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SCALING TOGETHER

OVERCOMING BARRIERS IN CORPORATE-STARTUP COLLABORATION

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FOREWORD

The collaboration between corporates and startups, as well as early-stage scaling businesses, has never been so crucial. As this report reflects, much has occurred in the past few years in the creation of a greater number of partnerships, incubators and hubs by larger companies to foster closer working relationships between the startup and early-stage, high-growth business community. This has led to innovation, new products and new services within the larger corporate alongside engendering better sales and supply chain opportunities to the smaller business. The case studies within this report highlight some excellent examples of such collaboration and are exemplars for others to follow.

It is clear that there is a strong correlation between a small company attaining an anchor customer of a well-known 'high street' brand name and how that can generate further opportunities. In recent research by the Scale-Up Institute the most important help identified by high growth businesses was the ability to access corporate buyers in a timely, consistent and efficient manner.

This report gives much to reflect on as to the practices by which the interplay between the larger business and the startup, or early-stage scaling business, can be best nurtured to attain the best possible results. It unpicks the issues and barriers faced and offers solutions. There are simple measures for both sides to take on board to make the relationship as effective as possible and all should be encouraged to follow the suggestions made, as they are both practical and straightforward to implement.

The more all of us can do to support the interaction between our larger businesses and our growing startups and scale-ups the better. This is where policy measures can further help. Whether it be via a simple online tool that the larger company creates to become clearer and more transparent on supplier requirements, or by each larger company further refining a procurement process to make it more accessible to a smaller company by setting a standard framework, both private and public sector lessons can be learnt from this review by Nesta for the Startup Europe Partnership.

Central policymakers can also help further by opening up sources of data to allow larger businesses to identify more quickly the smaller players that can help them, and by a level of consistency in payment practices being achieved, including terms passed down the supply chain.

The Scale-Up Institute is delighted to support the work that Nesta is undertaking in this corporate collaboration, procurement and partnership arena. If we are to do all we can across Europe to foster larger businesses, including governments, procuring and collaborating with our smaller businesses, then by putting the lessons and practical tips from this report into practice, we will not only make Europe the best place to start a business but also to scale one.
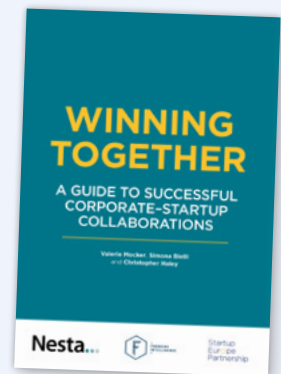
Sherry Coutu CBE

Serial entrepreneur and author of the *Scale-up Report*

INTRODUCTION

Innovation is key to sustained corporate success. Innovative firms grow twice as fast as non-innovators, both in employment and sales.[1] Yet large firms often struggle to innovate because there are many barriers that are deeply entrenched within the organisation. More corporates are therefore choosing to collaborate with startups as part of their innovation strategy, precisely because they realise that their own corporate nature makes internal innovation difficult.

This is especially true in the digital and high-tech sectors where the rate of innovation is rapid and 'the increasingly sophisticated and distributed nature of knowledge transcends corporate boundaries, making it harder to pursue innovation activities in isolation'.[2] This means that firms' competitive advantage is increasingly determined by their ability to establish and maintain successful collaborations.

Our previous report, *Winning Together*, outlined many of the benefits that startup collaboration can bring to corporates.[3] These include solving business-specific problems quicker or at lower risk than a corporate might do otherwise; innovating big brands, including attracting new customers, partners and talent; rejuvenating corporate culture by creating awareness of new technology and an entrepreneurial mindset; and expanding into future markets by accessing new capabilities or new channels.[4] On the startup and scale-up side, the benefits are manifest, including access to finance, market knowledge and technical expertise, brand exposure, customer validation, and more. Such collaborations can be truly 'win-win'.

Yet if this is true, why do not all large firms have collaborative programmes of one kind or another? The reality is that successful collaboration is difficult. There are multiple hurdles, and many of the problems which inhibit internal innovation also affect open innovation.

This study analyses the barriers to collaboration and, by drawing on successful examples, suggests ways in which they may be overcome. It is based on existing literature, Nesta's observation of SEP Matching Sessions, interviews with corporate innovation teams and procurement managers, plus our own survey of European startups and scale-ups.[5]

We have not distinguished between sectors or geography. Whilst supply chain consolidation varies and there undoubtedly are differences in how sectors innovate and collaborate, we nevertheless believe that most of the issues we discuss are cross-sectoral and international.

Chapter 1 outlines some of the problems and introduces a framework which may be helpful in thinking about collaboration, distinguishing between 'internal' and 'external' barriers. Chapter 2 focuses on internal barriers and provides tips to overcome them. Chapter 3 then tackles external barriers and their solutions. A summary of recommendations is presented in Chapter 4.

The report is intended primarily for corporate executives and senior managers, since we believe that these people are best placed to have the biggest impact. However, we also include some recommendations for startups, scale-ups and policymakers.[6] We hope you find it useful.
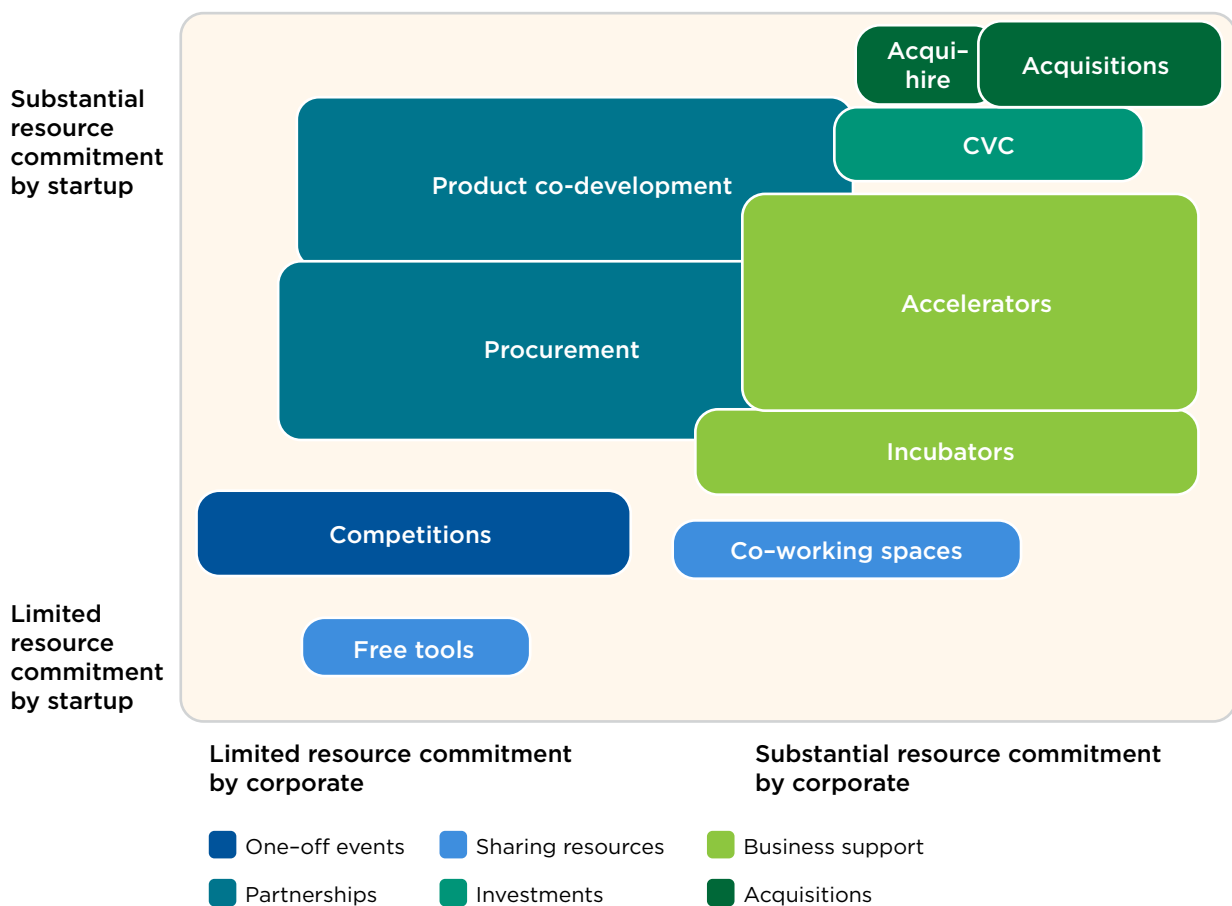
CHAPTER 1

OVERVIEW OF CORPORATE-STARTUP COLLABORATION

1.1 Why collaborate?

Collaboration and interdependence are part of business. From customer-supplier relationships, through complementary partnerships (such as Intel's processors and Microsoft's operating systems), to joint ventures (such as Sony-Ericsson), companies have long formed partnerships with one another to create value.[7] However, collaboration with startups has historically been less common and hence is less well understood.

In this study, as previously, we view collaboration in a broad sense, encompassing some interactions which are relatively transactional, some which are more concerned with co-creation, and others where the exchange of value is less clear. The chart below outlines some of the different modes of collaboration:

Figure 1:   Different modes of interaction and indicative resources

Legend:

Limited resource commitment by corporate

- ■ One–off events
- ■ Partnerships

- ■ Sharing resources
- ■ Investments

Substantial resource commitment by corporate

- ■ Business support
- ■ Acquisitions

On the entrepreneurs' side, our own research found that three-quarters of startups and scale-ups who had collaborated with corporates reported their experience to be beneficial. It is clear that many startups and scale-ups hope to gain a large firm as a customer, but also recognise many of the other benefits, including: visibility and enhanced publicity or reputation, business development (entering new markets or gaining new customers), and gaining market knowledge or access to key contacts.[8]

Figure 2: **Collaboration benefits reported by startups and scale-ups**

On the corporate side, research shows that collaboration leads to increased business.[9] Moreover, most corporate-startup collaboration can be seen as a particular kind of open innovation, which various studies suggest has positive impact on firm performance.[10, 11] While this report is not focused on open innovation as a whole, measuring the company's open innovation readiness and capabilities is a helpful analysis to build on strengths and acknowledge weaknesses; a useful tool to measure your company's open innovation readiness is included in the Appendix.

