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Getting the Most Out of Corporate/Startup Collaboration

by Richard Eagar, Philip Webster, and Gonzalo Libano

We all know that businesses are being disrupted faster than ever before — and innovation launch and adoption cycles are dropping. For credit cards to reach 100 million users? 25 years. Online banking? 10 years. WhatsApp? Two years. Candy Crush? A matter of months.

Entrepreneurial startups are one of the main driving forces for this acceleration. Almost 65% of *Fortune* 500 companies joined the list in the last 20 years.

Big businesses are hurting — and in the face of a period of economic uncertainty hindering growth — they want in on the act. In a 2019 survey with our partners Match-Maker Ventures (MMV), Arthur D. Little (ADL) found that 79% of corporates have already collaborated with startups in some way, and 85% of those who haven't yet are interested in doing so. Most are now using a variety of models to engage with startups. Some have established venture capital (VC) funds, others prefer to run incubator programs to test out the relationship with startups in the first place, while still others adopt an accelerator approach to offer grow-on support (see Figure 1). Typically, they will offer funding — often for a Phase 0 pilot with defined goals and bounds to reach a minimum viable product (MVP). If things go well, they increase their exposure, offering training, coaching, and potentially, acquisition.

There are many great examples of corporate/startup collaboration: Telefonica's Wayra, Coca-Cola, ENGIE, Cisco, Unilever, and Qualcomm are examples among hundreds across different sectors. The following are the most-often cited reasons for corporates to engage with startups:

- **Getting ahead of disruption and delivering breakthroughs.** The most common rationale is that if you have already partnered with a ground-breaking startup bringing disruptive new ideas and technologies to market, it creates an opportunity to be first to market — or first to pivot — and avoid being disrupted yourself.

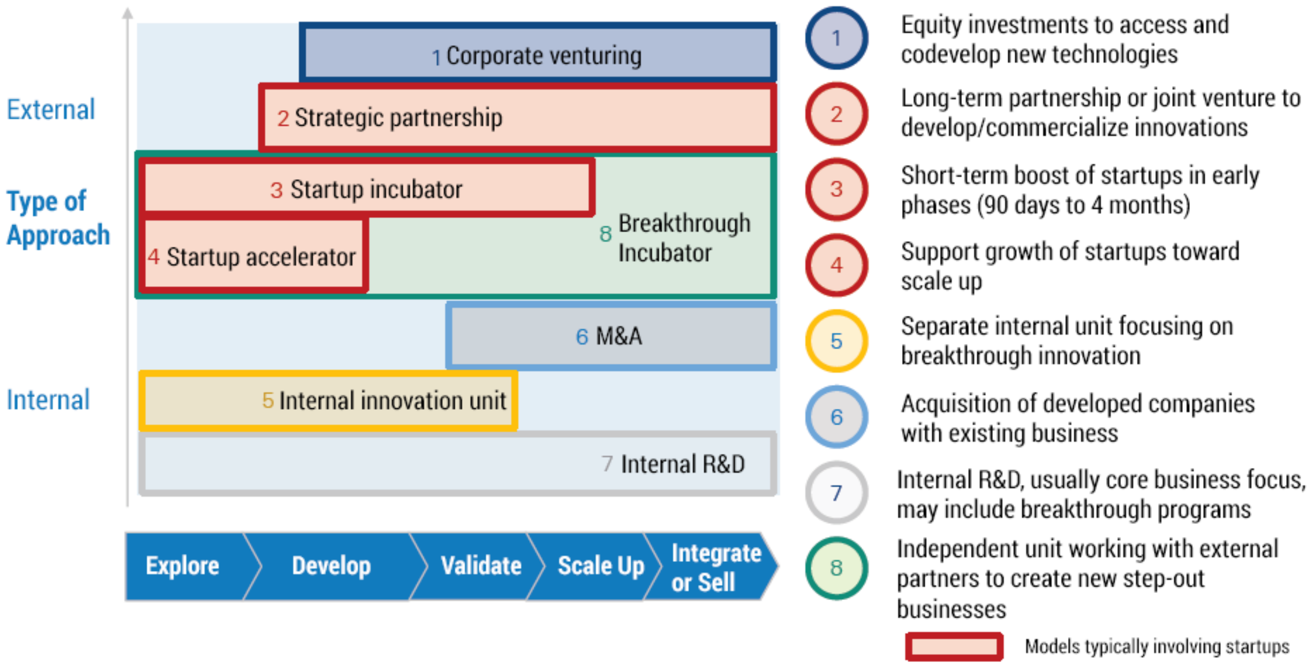

Figure 1 — Approaches to deliver breakthrough innovation. (Source: Arthur D. Little.)

- **Growing new knowledge and capability.** Startups can help improve internal processes and reduce costs through the products and services they offer. Also, involvement with them is relatively scalable and can be pared back during leaner times.

- **Refreshing corporate culture.** Entrepreneurs tend to be inspiring individuals full of dynamism. Collaborating with and potentially recruiting them could be a source of entrepreneurial spirit that could spark intrapreneurship.

- **Improving external perception.** Partnering with startups can signal to customers and consumers that companies are more innovative, helping to strengthen brand value.

What Can Go Wrong?

Clearly, not everything is shiny when it comes to investing in promising startups. In our MMV/ADL survey, only 32% of corporates said that collaboration created the expected benefits within two or more years, and 38% reported that it never created the expected benefits. Here are the problems we see most often:

- **Misaligned or unclear objectives.** As mentioned above, there is a range of different corporate aims and expectations from startup collaboration. Some corporates launch startup vehicles because they see their competitors doing it without any clear strategic rationale or focus, and sometimes without full top management endorsement. Startups, too, usually have very specific ambitions and motivations. If the aims are unclear or misaligned, or if top management is not actively supportive, then it's unlikely the collaboration will deliver success.

