms, thereby displaying a high potential to disrupt existing industries, or invent new ones.

They are fully dedicated to their idea and follow their passion

Startup teams invest all their time and resources in the project and are fully dedicated to making their idea successful. This differs from corporate setups where employees often work on multiple projects and therefore do not fully identify themselves with any single one. This makes corporate teams less prepared to face rough times.

They often have no legacy

Startups are typically newbies in the market and have no legacy of customers, partners, etc. This means that they can act more freely and allow more radical decisions.

They have a small but complete team

Startups operate in heterogeneous teams and heavily invest their time in building up a strong network of outside partners. Corporate teams often rely on their own network and tend to miss outside opportunities.

They fully believe in what they do

Startups fully breathe their strategy and are quick in adapting when facing outside challenges. Corporate employees often do not fully invest in the strategies implemented, as often they are developed by top management, and are discouraged more easily by negative market feedback.

They learn quickly

In contrast to corporates, information is usually shared transparently within a startup. The whole team is focused on creating value for customers. In corporates not all information is shared openly and iterations are seen as failures.

They have very few resources

Bootstrapped startups require quick cash flows and struggle with lengthy, cumbersome processes, convoluted confidentiality agreements or complex contracts. It also means that startups have to focus to be successful and when looking for collaborations there needs to be a strong match with what they do.

They lack know-how and power in scaling

Startups are usually quite good in developing first prototypes but lack skills in scaling their products and services. This is in contrast to corporates, which are very good at scaling and incremental innovation, while they are not so good at disruptive innovation (Christensen, 2013)[3].

They often lack goals, monetization strategies, metrics and a clear vision of the business value of their innovation

Startups are like explorers: they have a vision of a great thing, but they might only find the goals, value proposition and success criteria on their way.

The main message is that, as an established company, you have to be aware of the unique strengths and weaknesses of startups. Finally, and most importantly, you must find ways to cope with these differences to fully leverage the startup's potential.

"Young companies or new businesses are the future job growth engine. It's about time corporations take notice of the value entrepreneurs or startups can bring larger companies. Entrepreneurs hold the key to spark the innovation that corporations lack."

Dr. Thomas Funke, Head of the entrepreneurship and innovation department of RKW, think tank of the German Federal Ministry for Economics

RKW Kompetenz-zentrum

STEP 2

Define your goals

There are numerous exciting cooperation models. The challenge is to find the right model for your organization. You need to be clear about your needs and the challenges you think can be addressed by collaborating with startups. The better you know what you want to achieve, the more successful your initiatives will be. You will be better able to sell the proposal internally as well as finding the right startups as partners.

Here is a list of the major challenges we see, organized into five major categories:

1

Develop new, innovative products or services for existing or new markets

This helps to strengthen your position in current markets and, additionally or alternatively, to expand into new markets.

- You have an existing customer base you want to leverage but miss innovative services or products.
- You have an exciting technology but you struggle to find the best fields of application, or to enter new markets.
- You want to enter new markets and expand into different position in the value chain (e.g., to move from B2B to B2C) but you lack innovations.
- You want to tap into synergetic business segments or niches that might have great or strategic business or market potential.

2 Position yourself as an innovative company

Working with startups helps to establish or augment your corporate image as an innovative company, which is important to attract talents, customers and to boost employee motivation.

- You are excellent in your business field but this is not widely known, which makes it difficult to attract strong partners or new customers.
- You want to attract new talents, or talents with an entrepreneurial mindset.

3 Improve internal innovation processes

Working with startups helps to create an entrepreneurial mindset among employees, exposing them to lean innovation methods, offering a new perspective on certain issues and allowing them to learn about new trends, technologies and products or services.

- You want to improve the internal innovation culture.
- You need to improve the effectiveness of your internal innovation initiatives.
- You face challenges in staying up to date on trends or changes in the market.
- You need to get a better understanding of your customers and their needs.

4 Improve general processes or products

- You need to access new technologies to improve your processes or products to stay competitive.
- You have assets that are not used to their full potential (e.g., production facilities, patents. etc.).