We believe that the ability to collaborate with startups is more important now than ever before, given the pace of technological change and rapid emergence of new business models, driven particularly by digital technology. To respond quickly to these external forces, large firms need to embrace more agile ways of working.

> 66 *Digitisation requires a new type of agility from existing players.* 99
> **Tomas Hedenborg, Group CEO of Fastems and President of Orgalime, the European Engineering Industries Association**

Evidence shows that independent startups reach market (and profitability) in roughly half the time of ventures grown wholly within corporates, despite the greater resources of the parent firm, meaning that collaboration with an existing startup can often be a much quicker route (depending on one's ultimate objectives).[12] Certainly, the majority of corporates we interviewed felt that startups were already important to their innovation strategy and were likely to become even more so in future.

However, some activities are better suited to certain objectives. The fit between corporate objectives and different modes of interaction is shown in the matrix below:

Figure 3: **How common startup programmes satisfy different corporate objectives**

Objectives

Common programmes to engage with startups	Rejuvenate corporate culture to create an entrepreneurial mindset among employees	Innovate big brands to attract customers, partners and talent	Solve business problems quicker and at lower risk	Expand into future markets by accessing new capabilities or channels
One-off events (competitions such as hackathons)				
Sharing resources (free tools; co-working spaces)				
Business support (accelerators; incubators)				
Partnerships (product co-development; procurement from startups)				
Investments (corporate venturing)				
Acquisitions (acqui-hire and buying startups)				

This report will place greater emphasis on partnerships, procurement, investment and acquisition. In our view, these activities are not only more difficult to undertake (and hence in need of greater guidance), but also can make the greatest long-term difference to startups and scale-ups.

> *Collaboration is really now key for corporate innovation. No company has all the competencies it needs.*
> **Dirk Pilat, Deputy Director for Science, Technology and Innovation, OECD**

1.2 Why isn't every firm doing this already?

It is tempting to look at the case studies given in this report and imagine that all corporates must already be collaborating with startups. Certainly, increasing numbers are recognising the benefits. But the reality is that many firms have no collaborative programmes at all with startups, whilst others are struggling to implement their own initiatives.

One problem for corporates is the type of innovation which startups bring. As the work of Clayton Christensen explains, large corporates are often better than new entrants at incremental innovation with incumbent technology, but highly resistant to disruptive technology which renders their existing competencies and standards obsolete.[13] It is therefore very common for corporates to prefer incremental improvement to the radical, disruptive change which startups may represent. Studies suggest that incremental innovations constitute 85-90 per cent of firms' innovation activity – but that the small minority of radical innovations yield the majority of the profit.[14, 15]

Another reason is the mechanism of innovation which is required. For some firms, the risk of opening up their company to external innovation may be perceived to be too high (see Figure 4). This is a reasonable concern: internal R&D may sometimes be adequate for a firm's needs, and over-reliance on external sources of innovation can potentially decrease profitability (if the costs of external collaborations exceed the additional value created).[16] Moreover, partnering with startups changes the risk profile of a firm – replacing the technical risks of internal R&D with partnership risks, for instance – as well as introducing new ones.

In addition, the upside is often unclear: measuring return on investment for startup collaboration (and much innovation in general) is very difficult. There is currently too little economic data to quantify the benefits of working with startups, and some impact is inherently difficult to measure, making it difficult for executives to justify programmes to their managers or to shareholders.

In other cases, however, it may simply be a lack of awareness that is holding back potentially fruitful collaboration – either in terms of what competitors are doing in this regard, or in terms of the potential advantages arising from win-win collaborations with startups.

On the startup side, Nesta's own research found that of those startups that had not collaborated in some capacity, this was rarely because they didn't want to: whilst a few admitted to fear or hesitation at being involved in an overwhelming process which was not totally under their control, a much greater problem was that startups did not know how to initiate a relationship or were unable to find reciprocal interest.

Figure 4: **Corporate CEO's Dilemma – Should I be collaborating with startups?**

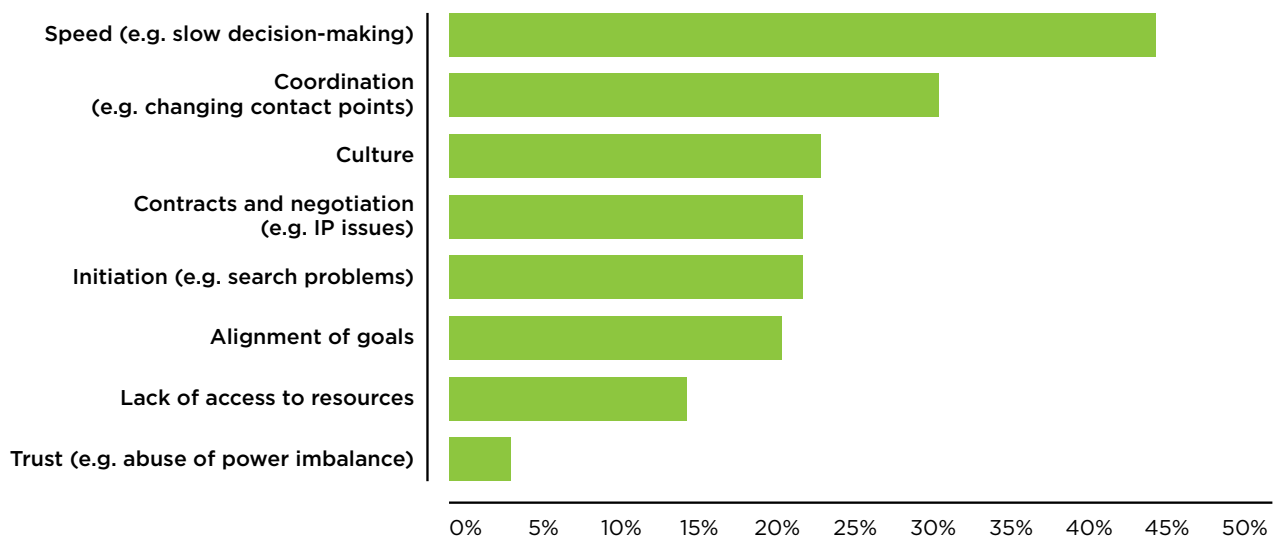|	Pros	Cons
Short term	• New technology, services or products from startups may help firms to stay competitive and/or expand into new markets • Collaboration can bring brand innovation that is attractive to potential customers, business partners and future employees • Startups may bring fresh thinking to help solve core business problems	• Introduces new forms of risk; changes existing risk profile • Possible disruption to existing teams and processes • Rate of failure usually high for startups, which may affect business continuity • Potentially high short-term costs and low immediate returns (in time and resources)
Long term	• Increased market share and/or possibility of entry into new markets • Rejuvenated corporate culture and increased internal learning • Increase in shareholder value • Reinforced leadership position in industry/vertical • Agility to adapt more quickly to market changes	• Possible reputational damage arising from soured startup deals or failure to supply • Possibility of considerable resources spent with minimal return on investment

1.3 Why don't firms collaborate more effectively?

Even when firms want to collaborate with startups, there are often barriers which inhibit effective collaboration. Some of the factors which affect collaboration in general – such as trust and mutual interest – are well known.[17, 18, 19, 20] In addition, there are other factors – like an imbalance of power – which are particularly frequent in 'asymmetric' partnerships such as those with startups.[21]

In our own research, many corporate executives and innovation managers reported that the greatest barriers to effective collaboration were often internal, and related to issues of strategy, structure, organisational culture or internal processes.

Many entrepreneurs spoke of relational or transactional issues. By far the greatest challenge reported by startups was the mismatch in speed: half of all startups reported problems with long cycle times and slow decision-making on the corporate side. The next biggest challenges related to coordination, with a third of startups reporting difficulties arising from poor communication, changing contact points, or unclear processes. This was followed by various cultural problems and contractual issues (including protracted negotiation of terms and conditions).

Figure 5: **Barriers/obstacles to collaboration reported by startups and scale-ups**

To understand these barriers, it may be helpful to think in terms of the framework below (Figure 6). In this scheme, internal barriers are factors which exist wholly within the firm and can be changed from within; these will be the focus of Chapter 2.

By contrast, external barriers are factors which are – at least partly – outside the corporate's control. These include possible environmental or extrinsic factors (such as legislation, which might be affected by policymakers) and – more significantly – what we call relational factors (such as trust, which depends upon the individual relationship between startup and corporate, and search problems). These external barriers will be the focus of Chapter 3.

Figure 6: **Illustration of different types of barriers to effective collaboration**

