White Paper

Collaboration between Start-ups and Corporates
A Practical Guide for Mutual Understanding

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Preface

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Rapid digitization is transforming the global business landscape at an unprecedented speed. The World Economic Forum's System Initiative on Shaping the Future of Digital Economy and Society therefore cultivates a trusted space for exchange between stakeholders of this transformation. With the Digital Leaders of Europe, the Forum has created a community of entrepreneurs, start-ups as well as public and corporate representatives with the common goal to strengthen a pan-European innovation ecosystem to foster greater collaboration and scaling of operations across borders. In the age of the Fourth Industrial Revolution, it is a necessity for Europe to leverage its diversity of assets and its collaborative innovation potential.

Over the last two years, the Digital Leaders of Europe[1] have deliberated how to develop a vibrant pan-European ecosystem for innovation and entrepreneurship. This paper is a first in a series of initiatives to explore their key principles for reaching a pan-European ecosystem in more depth: to strengthen mutually beneficial models of collaboration between start-ups and corporates. It is meant to serve as a practical guide for the key actors.

We are deeply grateful to the authors from both the corporate and the start-up world, especially Michael Altendorf, Co-founder and Chief Executive Officer of Adtelligence, and for the ongoing guidance by the World Economic Forum's Regional Business Council Europe[2] under the co-championship of Gisbert Rühl, Chief Executive Officer of Klöckner & Co SE, and Luis Maroto, Chief Executive Officer of the Amadeus IT Group, SA.

In the near future, we look forward to connecting the insights of the Digital Europe initiative with the World Economic Forum's other digital regional projects, and to take practical steps to increase collaboration on a global level.

Foreword: Innovation the European way?

Today, Europe boasts successful businesses and multinational corporations. The European economy is growing faster than the US economy[3], and forecasts for the upcoming years are optimistic. The European innovation ecosystem is stronger than ever[4] but still trails other markets in terms of available finance and collaboration. In view of the scope and pace of change brought by the Fourth Industrial Revolution[5], the European economy's continued success requires a better connection between both worlds: the traditional businesses and new market players. Both benefit from collaboration to create markets they would struggle to create alone, and to ensure they remain at their competitive edge.

The attitude of established European businesses is changing: a large majority of European companies today see the importance to digitize, and to enter in contact with the start-up world. But more than half of the attempts to collaborate still fail[6] due to a clash of mind-sets between passionate, entrepreneurial start-ups, and more process-oriented and risk-averse corporates.

This paper offers practical guidance to a better mutual understanding as basis for successful collaboration between start-ups and corporates. Collaboration could become Europe's strong point. It is a tremendous opportunity to strengthen Europe's competitiveness, and to allow its best start-ups to expand and create jobs in Europe instead of leaving for the US and Asian markets.

Executive summary

Collaboration between technology start-ups and large corporates is key for fostering innovation in Europe. It can benefit both sides, helping corporates to enter and create new markets, and start-ups to develop their products, and to scale: chief executive officers of both corporates and start-ups share the common strategic goals of growing their company, improving its competitive positioning and generating revenue. Even partnerships with potential disruptors can be beneficial because of the difficulty for an established business to disrupt from within.

But working together comes with various potential pitfalls. Chief executive officers of start-ups often find themselves talking not to the chief executive officers of corporates, but to employees much further down the hierarchy. Complications also commonly arise from a clash of cultures: agile versus static work processes, different work ethics and different levels of appetite for risk.

Successful collaboration depends on each side learning to understand the interests, expectations, incentives, culture and work ethic of the other. It depends on the two parties identifying the most appropriate proven collaboration model for their situation – which could be incubation, acceleration or partnership – and clearly defining roles and responsibilities.

This report provides a practical guide for how start-ups and corporates can work together, starting by improving their mutual understanding of the risks and challenges each side faces. It gives an overview of various possible collaboration models, and identifies the collaboration qualification questions for start-ups and corporates. It includes "Collaboration FAQ" for each side, and identifies solutions to challenges, such as tackling misaligned levels of communication and having an executive sponsor remove the risk from employees on the corporate side.