5 Co-innovate with customers and partners

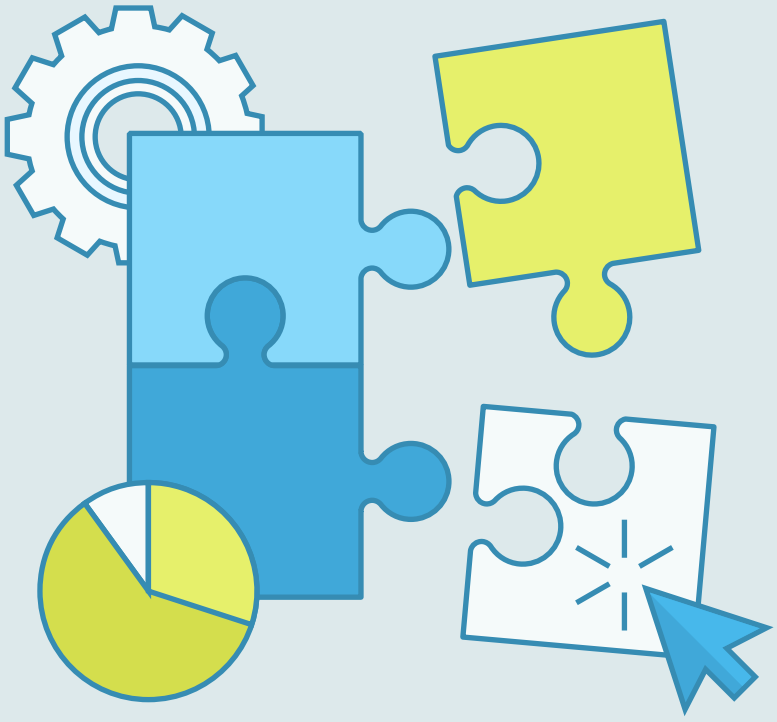
- You want to extend the value chain of innovation by inviting selected customers and partners into your innovation activities, gaining a deeper understanding of your joint expectation levels.

"The digital disruption and acceleration of markets, customers and companies accordingly calls for new approaches in creating future technologies and business models. One party alone will find it more and more difficult to address all of the challenges. This is why Co-Innovation programs with strong focus on Co-Creation and 'Joint Value Propositions' are so valuable. They will bring together collective actors and thinkers in an effort to broaden the innovation-value-chain to address these fast moving collective challenges."

Thomas R. Werner
Director, CISCO EIR

Lean Innovation

Lean innovation means applying lean startup methodologies within an established organization. Lean startup is a term first coined by Eric Ries, which describes the way in which startups innovate. The core principle is to iteratively build products or services to meet the needs of early customers by formulating and testing hypotheses.



STEP 3

Set the right framework

Once you have decided which goals you aim to achieve, it is important to define the framework within which you will pursue these goals. The framework is very much defined by your company; its history, resources, strategy and management.

Here are some of the variables that might define your framework:

1

Resources

What are the resources you're willing and able to invest in new collaboration initiatives? If you plan to launch a classic corporate accelerator, be aware that it is typically in year two or three that you start to see first returns, if the program is successful.

2

Top management support

Is top management fully standing behind these new initiatives even taking an active role? What happens if a collaboration fails? Especially for initiatives that require a certain level of integration, top management support is mandatory to success.

3

Level of risk

Are you willing to accept a high level of risk? Some collaboration forms are riskier than others.

4

Level of integration

How willing are you, as an established company, to share knowledge? Are you willing to give young founders access to your key know-how? If you enter stronger partnerships with startups you need to be willing to share part of your knowledge openly.

5

Level of freedom

How much freedom are you willing to give the startup? The better the quality of the startup, the less willing they will be to enter an exclusive form of partnership, because they will have many other opportunities.

6

Level of independence

How important is it for you as a company to augment your own ecosystem, versus relying on the output of the startup scene?

7

Leverage of existing technology

How important is it for you that new startup initiatives build on your technologies?

The clearer you are about your framework, the better you will be at making decisions on which collaboration forms fit your company. Notably, a long-term commitment is necessary in most cases to achieve respective return on investments.

STEP 4

Choose the right collaboration for you

There are a number of different forms of collaboration.