INTERNAL BARRIERS AND THEIR SOLUTIONS

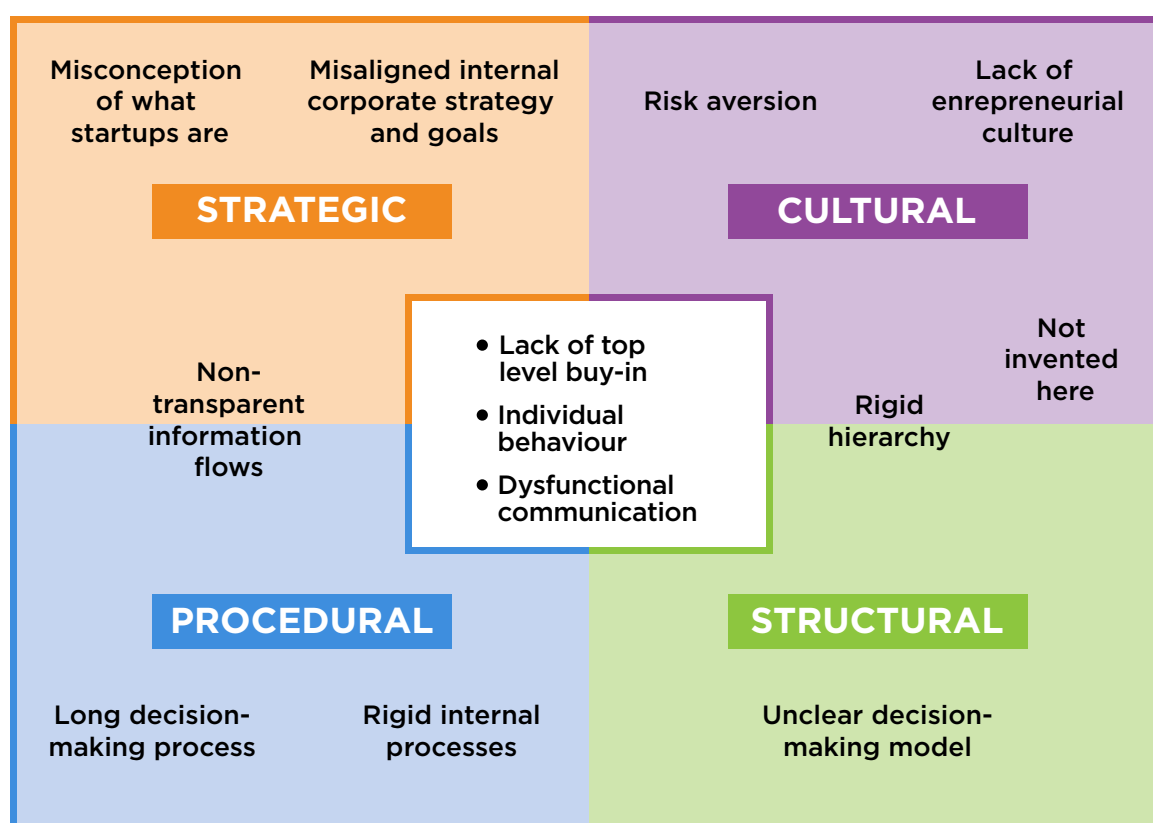Based on conversations with a number of large firms, we identified common internal barriers within corporates which hinder successful collaboration with startups and scale-ups. These may be broadly classified as strategic, structural, cultural or procedural – although as the figure below depicts, a few barriers overlap categories. Some issues – lack of top level buy-in, individual behaviour, and dysfunctional internal communication – cut across all four categories.

Figure 7: **Common internal barriers to collaboration**

Of course, startups and scale-ups also face their own internal barriers, typically relating to limited resources and inexperience. Some of the problems which arise are a mirror of the corporate issues (e.g. a misconception of corporates), though it is clear that many others (e.g. rigid hierarchy) are unlikely to be an issue. For that reason, and because large firms have more absorptive capacity, this chapter will focus on the internal corporate barriers, exploring each in depth, proposing tips on how to overcome them and using case studies to illustrate solutions.

2.1 Strategic barriers

Large corporations are complex organisations, often with conflicting internal goals and objectives. **Strategic misalignment** amongst departments regarding the role and purpose of external collaborations can therefore be a major barrier. The lack of a unified corporate view of innovation can generate diverse priorities which can be a significant obstacle to speedy decisions and, ultimately, hamper the smooth progression of collaborations.

This misalignment is most obvious when a relationship is handed over from one business unit to another. A third of startups we surveyed found such 'transfer of responsibility' to be particularly problematic. Our own research supports the findings of Minshall et al. (2010), that this issue often arises when a partnership moves from the R&D team to the procurement and legal teams, who treat startups like any other business with which they usually deal.[21]

Part of the cause may be a fundamental **misconception of what startups are**, what they bring to the table, and why the company is engaging. In the worst case, some parts of the organisation may see engagement with startups as a purely cosmetic activity, intended to promote a 'cool company' image, rather than genuinely drive innovation.

These complications are often compounded by poor internal communication, and what might be called **'non-transparent information flows'**. Many organisations suffer not only from information under-sharing, where information is either withheld or sparingly shared, but also over-sharing, where a person or department is given too much information to assimilate. Either way, the end result is that other departments do not properly understand why a division is working with startups, and how their own function may help or hinder.

This misalignment has to be tackled from the top, with senior management providing legitimacy to startup collaborations and repeatedly emphasising their potential benefits. This is especially so when the unit dealing with startups is a separate entity (like a CVC arm). Periodic meetings between these units and corporate executives to align strategies is vital. Starting with a problem whose pain is felt across the whole company will help secure buy-in across the organisation.

Tips for corporates

- Before embarking on any relationships with startups, carefully consider your objectives in engaging: focus on real needs, not corporate social responsibility or PR.

- Promote and explain open innovation initiatives internally by conveying their benefits and drafting a plan on how to design programmes to champion this initiative inside the corporate.

- Secure top level buy-in, if it does not already exist, by educating colleagues about the benefits of innovation and risks associated with sticking to the status quo. This is best accomplished by bringing compelling evidence to the table, such as case studies of competitors engaging in innovative practices.

- Ensure that this buy-in is communicated downwards effectively, with a clarity of purpose which helps everyone pull in the same direction.

- In the event that the lack of buy-in is still widespread, your best bet might be to start off with a small-scale pilot programme (but focused on a theme of widespread interest), iterate and then scale-up.

Infosys

Top level shake-up helps change corporate culture and direction

Late in the summer of 2014, one of India's largest technology and software services companies, Infosys, appointed Vishal Sikka as its new CEO. He was the first non-founding member to head the company and was given the unenviable task of turning around the company's fortunes after a period of stagnation. After a year and a half in the saddle, Sikka achieved respectable revenue growth and significant share price increase, bringing Infosys back within striking distance of its competitors.

What worked?

To achieve this task, Sikka adopted several new initiatives relating to startups and open innovation:

1. **Strategic mergers and acquisitions**: Strategic M&A was ramped-up, with acquisition of firms like Panaya, a Software as a Service solution company, and Skava, a mobile solutions scale-up. These acquisitions were part of a larger $500 million innovation fund used to invest in startups focused on disruptive technologies including IoT and Artificial Intelligence.[22]

2. **'Murmuration' crowdsourcing initiative**: All Infosys engineers were asked to submit an innovative idea which they felt their clients should be working on.[23] Sikka himself, along with COO Pravin Rao, then selected the top ten entries for implementation, while personally praising other ideas that were of high quality.[24]

3. **'Zero Distance' approach to innovation**: Top managers were sent on a Design Thinking course, developed by Bernard Roth of Stanford University, to teach a 'Zero Distance' perspective of innovation - an approach which asks individuals and teams to question the what, how and why of their daily tasks and to try to improve and innovate on them.[25] In this way, it was hoped that they would *"close the gap or Zero the Distance between us, our clients, and the end-user"*.[26]

4. **Top-level buy-in**: Sikka promoted some key internal personnel and, more drastically, brought on board 16 of his previous colleagues from SAP, appointing them to vice-president posts.

The turn-around of Infosys was largely due to the actions which the new CEO took to promote innovation, both through the acquisition of smaller firms and also by changing the corporate culture from the top-down. As a consequence, Sikka managed to raise employee morale, lower the rate of attrition, and bring back a sense of belonging – things that had been sorely lacking in previous years.[27]

2.2 Structural barriers

Structural barriers are notoriously hard to overcome, especially in well-established companies. Large corporates often have a **rigidly hierarchical decision-making** structure. Research by Accenture shows that the more an organisation is verticalised, the longer it takes to approve the decisions to start a partnership, agree investments or plan for M&A.[28] Moreover, a lack of devolved responsibility also means that those who are making the decision are further removed from those 'on the ground' who may be best placed to judge the need.

Occasionally, such rigid hierarchies may be the result of an organisation that privileges seniority over competence. In these circumstances, even if an employee with initiative is granted permission to carry out a certain innovative or collaborative experiment, they may be less likely to do so because of the presumption that they would be rejected outright by someone higher-up.

Slightly different problems arise within organisations that use a matrix structure to accommodate cross-functional projects and teams. In this situation, collaboration may be hindered by **unclear or overly-complex decision-making** structures – for example, when an employee who is looking to bring forward an innovative idea is unsure whether they will get sign-off from both their 'dotted line' (project/team) and also 'solid line' (functional) managers.

The best solution depends on the ultimate goals. One approach is to appoint an internal innovation champion: someone who can be directly approached by anyone with an interesting proposal, and, if vested with budgetary and decision-making power, can help shape a fruitful collaboration for the company (whilst giving recognition to the person who first mooted the idea). This provides the freedom to collaborate with startups while keeping the corporate structure intact. However, it is important for this to be someone who knows how to navigate the organisation – *"the 'dark secrets' of how the organisation actually works, not how it says it works"*, as one such champion put it – and has permission to cut across silos.

What about innovation units? If the desire is to have more independence and flexibility to experiment with innovation (for example with ad-hoc processes), a dedicated business unit with its own budget may be favourable. This can be useful to *"insulate the development team from the usual corporate cadence"*, in the words of Andy McCartney, former CEO in Residence at Microsoft Ventures. However, this can sometimes be counterproductive. There is a risk that independence can give rise to new silos, create rivalries and deepen divisions with the rest of the organisation. To work effectively, it is important that the activities of this unit align with broader corporate goals, ensuring that any insulation is not so thick that it causes the unit to lose track of the needs of the rest of the organisation.[29]

As with strategic alignment above, whatever structural changes are ultimately adopted, if they involve C-level management in their activities, then organisation-wide acceptance and support is clearly more likely, cutting out layers of bureaucracy and speeding-up decision-making. Management must also enforce an attitude of mutual respect – making it clear that, whilst the organisation itself may become obsolete without innovation, innovation teams rely on the remainder of the organisation for capabilities and profits which enable their existence.

> 66 *Technology is always 'broken'; it's how you integrate it that matters.* 99
>
> **Andy McCartney, Founding Partner at Whitespace Ventures and former CEO in Residence at Microsoft Ventures**

Tips for corporates

- A suggested first step is to perform a 'structural audit' of the company. Based on this, a number of new ideas, like appointing an internal champion in the R&D team, designating a whole new Innovation Team or commissioning a new entity to spearhead internal innovation, might emerge.

- Consider partnering with other CVC units or dedicated external organisations rather than starting your own. Some firms report benefiting from partners' experience and knowledge while making more consistent and impactful investments.

Castrol Innoventures

The advantages of creating a separate business unit to deal with startups

The automotive industry has been through a number of transformations. For a company like Castrol, which sells engine oil and industrial lubricants, the growing electric car sector presented a significant threat. Castrol realised that they needed to innovate beyond their current product offerings and court new markets and partnerships.