Illustrated by quotes from founders and chief executive officers about their experiences, the report is based on interviews and workshops with start-up, corporate and digital leaders across Europe. While it cites research findings, it is not intended to be a research paper, but rather a hands-on blueprint which will be useful for decision-makers in start-ups and corporates alike.

When corporates and start-ups choose their partners wisely, and get aligned on the highest possible level, both sides can benefit – and Europe as a whole can prosper.

"Partnerships between incumbent players and start-ups are the way forward for the Fourth Industrial Revolution to be sustainable in the long term. I'm talking about a model where start-ups use technology to add value to existing players without necessarily disrupting them. Deliveroo does exactly this with restaurants, Gett with taxis and Opportunity Network with corporates and banks"

Enrica Sighinolfi, Opportunity Network

Understanding collaboration: the corporate and the start-up perspective

Everybody speaks about collaboration but what makes it really beneficial for a start-up and a corporate? It is worth spending some time on understanding one's own motivations, as well as on the other side's interests and constraints.

Benefits
Why does collaboration make sense for each party?

Benefits for Start-ups

Revenues and independence from external capital
Revenue often is a key incentive for an early-stage company. As big corporates can invest considerable amounts of money for products, corporates can free start-ups from the need to seek outside investments.

Corporates can also have a long-term interest, which may stabilize a start-up and help it to reach break-even or even profits very early. Such an approach allows the start-up to achieve sustainable growth, independently from scarce venture capital.

Success story for future sales
Large corporate customers substantially enhance the reputation of start-ups and serve as reference cases for future sales. As corporate decision-makers look for references before engaging in a collaboration, this also triggers a network effect. In this context, the transformation of the sales process from an innovation pitch into reference selling may become a key success factor for a start-up.

"Successful tests of our software with renowned enterprises was the trigger for European VC's to invest in our company."
Vishal Rai, Co-Founder & CEO, Acellere

Scalable customer base
Large corporates can be an ideal target customer as they have enough people, budget and opportunity to scale. This is helpful for start-ups and providers of emerging technologies that are looking for their first customers.

Riskless internationalization
Working with corporate headquarters offers the possibility to expand into other countries by partnering with the corporate's local subsidiaries. Moreover, large user bases may also help start-ups to refine and optimize their products.

Attractive retail sales channel
The infrastructure of an established corporate, including its existing clients, allows faster scaling of the start-up business model than the start-up could achieve on its own.

"Investors in start-ups look too much at technology and not enough at markets. The fastest route to market is to sell to corporations."
Eurico Neves, INOVA+ S.A.

Access to proprietary assets
Partnering with a corporate can enable a start-up to exploit underutilized corporate assets such as data that would otherwise not be accessible, and create new business opportunities.

Market knowledge and mentoring
An established business player can help start-ups enter the market with its resources. Start-ups can also tap into the knowledge and long-term experience of the corporate in the form of mentoring.

Benefits for Corporates

External innovation and disruption
To protect their strategic position, corporations need to become aware of market shifts caused by new technology or innovation in their core or adjacent business fields. External innovators have more freedom to develop truly disruptive solutions. Corporates may discover value not only in increasing revenues and margins in their core businesses, but also in the expansion to emerging business fields. Innovation secures a future competitive advantage. As internal innovation is often hampered by protecting the core cash cows, collaboration with or acquisition of a start-up may also facilitate the necessary disruption of one's own business model, which is difficult to achieve from within.

More innovative suppliers
If corporates work only with established tech providers, they risk missing out on potential new sources of revenue: buying from an innovative start-up may give a corporate a competitive edge. Start-ups may also simply outperform existing solution providers to corporate clients because they have less overhead costs, and a stronger innovation focus.