Here we give you an overview of some of the main models we see in the market:

1

Startup pitch events

The startup topic is booming and there are an increasing number of startup events happening every year. In most cases, startups present their products, services or business ideas to a crowd of investors, media, experts and corporates. They look for investment, feedback or strategic partners to grow their business idea. In this way, the events range from intimate crowds to larger festivals (such as Web Summit or Pioneers Festival). Participating in startup events is an easy way to get involved in the startup scene. We see two major strategies corporates can follow:

- **Support external events**
  You can support events in many ways, including providing monetary support, sponsoring the location, involving experts or being part of the jury. When deciding which events to sponsor you need to ask yourself whether you want to support a regional or international event, a one-off or repeating event, or an event that focuses on a specific vertical or not. Supporting external events has the benefit of accessing an existing ecosystem, and it is less time-consuming than organizing your own events. However, you'll need to be aware that you are competing with numerous other corporates for attention in this startup ecosystem.

- **Organize own events**
  More recently we've seen corporates organizing their own startup events. An example is Magna Steyr, who invited 13 startups to present themselves in a one-day format at the company premises. A big advantage of bringing startups to your premises is that you can expose them to a larger number of employees. This helps to build up internal innovation culture and awareness and offers the company more perspectives and opinions on the projects presented.

2 Innovation Camps & Hackathons

These formats are about creating new business ideas or solving technological challenges. Besides generating ideas, they provide the opportunity to spot interesting talents or teams at a very early stage. The earlier the stage the higher risk, but the higher the chances they are willing to accept collaborating. These types of events typically last between two and three days.

Innovation Camps

Individuals and teams gather around an idea to develop a business concept. Some formats have no particular focus, while others are organized around a specific topic or technology. It's important to note that these events are mostly about gathering the right people rather than the best ideas. Again, we see companies running internal innovation camps as well as participating in open-market initiatives (such as Startup Live) where everyone is invited to develop their business idea further. For company-centred innovation camps, it is important to clearly state the motivation behind the camp to external participants. Is it about generating ideas or about starting new businesses? The longer the involvement, the more important it is to choose startups that see their future in that specific topic and are looking for strong partnerships.

Hackathons

These are popular formats for involving skilled individuals in the field of software engineering and increasingly also hardware. The goal of these events is to hack existing technology and provide new pieces of code or hardware elements. Hackathons are a great way to discover talents and generate new ideas or challenges to the status quo. Companies like Facebook and Microsoft organize regular hackathons to generate new ideas and get outside talents familiar with their stack of technology.

- ### Co-innovation programs
  The latest development and evolution of acceleration and incubation activities is the co-innovation program. Co-innovation programs are jointly set up by internationally-focused organizations and companies in their vertical or horizontal industries to broaden the 'value chain' by including early-stage companies and startups, together developing new joint-value propositions. C-level commitment and stringent program execution are required from all involved parties to deliver KPIs such as prototypes and Proof of Concepts (PoCs). A recent example is Cisco, Intel and Deutsche Telekom joining forces in a co-innovation initiative to pick startups for joint use-cases.[4]

3 Startup support

Sharing resources with startups is quite a cheap and effective way to build up a brand in the startup scene. In contrast to partnership agreements (see the partnerships section below) this approach is less about co-development and more about making startups aware of your products and services. But offering something for free is not sufficient to provoke people to use it. It's crucial to think about the benefits of these programs for startups to achieve a return. Another important factor is to communicate clear expectations to the startups. Two major forms of Startup support are as follows:

- ### Free company tools
  IT companies, especially, can offer access to their technologies for free or at a reduced price (e.g., Microsoft's BizSpark program[5] and IBM's Global Entrepreneur Program[6]). This has shown to be a good way to educate startups about the technologies you offer early on in their development.

- ### Office space
  Many companies have started to offer startups office space for free or at a reduced price. There are a variety of different models of this approach in the market, ranging from the inexpensive,

such as single-office offerings, to fancy, fully serviced co-working spaces. The benefits you can reap as a company from this approach are branding, spotting talents and identifying promising ventures in early stages. Examples include Frequentis AG, a medium-sized company in the field of communication and information systems that provides a former company building for a reduced rental fee to startups.