What worked?

Senior management created Castrol innoVentures, an independent global business unit responsible for sourcing innovative solutions which would enable it to venture into new strategic sectors, such as smart mobility technologies (everything from vehicle telematics to smartphone apps and gaming), sustainable energy solutions (e.g. electric batteries), next generation engineering (such as smart fluids and next gen lubricants) and intelligent operations (utilising technology such as 3D printing and big data for predictive analytics). The unit had several notable features:

1. **Clear decision-making model**: It was decided that the unit should report to the Vice-President of Global Marketing who sits on and reports to the Executive Board. This ensured representation in the upper management and reduced the time it took to make decisions about whether to collaborate with startups.

2. **Flexibility and independence**: Although the unit's employees were assigned certain KPIs and core financial procedures, they were given significant flexibility in other processes. Decisions regarding the structure and approach of the unit, including how to allocate personnel and resources, could be decided within the unit itself.

3. **Focus on results**: The unit was given a clear mission and mandate – to look for technology and business partnerships that could bring Castrol new revenue streams. The achievement of specific goals would determine budgets and investments for the following year, which provided both a long-term mission and a short-term 'edge' to the activities.

4. **Fewer internal barriers**: The formation of a separate business unit addressed the procedural and structural barriers to startup collaboration (though it was acknowledged that cultural and strategic barriers, however, might still arise when the partnership or acquisition makes its way to the legal or purchasing units of the larger corporate entity).

Being built from scratch, Castrol innoVentures had an initial learning period of one to two years. During this time, the unit experimented, tested new ideas and learned what worked and what did not. Most importantly, senior management understood that this learning phase was inevitable and was prepared to take a longer-term view of its success.

2.3 Cultural barriers

An entrepreneurial culture is, to use an existing description, an environment where 'new ideas and creativity are expected, risk taking is encouraged, failure is tolerated, learning is promoted, product, process and administrative innovations are championed, and continuous change is viewed as a conveyor of opportunities'.[30] Unfortunately, corporate culture can be hostile to some of these attitudes.[31] This makes fruitful collaboration with startups difficult.

One cause of a **lack of entrepreneurial culture** may be employees who do not see startups and innovation in a positive light. In some cases, this may be the result of previous changes which were poorly implemented; in other cases, it may arise from a deliberate policy of recruiting 'safe pairs of hands' in place of people who will 'rock the boat'. More often, however, a lack of entrepreneurial culture is the collective result of rational actions by employees who are simply not incentivised to think or act outside their immediate job description. A slightly cynical (but probably accurate) view is that, since most employees usually do not have a stake in the business they manage, they are motivated by projects and activities which improve but do not jeopardise their personal wealth, status and job security – regardless of the long-term implications for the firm.[32, 33] As one manager from a major consultancy firm said:

> ❝ *Many large companies copy startups' language about 'embracing failure'. In reality, they pay lip-service to the sentiment but rarely do much to embrace it. Most employees know that failure is not a good thing for their career.* ❞

Less cynically, pushback may simply be due to good workers concentrating on their existing role and trying to perform their formally defined tasks as efficiently as possible. Either way, however, the cumulative effect is a corporate culture of **risk aversion**. It is often this risk aversion and fear of failure which slows down decision-making.

In other instances, employees may feel threatened by the adoption of disruptive innovations which might imply a change in their role within the organisation, or have implications for 'pet' projects of theirs. This is particularly likely in specialised functions or where employees have been working for years on a particular project. In such cases, employees may prevent or even sabotage a collaboration with startups. This **'not invented here' behavior** is one of the most commonly reported forms of internal opposition, even (or perhaps especially) in highly innovative companies. As a Vice President of Procter & Gamble put it, one of the core challenges of their own open innovation initiative was to move *"from resistance to innovations not invented here to enthusiasm for those proudly found elsewhere."* [34]

In all these instances, as in the case of strategic and structural barriers discussed above, signals from senior management are vital. Not only must top-level executives genuinely understand the need for innovation and collaboration, they must also transmit suitable messages to staff about the firm's attitude to risk - in particular, that risk should be seen as something to be actively managed, not simply minimised. **Personal incentives** should reflect this too. The personal rewards for a successful startup collaboration must outweigh the reasons to want them to fail.

Not everyone will embrace this to the same degree. However, the 'innovation champions' we mentioned earlier can play a role as 'cheerleaders for innovation', changing internal culture and helping to legitimise other people's innovation activities. As Carlo Napoli, Head of Open Innovation Culture and Project Portfolio at Enel, commented:

> 66 *You can't change the culture in one day, but you can find change agents inside the company who are capable of infecting other colleagues with their enthusiasm. If you are able to spot them and empower them, support them and protect them, those people will do the job for you.* 99

Tips for corporates

- Engage someone who has the diplomatic ability to navigate the corporate's organisational structure and sell the project within different departments (e.g. R&D, business lines, legal).

- Be sensitive towards those whose roles or projects will be disrupted, dampening jealousy and job insecurity, while making it clear that disruption of their function is not a judgement of their performance.

- Use appropriate language to foster openness to entrepreneurialism. Some units are comfortable with terms like 'disruption' but other functions may react better if couched in less threatening language like 'learning new processes'.

- Encourage employees to mingle with – or better still, mentor – startups to promote collaboration and sharing of experiences (the company could sanction some percentage of time every month specifically for this purpose). Most mentors report that the learning process is two-way, such that they gain experience of how startups think, as well as personal development.

- Hire enthusiastic and entrepreneurial people who can inspire their corporate peers and develop programmes that encourage fresh initiatives, idea generation and execution, while promoting the safe sharing of failure stories.

- Examine incentive schemes and implement systems that reward innovation and responsible risk-taking.

Coca-Cola

CASE STUDY

Fostering an entrepreneurial culture inside your organisation

With 700,000 employees, 24 million customers and 129 years of operations, what's Coca-Cola's secret to continuing success? According to Mariano Maluf, Lead for Cloud Brokerage Ecosystem at The Coca-Cola Company, *"the key to success is experimentation"*, whilst approaching technology with *"a startup mentality, the ability to focus on mistakes and learn quickly from them"*.[35] This is how Coca-Cola made sure each employee, from C-level management down to the most junior roles, embraced this culture.

What worked?

A few years ago, Coca-Cola appointed David Butler, a product designer and entrepreneur, as Vice President of Innovation and Entrepreneurship. His mandate was to shore up Coca-Cola's capabilities in business model innovation (including startup collaboration), while also fostering a more entrepreneurial culture across the organisation. Butler took several steps to lower the cultural barriers to startup collaboration and innovation within Coca-Cola:

1. **Partnering with entrepreneurs**: Selected startup co-founders were chosen to work with Coca-Cola on new products/solutions that were launched in different cities using the Lean Startup process. The injection of entrepreneurs into the company's working processes helped employees to think in an agile manner and imbued them with the startup mindset and enthusiasm.

2. **Encouraging employees to work like startups**: A co-working space within Coca-Cola was opened to employees from across the organisation, to facilitate cross-fertilisation amongst different teams. This was complemented with unstructured meetings, hackathons and internal Startup Weekends, where employees worked together to develop their own entrepreneurial ideas.[36]

3. **Embracing failure**: 'Failure conferences' were held to encourage people to talk about their failures and the lessons they gleaned from them. As Mariano Maluf noted: *"It's not that we're happy that we fail, but we need to take the lessons learned very quickly and apply them"*.

Appointing a senior figure with an entrepreneurial mindset meant that Coca-Cola had a powerful internal champion for innovation. This not only helped the company partner with startups, but also fostered an organisation-wide entrepreneurial mindset, in which employees were encouraged to work and think more like startups.

2.4 **Process barriers**

A frequent complaint from entrepreneurs is that large organisations have **inflexible processes** which struggle to cope with their unique demands: the corporate machine often treats startups as if they were much larger firms – such as insisting on evidence of ISO certification, for instance. **Lengthy and complicated procedures** which might be appropriate for a larger partner often discourage startups from even considering partnering.

This problem is a perennial one, experienced by every organisation to some degree. However, it is particularly acute where there is a high throughput of fairly similar transactions – as in some manufacturing sectors and specific business functions like procurement. Strict qualification or certification processes for vendors are a frequently-cited concern.[37]

The challenge for large firms, however, is that internal processes usually exist for a reason, and are often optimised for day-to-day activities. Unfortunately, a frequent consequence of this optimisation is that the streamlined processes then have insufficient flexibility to cope with the unexpected or different. This phenomenon – the evolution over time towards 'exploiting' existing opportunities, rather than 'exploring' new ones – is quite common within organisations.[38, 39, 40] In time, 'core competencies' may become 'core rigidities'.[41, 42, 43, 44]

Amending internal processes in order to accommodate startups therefore risks trading efficiency for flexibility: some tasks (and potentially some jobs) may actually need to be broken or become less streamlined. Those affected may naturally resist such changes - especially if only the downside is apparent, with no upside.

For some organisations (and some business functions in other firms), the solution may again be direction from the top, explaining the need to break existing processes, and setting new expectations in terms of deadlines for making decisions. In some instances, it may be sufficient to incentivise staff to reorder their workflow to give preferential treatment to startups.

The alternative, if minimal distortion of existing processes is required, may be to create parallel processes: for instance, having a specialised legal staff dedicated to startup deals; instituting a preferential supplier registration process; or creating a simplified, fast-track procurement channel for startups.

Enel

Speeding up decision-making processes to collaborate more effectively

Italian energy and utilities company Enel realised that it needed to partner with startups to cover technology gaps in areas such as smart grid technology, energy storage and data analytics – as well as to challenge existing business models. However, it found that the existing collaboration process was often quite painful and time-consuming for both the corporate and the startups.

What worked?

Enel successfully changed its processes (and culture) to make collaboration with startups shorter and simpler. It created a streamlined startup collaboration process, with the following stages:

1. **Preliminary screening**: Enel began gathering all startup submissions through a dedicated web platform: startup.enel.com. Preliminary screening would be conducted by the Holding Innovation Venture Team; as part of this, the team would consult business line experts who were required to give their opinion within 15 days. Startups that were judged to have a strategic and technological fit with Enel would then be presented to an Advisory Board made up of the Head of the Venture Team and various innovation managers.