- **Inadequate resourcing.** Working with startups requires focused management effort and funding, not just to scout, screen, and validate potential startups but also to engage and integrate them, and to nurture the relationship throughout its whole lifecycle. Given that we are now entering a period of great economic uncertainty, this poses a challenge for even the most successful relationships.

- **Misunderstanding of the risk profile.** Traditional and well-established firms tend to be relatively more risk-averse in terms of joint venture or acquisition strategies. On the other hand, startups at early stages represent high-risk investments. Almost 50% fail within the first four years, and this creates a perception among large companies that "we never get anything out of working with startups."

- **Time to profit.** Many successful startups take a long time before they turn profitable, and corporates may not be able to sustain support for long enough given shareholder pressures. Amazon, for instance, was operating for seven years until it registered its first profits in the last quarter of 2001.

- **Cultural mismatch.** Cultural aspects might differ greatly between young, alternative entrepreneurs and traditional, old-school corporates. Sometimes negotiations and communications are dealt by aging senior executives at parent firms, especially if there are large sums of money at stake. Simply put, combining free-thinking hipsters and corporate executives can be like mixing chalk and cheese, leading to misunderstandings on both sides.

How to Make It Work

Our experience suggests nine priorities for corporates to focus on in order to improve the effectiveness of their startup collaborations:

1. **Be clear about your strategy and where you are the most likely to be disrupted.** Before deciding on which startup(s) to work with, larger companies must form a very clear vision of what their aims are and how the collaboration fits within their business strategy. A valuable way to start thinking about who to target is to focus on startups with the greatest potential for threatening and disrupting the parent companies' business models and strategies — and that includes those from adjacent industries. Once the strategic aims are clear, ensure that you have the right KPIs to track and communicate progress, covering both leading and lagging indicators.

2. **Get your internal arrangements sorted out.** Make sure you have the right organization, resources, capabilities, and processes to engage with startups, considering the whole lifecycle not just the initial phases. Be prepared to consider different forms of engagement, and consider different roles such as mentor, manager, networker, and C-level sponsor.

3. **Find the right startups in the first place.** This is not easy, as firms might lack the required expertise or connections. Moreover, the startups that are around (location or network) might be limited in number or not the ideal ones. One approach is to employ specialized firms or individual brokers that exclusively focus on matching promising startups with corporations interested in investing. MMV, for instance, is an agency dedicated to creating a portfolio of leading-edge startups, providing them with business development and sales knowledge, and then matching them with corporations interested in investing. Another approach is to recruit well-networked individuals in startup hotspots such as Silicon Valley, an approach used by Johnson & Johnson. One key aspect of sourcing startups is to ensure that you have a robust validation process to check fit and you are getting what you expected.

4. **Separate the vehicle at arm's length from corporate.** Cultural and procedural clashes between the corporate body and the startup are common, and often ultimately lead to "tissue rejection." Many corporates therefore create a separate vehicle to engage with startups, insulated in some way from normal mainstream procedures. However, even this may not be enough. Some large companies are now taking the option of using an independent partner, such as a consultancy specialized in innovation, to run the whole vehicle and be held accountable for delivery of new, de-risked, launched, and tested businesses — this is the model that ADL uses in our Breakthrough Incubator. This is especially effective when a corporate has a clear need to rapidly develop a new step-out business of scale in a specific area, for which a strategy based on developing one or more startups may be too risky.

5. **Fund Agile pilots in an accelerator.** The success of many VC funds and large corporates like Cisco investing in startups is based on creating the right incentives for entrepreneurs. Usually, the method they use is to incentivize them by supporting a paid pilot (Phase 0) with limited funds from the parent company. Startups are then enticed with promises of long-term contracts, investments, or relationships if initial trials work. Moreover, to attract the best potential candidates, it is beneficial not to require investor exclusivity at this stage. Since investment amounts are initially limited, this strategy allows corporations to place bets in multiple areas.

6. **Incubate and develop relationships further.** If the pilot stage proves successful, accelerating the cooperation into more systematic partnerships, such as joint ventures, is an effective next step. Corporates should provide not only financial backing, but also access to training, skills, resources, customers, and networks to grow their businesses. The degree of support should increase in line with the increasing value and decreasing risk of the new business.

7. **Encourage intrapreneurship in the corporate.** It is key to find influential internal sponsors (intra-preneurs) within the corporation whose activities closely align with those of the startups, and who can effectively connect with "problem owners" within the core operations. This is vital for helping to build an internal platform of enthusiasm for the new business, which leads to more support from internal staff, better interdepartmental collaboration, and more willingness to continue investment.

8. **Showcase examples of success.** Create an atmosphere of optimism regarding startups' progress, both within organizations and to the rest of the world. Every step of progress and every quick win should be positively and effectively communicated. Rapid prototyping and MVP approaches are vital in the early stages — "show me" has much more impact than "tell me." At the same time, a sense of realism needs to maintained within the team to ensure feet are kept on the ground.

9. **Know when to part company.** Given that investing in early-stage startups is a high-risk activity, corporations should have a robust review process in place to make rapid and informed decisions about when to pull out — and conversely when to persevere. In this sense, Phase 0 pilots are very valuable. Unsuccessful investments should not be considered as failures, but rather as an opportunity to learn from achievements and mistakes.

The wave of corporate/startup collaborations we currently see is certainly much more than a fad. It's just one aspect of the wider ecosystem revolution that is transforming corporate innovation. In uncertain times, where successful growth is paramount, it makes sense to do it properly.

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