4 Startup methods

In recent years we have seen various new startup methodologies that massively changed the way we think about innovating products and services. Some of the most influential concepts have been the Business Model Canvas by Alexander Osterwalder[7], Lean Startup by Eric Ries[8] and the build-measure-learn approach by Steve Blank[9]. Many companies have realized the potential and value of startup methods, and have introduced these insights to their company. Here are some of the most popular forms:

- **Entrepreneur in residence**
  This terminology has been used to describe various initiatives, but in this context it refers to hiring an entrepreneur currently on sabbatical because they exited their last startup, whether successfully or unsuccessfully. Having entrepreneurs in residence is a great way to challenge internal processes and generate innovation ideas. A good example is Payback - a Munich-based company that hired two IT entrepreneurs to bring fresh perspectives to their company.[10]

- **Startup mentors/coaches**
  Other companies focus on training mentors or coaches in becoming lean coaches. A popular example is GE's FastWorks framework for entrepreneurs, building on The Lean Startup by Eric Ries.[11]

Innovation Platforms

Another way of introducing startup methodologies to a corporation is by introducing software or hardware tools that help to support intrapreneur teams in following lean startup processes to develop their ideas. An example is www.whataventure.com. This approach ensures employees don't waste time on calculating numbers and writing lenghty business plans, but rather develop prototypes quickly and get customer feedback early.

5 Partnerships

Partnerships with startups can have many different forms. They can range from one-time partnerships with single startups to systematic startup programs such as corporate incubators or accelerators. Which form of partnership is best again depends on the company's resources and goals.

- ### Product/service sales

  This approach involves the startup selling new, innovative products or services by leveraging the know-how, resources and customer base of a corporate. This is typically done in return for a revenue share.

- ### Product co-development

  The core idea of this approach is to collaborate at different levels of development with selected startups to create more value together. This can involve sharing know-how in developing first prototypes or getting the product ready for serial production. It can also involve the startup using the assets of the established company such as logistics, media volume, customer base, etc. In exchange established companies can have first, perhaps exclusive, access to the new technology or get a revenue share or equity. To have a fruitful partnership it is important that both parties are open to sharing key knowledge with each other, and to ensure they find the best startups to partner with the corporate must establish a continuous funnel of new project proposals.

- ### Procurement by agency/startup
  Very often companies recognize opportunities or need solutions for own challenges but have difficulties in generating their own solutions. There are different models for involving outside teams in such pursuits, following lean startup methodologies. It can involve agencies consisting of interdisciplinary teams and former entrepreneurs, generating fast prototypes to reach problem-solution fit. These teams either work for a consultancy fee or on an equity basis. Or solutions can be generated by startups that are active in the field or newly-formed outside teams.

- ### Corporate accelerator/incubator
  One of the most popular forms of partnering systematically with startups is the corporate accelerator or incubator. Accelerators differ from incubators in that they work more intensely, at a later stage in the startup process and to a shorter time frame (three to five months, versus 12 months or more). They typically culminate in a demo day and startups get a lot of mentoring and peer feedback during the program. In exchange for taking part startups often offer an equity stake. Yet we also see great variety and contention in the implementation of this approach. There is controversy regarding whether corporate accelerators and incubators should be run by the company itself or by an intermediary, and more generally there is strong debate as to whether corporate accelerators and incubators are the right tools to foster disruptive innovation at all. The prognosis is that many programs will fail.[12] Additionally, corporates sometimes are not aware that there is fierce, worldwide competition for the best startup teams and that, often, startups perceive corporate incubators more as a threat than an opportunity.

6 Investments and acquisitions

Investing in startups is a very direct way of getting access to the team, the technology or the customer base. The next step of corporate venturing is to acquire startups. A necessity for success is to have sufficient deal flow, which means actively and continuously scouting for the best projects. A practice that is seeing increasing popularity is to buy startups to access their talents rather than the technology or other assets.

- ## Corporate venturing
  Corporate venturing is a very popular format, denoting the investment of corporate funds directly in external startup companies.