2. **Advisory Board judgement**: The Advisory Board would decide whether or not to proceed with the proposed collaboration. If the feedback on a startup was positive, the project would proceed to the due diligence phase.

3. **Commercial due diligence**: The startup's business would then be formally assessed in order to understand the value and the impact of the proposed project. This phase would take no more than one month.

4. **Structuring the deal**: If the outcome was positive, the Holding Venture Team would then enter the negotiation phase. When all the aspects of the agreement were defined, the legal and procurement team would structure the contract. This stage would take three weeks maximum.

5. **Final approval**: Once all the terms of the agreement were agreed, and Enel's resource commitment was clear, the CIO and C-level management would give their final approval at the Innovation Committee.

This streamlined process required disciplined timing. To ensure adherence, the CEO made it clear that commitment came from the top, and that senior management were taking an active role in the new process. Secondly, the firm provided incentives for staff to respect the tight deadlines, by providing innovation managers and other internal functions (e.g. legal) with an annual bonus if they performed in a timely manner. Third, Enel created a 'preferential lane' for innovative agreements, involving a dedicated legal team specialised in contracts with startups, as well as a fast-track procurement process for startups (which in some cases includes upfront payment, rather than the terms offered to normal suppliers).

Tips for corporates

- Set clear expectations (internally and externally) of how long each process step should take.

- Monitor your collaboration processes to understand where the bottlenecks really lie.

- Remind staff that time is of the essence for startups: a single delayed payment may well cause the demise of a small business.

- Where speed really matters, ensure that employees are incentivised for timely processes (see Enel case study for an example).

- Where bottlenecks cannot easily be removed, or where startups will deviate considerably from the 'normal' process, consider a parallel 'fast track' with simplified processes.

- Reduce burden of indemnities and liabilities that you request from startups, and the cost of insurance required to enter into agreements.

- 'Hide the wiring' where possible – ultimately, it might not matter how complex your internal process is, provided that it is both timely and simple on the surface.

CHAPTER 3

EXTERNAL BARRIERS AND THEIR SOLUTIONS

There are two main types of external barriers that companies face when they are looking to collaborate with startups and scale-ups: what we have called 'relational' and 'environmental'.

Relational barriers are issues arising from the mismatched, unequal and asymmetric relationship between startups and corporates. Environmental barriers, on the other hand, are ecosystem impediments caused by public and economic policy, such as legislative hurdles, tax issues and geographic barriers.
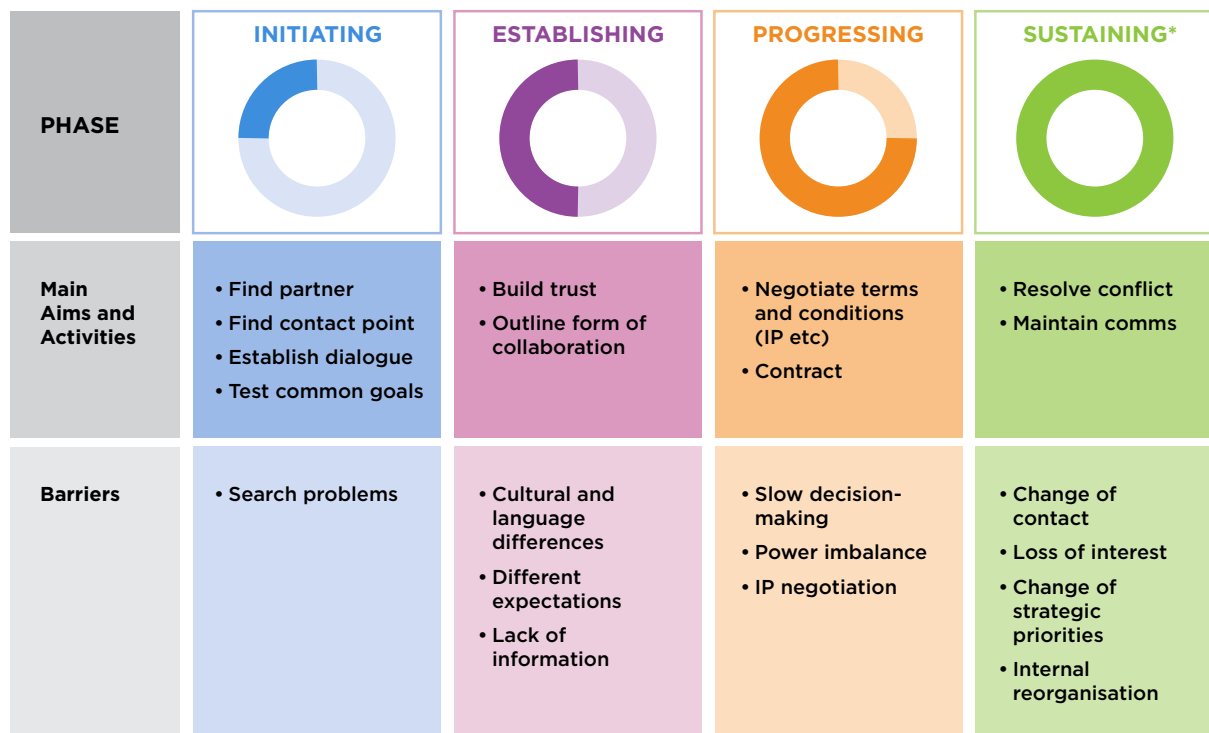
Our own research revealed environmental barriers to be less important than internal or relational barriers, with very few corporates identifying any which they felt inhibited collaboration with startups. This contrasted with our expectations and the existing literature. For instance, various studies report that proximity matters for collaboration – which is part of the rationale of initiatives like the Stevenage Bioscience Catalyst.[45, 46, 47] Nevertheless, geography was mentioned as a relatively low barrier in our surveys – in part, perhaps, because the transference of digital technology is less dependent upon tacit knowledge.

Similarly, it is possible that schemes such as Corporate Venturing Subsidy (previously trialled in the UK) may provide a small additional incentive for corporates to collaborate. However, in our research, very few companies mentioned tax breaks as a significant incentive to collaborate with startups, and none cited the withdrawal of CVS as a barrier.

Differences in legal frameworks and company structures are perhaps more significant. Anecdotally, there is some (limited) evidence of large companies being unsure about the different structures of European firms; even if this does not directly inhibit firms from collaborating, it is conceivable that it prompts an earlier recourse to lawyers, which (as we discuss elsewhere) may well have indirect consequences - though this needs further research before hard conclusions can be drawn.

This section will therefore focus on the major relational barriers. To understand these, it may be helpful to think about the sequence of events involved in establishing and sustaining a collaboration, from both the corporate and startup perspective (see Figure 8).

Figure 8:   **Common relational barriers to collaboration**

PHASE	INITIATING	ESTABLISHING	PROGRESSING	SUSTAINING*
Main Aims and Activities	• Find partner • Find contact point • Establish dialogue • Test common goals	• Build trust • Outline form of collaboration	• Negotiate terms and conditions (IP etc) • Contract	• Resolve conflict • Maintain comms
Barriers	• Search problems	• Cultural and language differences • Different expectations • Lack of information	• Slow decision-making • Power imbalance • IP negotiation	• Change of contact • Loss of interest • Change of strategic priorities • Internal reorganisation

* When a relationship is successful, it can generate more opportunities for working together. For this reason this diagram can be seen as a cycle where the 'sustaining phase' is often followed by the 'initiation' of a new mode of collaboration. One example of this is startup Qudini, which develops queue management systems; this startup was a Wayra incubatee, before entering into a supplier relationship with telecom company O2.[48]

3.1 Initiating the relationship

The first challenges to forming new relationships are **search problems**. For startups, the difficulty is often in identifying the right corporate representative to speak with in order to initiate a relationship. Large firms also face search problems, both in terms of finding startups (who often have a very low profile), and then in terms of screening for suitability (there are usually many suitors, but only a handful who fit the bill for technical fit, organisational capacity and other requirements).

Within a corporate, the ideal contact is typically a person or team who understands the corporate's technical needs whilst also having enough budgetary and decision-making power to champion the startup inside the company. To do this effectively for a large organisation, this usually needs to be a dedicated role. For example, oilfield services company Schlumberger employs a dedicated manager responsible for early-stage technology scouting worldwide; this person splits their time between inward-facing networking to understand the needs of the organisation, and external-facing networking to identify potential technical solutions among startups and research organisations; when they encounter a promising technology, they are then very well placed to broker a rapid connection.

Another tactic used by some corporates is partnering with other large firms (often in complementary industries, where there is not direct competition) to exchange dealflow. For example, El Al Airlines' Cockpit programme (an accelerator for startups in the travel industry) exchanges information about promising startups with Coca-Cola's 'Founders platform', a scheme which hand-picks founders, rather than accepting direct applications.

This is potentially one area where policymakers can help. Serendipity is not always sufficient when it comes to finding the right partner, and so tools to assist this matchmaking process could be useful. We note that, for instance, the UK's National Centre for Universities & Business aims to simplify search between corporates and universities via an online portal, whilst SEP introduces potential partners to each other via qualified matching sessions.

Tips for corporates

- Create a publicly visible, single access point for startups – ideally a person or small team who knows the organisation well enough to direct startups towards relevant programmes or units.

- Scout internationally to attract the best startups and technology. The best ones might not be located in the same city, or even country, as your headquarters. If this is the case, consider partnering with organisations that can scout on your behalf, or through a network of local partners.

Asset Mapping and Cisco/Intel

Smart Scaling Strategies

Asset Mapping, a UK-based IoT company which helps clients gather real-time data from commercial buildings, has successfully collaborated with the likes of Intel, Cisco and Konica Minolta on technology partnerships. According to CEO Bill Clee, the first interaction – with Intel – arose from a chance encounter at a business event at Level39, an accelerator in Canary Wharf, London. In contrast, contact with Cisco followed because the corporate heard about Asset Mapping through their networks. For this reason, Bill felt that serendipity played a significant role, though luck was enhanced by *"identifying the fortunate opportunity and not letting go"*.

What worked?