Customer focus
Start-ups tend to innovate closer to customer needs as they are not as standard process-driven as established corporates. They can adapt and customize solutions more easily, allowing the corporate to serve its customers better.[7]

Benefits

for start-ups

- Revenues and independence from external capital
- Success story for future sales
- Scalable customer base
- Riskless internationalization
- Attractive retail channel
- Access to proprietary assets
- Market knowledge and mentoring

for corporates

- External innovation and disruption
- More innovative suppliers
- Customer focus
- Entrepreneurial and more agile culture
- Staying on-top of market developments
- New revenue streams and business lines

Entrepreneurial and more agile culture
Working with start-ups can bring back more openness to innovation and intrapreneurship. In a fast-changing business environment, it is important to actively foster a culture of openness that allows for innovation as much as for failures on the way to new solutions.

Staying on-top of market developments
Working with innovators allows a corporate to better track changes in the market that may bring disruption.

New revenue streams and business lines
Many businesses are pursuing external innovation through open platforms e.g. an app store which offers standardized technological processes for start-ups to add services to a traditional business model. Such business lines allow a corporate to offer new and creative services to their clients.

Risks
What are the pitfalls one should be aware off?

Collaboration between start-ups and corporates creates risks of very different nature for each side. Exploring the risks faced by each party is crucial to understanding their interests and the concerns that need to be addressed.

Risks for Start-ups

Need for revenue
Both bootstrapped (without external resources) and venture capital-financed start-ups have only limited time to find customers or funding to continue their operations. This time factor weighs on any type of collaboration.

Getting engulfed by one customer
Focusing on a custom solution for a single large corporate client may distract a start-up from developing a universal, scalable product and strategy, and limit growth prospects.

Delayed projects
As several corporate departments tend to formulate different requirements for the relationship between a start-up and a business, this often leads to delays, which are financially hard to handle for a start-up.

Waste of resources
Corporations may not pursue a strong collaboration, and rather consider start-ups as a source of free consultancy. This tends to take up a lot of the start-up's resources.

"I am afraid I am witnessing a form of 'innovation tourism': corporates contact incubators to solicit on-site visits before having established a concrete business reason for the visit. This may be a misalignment of incentives, as the managers of the incubator may naturally see all such activities as a sign of success, whether or not they eventually lead to successful cooperation down the road."
Ferdinand Grapperhaus, Physee

Premature scaling
The start-up may scale too early after successful proof of concept or the signing of the first deal. Successful sales to innovation departments or first clients do not mean that the market is ready for scale.[8]

Loosing the start-up spirit
In case the collaboration is getting too close and the dependency on corporate decision-making too strong, there is a high risk of losing the agile spirit of a start-up and with this also its attraction to the best minds involved.

Risks

for start-ups	for corporates
Need for revenue	Reputational damage
Getting engulfed by one customer	Lost investment
Delayed projects	Misaligned employees
Waste of resources	Unsure outcome
Premature scaling	Maturity misalignment
Loosing the start-up spirit	

Risks for Corporates

Reputational damage
When a client or corporate data is involved in the product development process, failures may damage the brand and reputation.

Lost investment
Many start-ups fail, so the investment risk for corporates is high compared to their usual investment projects.

Misaligned employees
Corporate employees are trained to follow processes, and tend to regard failure as jeopardizing their career. They might feel threatened by the start-up's unfamiliar culture and remain overly protective of the status quo.

Unsure outcome
When projects include unfinished products or work with start-up entrepreneurs and inexperienced teams, results are difficult to predict.

Maturity misalignment
When corporates engage with start-ups that are proposing a new business model or a new technology that the corporate is not yet ready to adopt or to experiment with, this inherently leads to a fruitless collaboration.

Challenges
Which questions need to be solved to collaborate successfully?

Beside the perception of risk, organizational challenges also need to be considered.

Challenges for Start-ups

Duration of sales cycle
Sales cycles of corporates conflict with the start-up's short-term need to generate revenue. As start-up teams are small, each bet on a corporate deal is a risk of running out of cash if the deal is lost in the end or the sales cycle takes too long. This challenge must be addressed with a suitable sales approach.