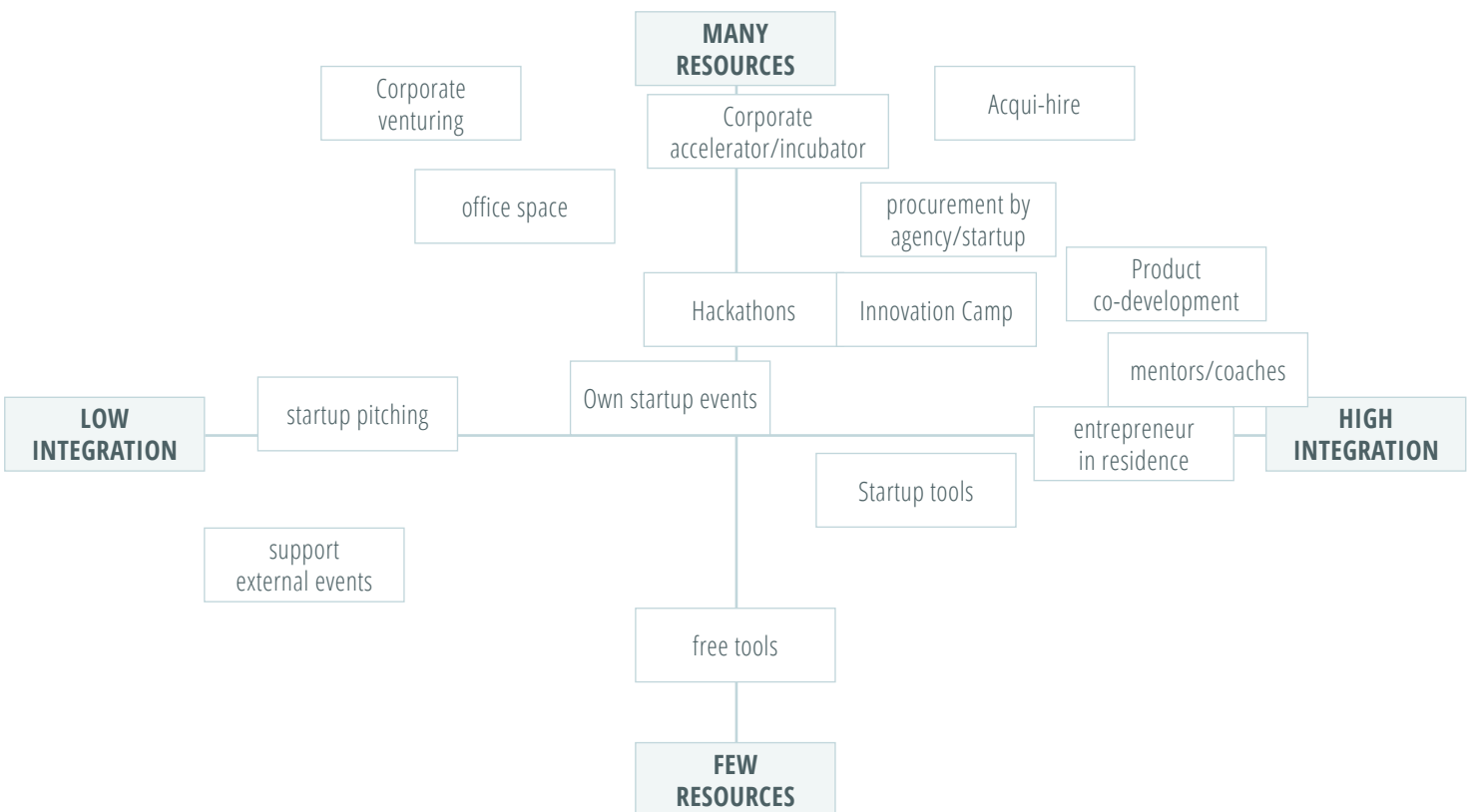
- ## Acqui-hire
  This strategy involves acquiring a startup to access its talents. This approach has become popular in areas like Silicon Valley where there is intense competition among tech companies to amass the best talents.

Framework to find the startup collaboration form best suited to reach your goals.

	Your goal	Main collaboration form		
New innovations	Leverage on existing customer base	Product co-development	Product/service sales	Corporate accelerator/incubator
	Find new application fields for existing technology	Innovation camp	Hackathon	Startup events
	Enter new markets	Corporate venturing	Corporate accelerator/incubator	Procurement by agency/startup
Positioning	Business excellence is not widely-known	Hackathons	Startup events	Startup support
	Attract entrepreneurial talents	Acqui-hire	Co-working space	Hackathons
Internal innovation	Stay up-to-date about trends or changes in the market	Startup events	Corporate accelerator/incubator	Entrepreneur in residence
	Improve output of internal innovation processes	Startup mentors/coaches	Entrepreneur in residence	Innovation Platforms
	Improve internal innovation culture	Acqui-hire	Innovation Camp	Entrepreneur in residence
	Increase understanding of customers and their needs	Hackathon/innovation camp	Product co-development	Organize own events
Company processes	Access new technologies	Corporate venturing	Product co-development	Startup events
	Facilities are not fully used (e.g., production facilities)	Product co-development	Office space	Hackathons

Framework to match the initiatives with your strategy framework

The right form of collaboration also depends on your framework. We categorized the main forms of collaboration along two dimensions: integration and resources. Integration refers to how much information and knowledge you need to share to profit from this type of collaboration form, while resources refers to the relative amount of resources you need to invest.