1. **Fast tracking**: In the case of Cisco, the two parties met, decided they liked each other, and so were invited to meet an Innovation Manager at Cisco who *"fast tracked us through mundane processes"*; just four weeks later, Asset Mapping were invited to be residents at the Innovation and Digital Enterprise Alliance London (IDEALondon) programme.[49]

2. **Creating a win-win mentoring relationship**: Asset Mapping were assigned both business and technical mentors – factors that Bill says helped them to integrate and begin working together seamlessly.

CASE STUDY

3. **Don't show me the money!** None of Asset Mapping's corporate collaborators took equity stakes. In Bill's view this was a positive move as *"cash and financial benefits can easily take you off course"*. Being independent also helped ensure that his firm remained *"in control and innovative"* rather than becoming complacent.

4. **Finding a champion on the inside**: To avoid being overwhelmed by meetings with the corporate, Bill made use of internal 'jungle guides' who championed his startup both within and outside the organisation.

5. **Sharing resources**: Both Intel and Cisco provided Asset Mapping with access to their latest technology and hardware facilities to test equipment, as well as introducing them to existing clients and prospects. In Bill's opinion, these steps led to Asset Mapping becoming part of a winning consortium of public and private enterprises in a £10 million Innovate UK smart city project, CityVerve, in which Cisco was a technical partner.

6. **Defining your value proposition**: Bill believes that corporates collaborate with startups because startups have specialised expertise and innovative solutions to very real corporate problems. By supplying Asset Mapping with the tools and support it needed to realise its potential, Cisco and Intel helped the startup define its own value proposition and, ultimately, solve key problems for the corporates.

Underlying all of the above were three things, which were crucial in Bill's view: first, innovation teams that were able to speak the same language as a startup. In Bill's words, if the corporate *"doesn't understand and you have to explain each point – then it's probably not the right match. Both parties have to agree some basics or the relationship will be a hard one."* Second, a principled and trustworthy mentor who was solely interested in the startup's success, rather than equity or business leads; these are *"very, very rare"*, believes Bill. Third, mutual benefit: collaboration only works if *"both sides add value to each other"*.

3.2 Establishing the relationship

The next challenge relates to translation. A frustration commonly reported by corporate innovation managers is that startups are poor at translating the technical advantages of their product or service into a benefit for the corporate. On the other side, many startups also report feeling that the technology, product or service they are offering is not fully understood by the corporate.

The cause is often weak salesmanship on the part of the startup – not only the use of inappropriate jargon, but also a deeper failure to understand corporate needs and offer a befitting solution to a specific problem. Many startups focus on the technical wizardry, about which founders often feel most comfortable talking, or else 'hawk their wares' indiscriminately; both make it difficult for the corporate to engage properly. As David Blumenstein, Entrepreneur in Residence at Startupbootcamp noted:

> 66 *ROI is 'return on investment' NOT 'return on INTERESTING'! Startups need to know where they fit in the enterprise and what they have to offer the corporate enterprise.* 99

That said, corporates should beware over-specifying 'where startups fit': involving startups in the problem-definition process itself can be productive, since their external perspective and non-traditional approach may sometimes generate unexpected solutions.

Once partners have established a common language, **establishing trust** is often the next challenge. Trust is a lubricant which smooths much of the collaborative process. However, for startups, the issue is often trust in motivations: many startups are nervous about collaborating with much larger firms, being unsure of corporates' motives (the phrase 'swimming with sharks' was used by more than one interviewee), and often aware that the size asymmetry means little recourse if things turn sour. For startups, the issue may be trust in competence; concerns here may be exacerbated by differences in professional cultures and attitudes – including language and dress – which may be taken for a lack of professionalism or seriousness on the part of the startup.

A related issue is **lack of information**, particularly about alternative partnerships each side might be seeking to establish, and the length of time required to get to a deal. Uncertainty may make potential partners less willing to commit, whilst uneven expectations can also cause an ineffective allocation of resources and potential ill-feeling (for instance, if a startup turns down other opportunities in the expectation of a collaboration which does not materialise).

Tips for corporates

- Be clear on the process and timing from the start. Explain next steps and set clear expectations. As a number of corporate executives have said: *"A quick no is better than a long maybe"*.

- If you are not a technical expert, ensure someone with tech skills is involved in the conversation with the startups.

- Consider asking for a comprehensive one-pager summarising relevant information about the startup including their value proposition, business model and market opportunity prior to any meeting.

- Set expectations with corporate colleagues: differences in startup culture do not necessarily indicate a lack of seriousness or professionalism.

Deeper dive into partnership types

TIP FOR STARTUPS

Based on their strategic objectives, corporates may use different structures to enter into strategic alliances with startups.[50] Figure 9 shows various partnership types of increasingly intense integration.

Procurement contracts are at one end of the partnership spectrum. Whilst the qualification process may be arduous (as discussed above), procurement is usually relatively transactional in nature, requiring little formal integration.

Marketing or distribution agreements – wherein firms embark on a joint marketing campaign, or else the corporate uses its own (typically well-established) distribution channels to distribute the startup's offering – can also be quite transactional, though they require a degree of strategic alignment and agreement over messaging. An interesting example of this – albeit imperfect in practice – was games developer Zynga's partnership with Facebook.[51]

Licence agreements, whereby one partner (typically the corporate) licenses IP for exploitation, may require further integration. Particularly for new technology, such a partnership will also require a period of collaboration in which the development team helps
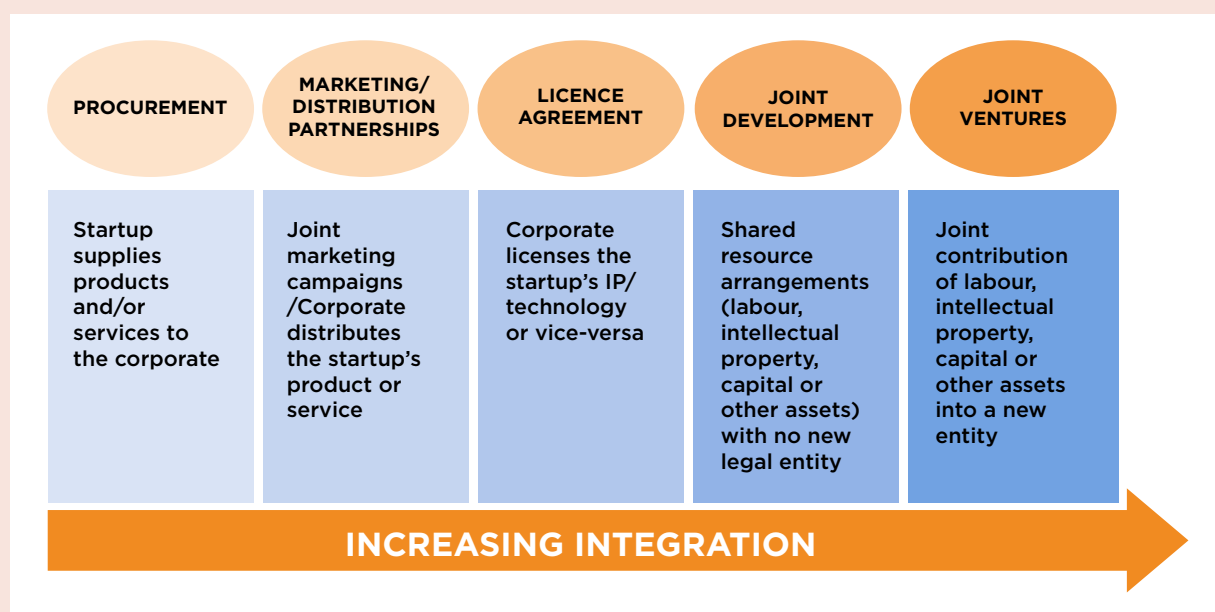
the licensee to integrate the technology into their systems. Licence fees may sometimes involve equity as well as, or instead of, cash payments. For instance, Google licensed travel-booking software from Room 77 Inc, a startup backed by Expedia, in order to capture a bigger portion of the online hotel and flight booking revenues.[52]

Joint development or co-development is a deeper form of partnership where the corporate and startup share resources – usually including labour, capital and IP – in order to jointly develop a product or service. An example is IoT startup amBX collaborating with Cisco's Collaborative Research and Emerging Technologies (CREATE) Labs, on their Lighting as a Service project.[53]

Joint ventures take co-developement a step further, in terms of pooling resources into a new legal entity, with its own governance structures and business processes.

As may be expected, lighter forms of partnership are more common: in our survey, around 35 per cent of startups had been involved in a marketing and distribution agreements or procurement contracts, whilst only 5 per cent of respondents had participated in a joint venture.

Figure 9: **Illustration of Partnership Types**

PROCUREMENT	MARKETING/ DISTRIBUTION PARTNERSHIPS	LICENCE AGREEMENT	JOINT DEVELOPMENT	JOINT VENTURES
Startup supplies products and/or services to the corporate	Joint marketing campaigns /Corporate distributes the startup's product or service	Corporate licenses the startup's IP/ technology or vice-versa	Shared resource arrangements (labour, intellectual property, capital or other assets) with no new legal entity	Joint contribution of labour, intellectual property, capital or other assets into a new entity

INCREASING INTEGRATION

Adapted from Minshall & Mortara (2010) and Margulis & Pekar (2003)

3.3 Progressing the relationship

After the potential partners have established that there is mutual interest, the collaboration typically moves into a deeper, more formal phase. This often involves various internal legal and technical assessments of the startup.

This phase is often the most laborious for startups, especially since they are generally used to lean working and quick turnaround times. The **appraisal criteria and processes** required by corporates (to be registered as a supplier, for example) may mean that the startup is required to produce substantial documentation in order to pass a financial stability test or legal assessment. Subsequently, the corporate often needs time to review the submitted information and perform their due diligence before they can express a final judgment on the feasibility of collaboration with the startup. M&A due diligence, in particular, is exacting and time-consuming.

By this stage, it is likely that one party may request a **non-disclosure agreement** (NDA). A couple of problems may be encountered here. Some firms may request an NDA before even the first meeting, consuming legal resources even before possible fit has been established. One British scale-up CEO we interviewed reported that, simply to demonstrate their software to a top-five British bank, he had to sign a very lengthy NDA - which required not only costly legal advice but also considerable time liaising with the bank's legal team, which was outsourced to India.