STEP 5

Get started by creating a win-win situation

No matter what collaboration strategy you choose, make sure that it creates a win-win situation for both you and the startup or talents.

As a recent study by NESTA[13] shows, the biggest pain reported by startups in collaborating with established companies are problems with long cycle times and slow decision-making on the corporate side. This is followed by challenges related to coordination, such as difficulties arising from poor communication, changing contact points and unclear processes. Additionally, various cultural problems and contractual issues were cited.

Here are a few ideas on how to avoid these pitfalls:

Simplify processes

Startups have few resources, so long, complex processes can drive them out of business. Try to reduce payment terms and simplify contracts. We see that companies successful in this regard even install processes parallel to those existing to allow for healthy relationships with startups.

Have a clear entry process

It is often a very long and painful process for startups to understand who is responsible for what in your organization. It's quite common to receive varying and contradictory feedback from the same organization, and even the same contact person.

Relaxed KPIs

This applies especially to the purchasing department, where we often see requirements making it almost impossible for startups to offer their services or products (e.g., company years of existence or size).

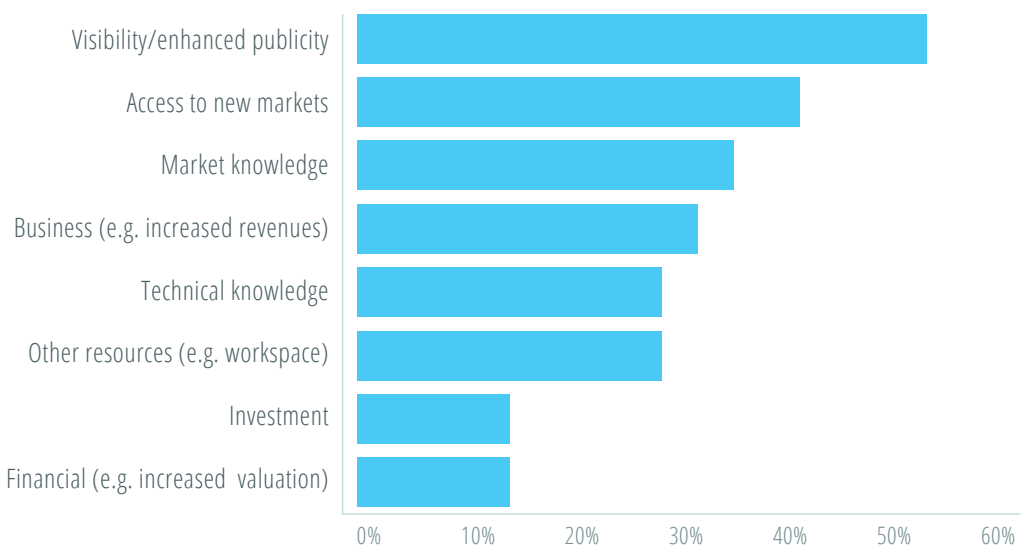
Involve top management

This reduces the career risk for employees entering collaborations with startups.
Simplify processes

Most often it makes sense to invest upfront, thereby building long-term relationships.

Collaboration benefits reported by startups and scale-ups

For sure one of the main reasons for startups is to gain a large customer base. However, the study[13] showed that there are various other benefits of collaborating with established companies (see figure below). Whenever you choose a collaboration form think about the benefits this type of collaboration form can have for the startups involved.



Endnotes and References

1 Horn, D. and Keyzer, E. (2014). *'KPMG New Horizons 2014: Corporates & Startups – Hip, but not happening.'*

2 DeMattia, N. (2015). *Tesla Model S sales surpass BMW and Audi in Europe.* [online] BMW BLOG. Available at: http://www.bmwblog.com/2015/10/19/tesla-model-s-passes-bmw-audi-getting-close-to-mercedes-in-europe/

3 Christensen, C. (2013). *The innovator's dilemma: when new technologies cause great firms to fail.* Boston MA: Harvard Business Review Press.

4 Bittner, M. (2016). *Why co-innovation drives better results for corporates.* [online] Linkedin. Available at: https://www.linkedin.com/pulse/why-co-innovation-drives-better-results-corporates-martin-bittner.

5 Microsoft. (2016). *Home - BizSpark.* [online] Available at: https://www.microsoft.com/bizspark.

6 IBM. (2016). IBM *Global Entrepreneur.* [online] Available at: https://developer.ibm.com/startups/.

7 Osterwalder, A., Pigneur, Y., Clark, T. and Smith, A. (2010). B*usiness model generation: a handbook for visionaries, game changers, and challengers*. John Wiley and Sons.

8 Ries, Eric. (2011). *The lean startup: how today's entrepreneurs use continuous innovation to create radically successful businesses.* New York: Crown Business.

9 Blank, S., and Dorf, B. (2012). *The startup owner's manual: the step-by-step guide for building a great company*. Pescadero, Calif: K & S Ranch, Inc.

10 Räth, G. (2016). *Zwei Jungunternehmer sollen für Payback Innovationen umsetzen.* [online] Gründerszene Magazin. Available at: http://www.gruenderszene.de/allgemein/payback-ideenapparat-pkt.

11 Power, Brad. (2014). *How GE Applies Lean Startup Practices.* Harvard Business Review.

12 Relan, P. (2012). *90% Of Incubators And Accelerators Will Fail And That's Just Fine For America And The World*. [online] TechCrunch. Available at: http://techcrunch.com/2012/10/14/90-of-incubators-and-accelerators-will-fail-and-why-thats-just-fine-for-america-and-the-world/ [Accessed 15 Apr. 2016].

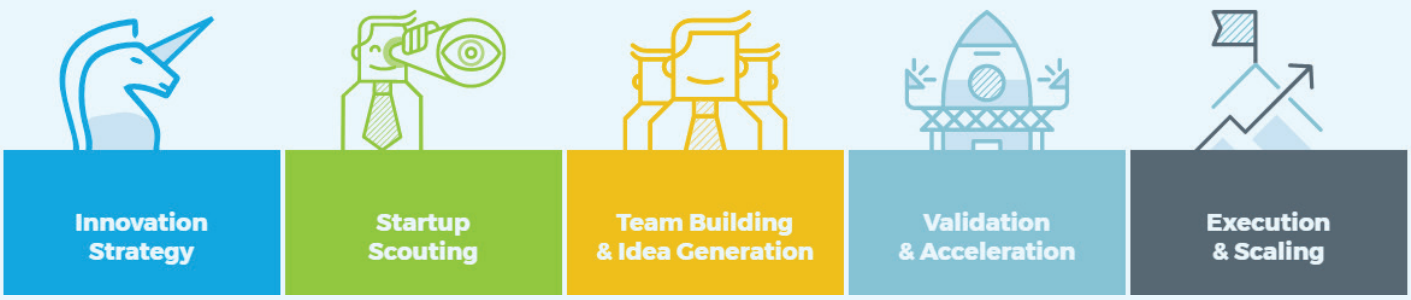
13 Bannerjee, S., Bielli, S. and Haley C. (2016). *Scaling Together.* Nesta

GET STARTED

Take the first steps to innovate successfully with startups:

1. Define your goals and framework
2. Select the type of collaboration form you think best suites your company.
3. Think about a first prototype to validate your hypotheses around the collaboration form
4. Choose the right partner that has access to the startup community and experience to launch your first prototype.
5. Learn from the prototype, adjust your approach and take the next step.

Guiding business ideas to success

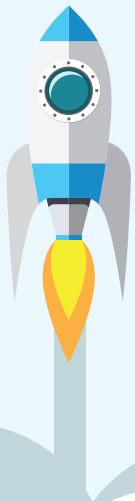


Intrapreneurship *Corporate Startup Programs*

Innovation Platform *Innovation Box* *Innovation Strategy Box*

Blog *Use Cases* *Whitepapers*

www.whataventure.com



WhatAVenture GmbH | office@whataventure.com, www.whataventure.com

Imprint: Published by WhatAVenture GmbH, Company registration no: 399627, Commercial Court Vienna, Contact information at http://www.whataventure.com/imprint, **Image Credits:** variant @ depositphotos.com