On the opposite end, many large firms may be reluctant to sign if they already own much IP in the area, since it may require significant effort to side-step any conflict of interest and may potentially exacerbate the risk of being sued.[19] One of the authors recalls taking nearly two years to agree an NDA with a French automotive company for this reason.

NDAs are often a prelude to more detailed **Intellectual Property** discussions. IP is a common sticking point and, without agreement on the matter, frequently makes it impossible to progress a collaboration (although, as others have noted, *"IP is sometimes used as shorthand to describe a whole host of issues relating to contract development, such as indemnities, warranties, exclusivity or publishing"*).

It is particularly difficult to offer one-size-fits-all advice here, beyond the importance of startups recognising when they should seek proper legal advice. A few startups are too nonchalant about IP, though the majority seem to err on the side of paranoia. The reality is that, whilst many startups may have few assets other than intangible assets and hence it is reasonable to be protective, instances of corporate partners stealing IP are, in the authors' experience, much rarer than instances of collaborations falling apart due to lack of disclosure. Moreover, the likelihood of any dispute is much diminished (and the possibility of amicable resolution correspondingly increased) where a strong, trusting relationship already exists.

With broader contractual issues, again, knowing when to seek advice is crucial. This is unfortunately an area where many cash-starved startups are inclined to scrimp, though this can be a false economy. Whilst many corporates will understandably feel that it is not their responsibility to advise startups, making sure that a startup properly understands the contractual conditions to which they are agreeing – and encouraging independent legal advice where appropriate – are in the long-term interests of both parties. The use of templates such as the Lambert Toolkit, widely used for university-business collaboration, may help simplify the process and reduce legal costs.[54] There is potentially a role for policymakers here to devise and promote such a set of tools.

If the collaboration involves investment, there are a host of considerations which cannot be addressed here. However, we note that tranched investments (releasing funds in stages, when the startup reaches specific milestones) were highlighted as a potential issue. Whilst this is popular with investors as a way of managing risk and speeding the initial decision, increasing numbers of entrepreneurs, intermediaries and lawyers argue that it is very damaging to startups (principally on the grounds that it restricts startups' freedom to pivot and experiment, focusing attention on short-term milestones at the expense of better long-term solutions).

Tips for corporates

- Where possible, shorten payment terms and simplify processes to register as qualified suppliers.

- If there aren't already measures in place for this, try to distinguish between large and small procurement contracts – using the same template for all deals might be a needless burden.

- Dedicate some time to pre-test the product/service internally. If internal tests are positive, (only) then ask the startup to go through the whole accreditation/assessment process.

- Exposing external collaborators to internal politics and frictions is a lose-lose proposition. Try and streamline/coordinate internal process to minimise the chance of this happening.

- A regularly-reported startup pet peeve: just because they have at one time offered an open-source or freeware version of their product, it does not mean that they will do so in perpetuity.

- RFP (Request for Proposal) requirements are often very exacting. Suggest that the startup get a lawyer for when contractual matters arise. At the same time, try and simplify contracts as much as possible so startups are able to minimise legal costs and control their meagre finances.

- Startups get jittery around Intellectual Property issues. Before getting lawyers in the room, build trust, show you are open to dialogue and agree on the main issues. In some situations, it may be possible to create a protective space where IP can be 'airlocked' by a third party.[55]

Procurement 101

TIP FOR STARTUPS

A common corporate complaint is that startups are too naive about the procurement processes of large firms. Certainly, understanding how procurement works in a large firm will increase your chances of selling into that organisation.

Below is a simplified, generic procurement process.[56] One key point is that it is demand led – i.e. typically starts with someone outside the procurement team requesting a product or service. Pitching directly to a procurement team is therefore fruitless unless you are addressing a current need.

Timing matters: it may be, for instance, that your startup addresses a genuine need which is not a current procurement priority but may feature in the next cycle. You should therefore try to get on the firm's radar as early as possible, and treat responses like *"come back in six months"* as exactly that. Several procurement managers reported that surprisingly many small companies failed to follow up.

Figure 10: **Generalised Procurement Process**

CONTRACT NEGOTIATION
- Negotiation meetings
- Possible site visits and other due diligence
- Agreement over key terms
- Contract award

EVALUATION AND SHORTLISTING
- Issues RFP (Request For Proposals, to allow comparison)
- Evaluates RFP responses
- Develops negotiation plan

SUPPLIER QUALIFICATION
- Identifies potential suppliers
- Possibly issues RFI
  (Request For Information from vendors)

PROJECT INITIATION
- Procurement manager consults internal stakeholders
- Agrees internal business case
- Captures key requirements

Note, too, that the role of the procurement manager is not necessarily to buy the cheapest good or service, but to consider overall suitability, quality, total lifetime costs, ethical, environmental and sustainability factors, and other issues. Try to really understand the motivation of the buyer. (One said bluntly: *"I don't care about your vision, or how I can help you. I want to know what you'll do for me."*)

A large part of their job is to manage risk - including 'innocent failures' and the risk that you won't deliver or may go bust, which may have significant financial or reputational consequences for the corporate. You need to allay these concerns, not just talk about your product or service – but ask yourself whether you can afford compensatory agreements.

Firms may pay a premium for a supplier which will treat them as an important customer – but don't offer exclusivity unless you're sure you want to give this away; make sure you trade it for something. Be very clear about what you will and will not deliver: lack of clarity is a basis for disputes and the corporate inevitably has more legal power than you! In addition, be realistic about your chances of success: a procurement manager will meet many possible suppliers but only contract with a small proportion.

> ❝ *Passion alone is not enough. You must be ready to sell into the big company, and satisfy them that you can do so - this means understanding their thinking and their processes.* ❞
> **Caroline Cauvin, Vice President of Procurement at Virgin Atlantic.**

3.4 Sustaining the relationship

Once the agreement is signed, the collaboration can begin in earnest! Ensuring a healthy, long-term relationship takes concerted effort, requiring clear and effective communication, maintenance of trust, and an ongoing perception of mutual benefit. Monitoring and **measuring success** (or failure, as the case may be), is vital to keep track of the progression of the collaboration(s) and should feed back into the company's periodic strategic reviews.

Problems frequently arise when the relationship manager on one side (usually the corporate, often as a consequence of an **internal reorganisation** inside the large firm), is replaced by someone new. This person hasn't the personal relationship with the startup, nor a detailed understanding of the purpose of the collaboration, making life difficult for all involved.

Another common problem is for **one side to lose interest** in the relationship, perhaps due to changing strategic priorities in the firm. Whilst changing priorities cannot always be avoided, damage can be minimised if there is a clear exit strategy – that is, clearly-defined conditions under which partners will withdraw from the collaboration. Many organisations are unwilling to discuss this up-front, fearing that it conveys negative intent. However, by being clearer and more open about the relationship at the start, partners are more likely to have an honest discussion about problems when they arise.

Finally, **long or late payment terms** really affect startups negatively. Chasing after invoices across corporate bureaucracies is every startups' nightmare! Our own research found around 20 per cent of startups involved in a sales/procurement relationship were negatively impacted by slow payment terms (though it should be noted that a similar percentage reported payment terms which were positively beneficial, such as pre-payment by the corporate). Policymakers should take note, and might like to consider market-based solutions (such as publicising 'poor payers' in order to warn other startups) as well as regulatory enforcement.

Tips for corporates

- Develop key performance indicators for the collaboration. Include long-term metrics to measure and monitor the progress of the partnership.

- Require exclusivity from a startup only if it is unavoidable; treat startups as partners, not consulting agencies or staff.

- Share resources, expertise and any impending and pertinent organisational changes with the startup as this will better facilitate the process of integration and consolidate the relationship.

- Remind yourself that startups are fragile entities and that your delays can put them in serious financial difficulties. Many corporate innovation managers we spoke with said they felt guilty about accidentally killing startups through inaction.

Pie Mapping and DPD

Last Mile Labs is an accelerator set up by innovation consultancy LMarks and delivery company DPD. In the 12-week programme, startups are tasked with solving business problems for DPD. After Pie Mapping developed a prototype solution for DPD's logistics problems, they were awarded £100K in seed funding and began collaborating with DPD.

The collaboration flourished: Pie Mapping's technology was integrated into DPD's logistics system and the two signed a software development agreement to formalise this. It enabled DPD to have complete visibility of its Linehaul fleet, drivers and routes, in real time. This saved DPD time and money by helping them complete more deliveries. It was also beneficial for Pie Mapping, whose CEO, Freddie Talberg said: *"The nature of this win-win relationship is very collaborative and this interaction is definitely helping us to build a great product, grow fast and scale".*

What worked?

1. **Clear company goal**: DPD had a clear goal in mind – 'to scout a mobile technology to radically improve their logistics.'

2. **Senior manager buy-in**: a champion with budget-making power was appointed to look for this technology. Given the limited resources dedicated to this activity, the manager was very focused on results. His team evaluated the startup repeatedly, while ensuring the decision-making process was swift.

3. **Trust and sharing of resources**: once Pie Mapping was selected, DPD gave them full access to the company's resources. This allowed Pie Mapping to better understand the corporate priorities, challenges and needs, which was important for developing a well-fitting solution.

4. **Focus on a long-term relationship**: from the start of the relationship, DPD laid the foundations for a solid long-term collaboration. From an initial service contract and development agreement, the partnership evolved to a software and licence agreement. DPD then helped the startup raise additional investment.

5. **Quick payments**: cash-flow may not a problem for many large firms, but it is almost always a top concern for startups. DPD made sure that Pie Mapping were paid quickly, in order to help them focus on product development rather than liquidity.

6. **Pragmatism over formalities**: legalities and bureaucratic processes are necessary to finalise a contract, but DPD's pragmatic approach was appreciated by the Pie Mapping team. *"They were available to help and clarify parts of the contract; they wanted to make sure we were ready to deliver"*, says Talberg.

"Getting the relationship right was crucial", believes Pie Mapping's CEO, who sees this as a matter of negotiation and reciprocal goals: *"if there are no conditions for a good deal, better leave it rather than take it."* Pie Mapping had previous conversations with other corporates, but nothing close to the tight relationship with DPD. *"For a small business, it is all about having a reference client and growing. A corporate investor can definitely help in that growth".* For DPD, it was about *"having a great technology solution and a young talented and energetic team working on it".* In the end, this win-win relationship was based on trust and mutual value creation.

RECOMMENDATIONS and CONCLUSIONS

Collaboration with startups and scale-ups is an increasingly important mechanism for corporate innovation. In a world where technology and business models are rapidly changing, firms with the ability to collaborate and co-create effectively are much more likely to survive the disruption of their industry and sustain competitive advantage. As one interviewee put it: *"collaborating with startups allows us to play in the space of the disruptor without actually being disrupted"*.

This is particularly true of digital technologies. The emergence of new, agile business models has been driven by the development of digital technologies and online platforms. However, digital technology is now clearly pervading every industry, demanding new agility and digital competence of every large firm.

For corporates already embarking on a collaborative programme of some kind with (digital) startups, better understanding of the barriers and solutions suggested in this report will enable more productive collaboration. In particular, we emphasise the importance of speed and have suggested various ways to achieve this.

For firms not yet collaborating with startups, our message is that although startup collaboration is not always easy, ignoring the opportunities or not taking any action is riskier still. History is littered with once-great firms who did not see the need to innovate until it was too late.[57] Corporates not actively collaborating with startups should at least be comparing the costs and benefits against their current corporate innovation strategy. We recommend starting with our previous guide *Winning Together*, to explore the benefits and determine the best route to take depending on corporate objectives, and then using this report to make the collaboration work. As Jeff Hoffman, Co-Founder of Priceline.com, opined:

> 66 *If you do nothing, startups may disrupt your market anyway.* 99

As for the disruptors – the startups themselves – it is heartening that so many see the benefit of collaborating with larger partners. Whilst most have little absorptive capacity and may be unable to make significant changes in order to accommodate corporate partners, the message from large firms is that it is nevertheless possible to improve one's partnering prospects through a better understanding of the corporate concerns discussed in this report.

On a policy level, the economic and social role of large firms as 'anchor institutions' – attracting smaller firms to their vicinity and acting as reservoirs of knowledge – is already well known. However, policymakers should, in our view, further promote collaboration of this kind as a means of increasing innovation and economic growth. Corporate-startup collaboration has great potential for mutual benefit and we believe that there is room for more – particularly given that many corporations are, at the time of writing, holding record-high cash reserves.[58] Whilst we acknowledge that policymakers have relatively few tools at their disposal, we believe that some actions – such as thoughtful use of public procurement – cost little to implement.

4.1 Recommendations for corporates

1. **Carefully consider your objectives**: understand why you are engaging with startups. Focus on real internal needs, not PR or CSR. Treat startups as partners, not agencies or employees.

2. **Select the programme(s) that best deliver** on these objectives. Consider a 'structural audit' of your company to identify appropriate steps; an internal 'sandbox' to experiment while mitigating spillover risks; and the option of partnering with other CVC units rather than starting your own.

3. **Promote an internal culture of innovation and entrepreneurialism**: use appropriate language to foster openness to entrepreneurialism. Encourage employees to mingle with or mentor startups. Consider making entrepreneurial flair a recruitment criterion. Be sensitive towards those whose roles or projects will be disrupted.

4. **Secure board-level sponsorship**: educate staff about benefits of innovation and the risk of not doing so. Ensure that senior-level 'buy-in' is communicated downwards effectively.

5. **Develop key performance indicators**: include long-term metrics/KPIs to measure and monitor progress of the partnership. Capture data and feedback continuously. Offer incentives for employees to innovate or collaborate. Iterate on your model if it isn't working.

6. **Hand startup programmes to people with an entrepreneurial mindset** who not only understand how startups think but also have an infectious enthusiasm for them.

7. **Allocate an internal champion**: provide them with decision and budgetary powers. Cultivate their diplomatic ability to navigate the organisation.

8. **Create a publicly visible, single access point** for startups. Consider a 'how to work with us' webpage for potential suppliers and think about the type of people who sit at the interface.

9. **Scout internationally** to attract the best startups and solutions.

10. **Make it easier for startups to work with you**: be clear on the process and timings from the start. Include someone with tech skills in the conversation with startups. Set expectations about startup culture, dress, etc., among corporate colleagues. Simplify and standardise contracts where possible. Contemplate a preferential procurement track for startups. Consider ISO11000 training and certification (forthcoming). Remind yourself and colleagues that startups are often fragile entities. Be crystal clear about IP ownership and encourage consulting legal advice. Request exclusivity only if it is really necessary.

4.2 Recommendations for startups (and scale-ups!)

TIP FOR STARTUPS

1. **Improve your salesmanship**: focus on what you can do for the corporate, not what they can do for you. Understand their pain-points and motivations. Don't emphasise only ideas, but present your business case, customer acquisition, growth model etc.

2. **Listen and learn**: too many corporates report startups 'hearing what they want to hear', ignoring hurdles and interpreting polite interest as meaningful engagement. If a company says it is not interested, try to understand why (e.g. timing? need? price?). For corporate accelerators, research the people involved (give priority to programmes run by entrepreneurs). For procurement, ask about their buying cycle, qualifying criteria and process (it is a 'red flag' if they won't share this). For other collaborations, understand likely stage-gates, and ensure you're talking to the right person/department who is empowered to make decisions. The route to a 'yes' may be different from the route to 'no'.

3. **Network, network, network**: find champions within the firm – but be careful about opening multiple conversations which confuse their processes. Remember a large firm can offer much more than money-market knowledge and introductions may be even more valuable. Don't be afraid to ask.

4. **Build trust**: expect to develop rapport for several months pre-deal, and anticipate that the relationship may be 'reset' when people change roles! Don't abuse the trust placed in you by over-using the corporate's name or leaking privileged information. Don't over-promise: be honest about your stage of development, and realistic about what you can't do. You will get to a deal faster.

5. **Take a balanced approach to IP**: be clear about who will own IP coming from collaborative work, and take steps to protect your IP if this is core to your business (e.g. co-develop Apps but hold on to the API/algorithm). But avoid becoming paranoid: most firms don't want to steal your idea and, more often than not, the idea itself is a very small part of the finished product.

6. **Consider your language and look**: VC's may welcome 'disruptive innovation' but corporates usually don't. Incremental innovation (which preserves processes) is an easier sell than radical innovation. Consider that informal dress and over-familiarity may be interpreted as a lack of professionalism. Professional attitudes instill confidence that you can deliver.

7. **Be realistic about timing**: startups massively underestimate timescales until deals are finalised, and are often surprised by how slow corporates move. Get on their radar early.

8. **Don't put all your eggs in one basket**: nurture other options till the deal is actually done, and beware of offering exclusivity too early. Avoid becoming a bespoke consultancy for one firm, as this creates dependency. Be especially cautious of being sucked into free or discounted work.

9. **But don't 'chase the ball' either**: pursuing every opportunity dilutes effort and weakens your strategy; sometimes it is better to decline to partner.

10. **Know when to quit**: many startups are accidentally killed by corporates – judging when to cut your losses, and how far from your path to deviate, is crucial.

4.3 Recommendations for policymakers

1. **Education**: raising awareness about the benefits and mechanisms of collaboration, among both startups and corporates, would help. Spotlighting visible success stories can stimulate other collaborations and provide confidence for others to try.

2. **Skills**: learning how to forge relationships, collaborate and co-create are valuable skills, at all ages and in all roles. Promotion of collaboration skills can range from encouraging young people to acquire these skills, to raising awareness of forthcoming ISO11000 standards.

3. **Grants** provide another lever. Some grant-making bodies already insist upon collaboration with SMEs. The UK Scale-up report recommends that a proportion of public funding currently reserved for 'entrepreneurship' should be directed towards collaborative initiatives.[59]

4. **Public procurement** can be used in a similar way. A policy of procuring from 'startup-friendly' corporates – or promoting corporate-startup collaboration between suppliers – would provide valuable incentives.

5. **Intermediaries**: clearing houses, brokerage firms (like a variation of NCUB) and events (like SEP Matching Sessions), can help bring together potential partners. Policymakers can help establish these.

6. **Data**: better data sources to allow large firms to identify smaller players would also help. Government can play a role in opening up such sources.

7. **Corporate information sharing**: there are opportunities for corporates to work together in helping startups, either in complementary industries, or with pre-competitive problems. Similarly, better sharing of failures could be mutually beneficial. The disincentives to share often outweigh the incentives, but the public sector can help catalyse these conversations.

8. **Standardised tools**: standard templates help set clear expectations and simplify the process, making contract signing faster and less expensive; this may be especially beneficial to startups. Policymakers could consider building on the UK's 'Lambert toolkit' for university-business collaboration and the model legal documents promoted by the US NVCA.

9. **Late payment enforcement**: late payment can kill startups and other small firms. This was still being reported as an issue in our survey, despite the EU's Late Payments Directive passage into national legislation since 2013. Consistency in terms passed down the supply chain would help.

10. **Digital Single Market**: collaboration within one state is hard enough; collaborating across national borders, with different rules governing data protection etc., is even tougher. Measures to create the European Digital Single Market should be supported.

100%OPEN INNOVATION READINESS TEST

The following tool has been developed by Nesta spinout 100%Open to help firms assess their open innovation readiness. It may be helpful for corporates who want to collaborate with startups, as a complementary framework to that which we have presented above. 100%Open has learned that there are many factors that combine to make a company ready for, and receptive to, open innovation. Does it have the right policies, processes and partners? How about its people, platforms or purpose? Completing the Open Innovation Readiness questionnaire enables companies to see how they measure up and develop their Open Innovation capabilities in a focused manner. You can find the interactive version of the test online at: **www.100open.com**

Figure 11: **100%Open Innovation Readiness Tool**

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5. Nesta survey, November and December 2015, N=134, from at least 25 countries. Seventy-four per cent reported that their last collaboration experience with a corporate was 'good' or 'very good'. The most commonly reported benefits were (in order): enhanced visibility/PR; business development/additional credibility with other organisations; the direct benefit of sales to the corporate; improved market understanding and improved technical knowledge.

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