Inability to pitch to business units
Business units are often either shielded by innovation departments or managers refuse to talk to start-ups. Start-ups should be able to navigate through the maze of the corporate organization, ensuring that they are speaking with the right unit or people to enable the execution of a collaboration.

"Corporations have their own internal structure. So start-ups never really talk to the corporation as such but always to one of its components and the success of the interaction may very well depend on the choice of the corporate component that is most appropriate for a given start-up."
Tanya Suarez, IoT Tribe

Client's protective middle management
Start-up spirit clashes often with corporate culture, and middle-managers may be protective of their own position in the company. How can start-ups adopt the corporate way of working without creating enemies?

Insufficient resources

Start-ups may be too small or lack the resources to handle the necessary processes. For example, when forming a partnership, the corporate has access to its own legal department, while the start-up has to rely on a relatively costly lawyer or even do the work themselves.

Product decision and roadmap

There is a trade-off between building a standard product and working towards the custom requirements of a corporate client.

"It is important to understand that venture capital funders of the various layers (seed, series A, series B, etc…) are sensitive to their own sets of incentives that make them more or less committed to the long-term growth strategy of the funded start-up. Corporate funders are sensitive to other constraints that derive from the strategic outlook of the corporation: a change in the corporate strategic direction may well cause reduced or discontinued commitment to a funded start-up. For this reason, cooperations between start-ups and corporates tend to be more stable and fruitful when they are based on shared technical objectives, operations, marketing or distribution channels."
Stephan Morais, Indico Capital

Chasm between proof of concept and real projects

There can be a huge chasm between working with the corporation's innovation department on proof of concept at the start of a relationship, and working with core business units after the trial run ends.[9]

Trust without references

This is a chicken-and-egg problem: key corporate departments may not want to work with start-ups and their unproven products if they cannot provide references from previous corporate clients.

Free trials

It is often said that the first five clients need to be served for free – or, at least, as partially paid trials – to get the sixth client to pay for the product. Corporates tend to require a lot of success stories before they buy, making it challenging to finance the start-up in the beginning.

Top-down approach

Start-ups often feel treated in a top-down way instead of at eye level. They find it challenging to be perceived as serious businesses.

Challenges for Corporates

Not-invented-here problem

It can be difficult for a corporate to internally adopt inventions that were developed in collaboration with start-ups. There is also a risk of competition with existing corporate innovation departments.

"We developed a new authentication system. The service was tested by the security team and found it to be robust with no obvious problems. Once we tried to deploy the service into the business it was almost impossible to get any of the lines of business to engage and try it even though there were obvious commercial benefits to doing so. It just fizzled out."
Respondent, World Economic Forum survey, August 2017

Shareholder expectations

Corporates need to manage shareholder expectations, i.e. the trade-off between their short-term interest and long-term benefits of an investment strategy.

Managerial support

Collaborative innovation may fail due to a lack of senior management support. For long-term success, a strategic decision to foster innovation and making it a solid part of the business strategy is therefore a key ingredient.

Siloed approach

Business units may not be aligned on a collaboration and its possible outcomes, which can lead to conflicting requirements and delays.

Understanding change

Senior management needs to understand how new technologies may impact their business field in order to identify and/or develop relevant solutions. But senior management also has to be ready to adapt and throw overboard conventional and tested ways of thinking, i.e. be curious and open-minded.

Innovative organization

The culture of corporates is one in which even the appearance of failure has a heavy cost for those involved, and thus, unlike what happens in start-ups, failures are both avoided from the outset and not openly acknowledged when they happen. It is therefore a key challenge for C-Level managers to structure and sensitize their organization to take collaborative approaches seriously and give projects the support they need to become a success.

Challenges

for start-ups   for corporates

Duration of sales cycle ●	● Not-invented-here problem
Client's protective middle management ●	● Managerial support
Insufficient resources ●	● Siloed approach
Chasm between proof of concept and real projects ●	● Understanding change
Trust without references ●	● Innovative organisation
Top-down approach ●	●

Collaboration FAQ:
Key questions and answers on both sides

Start-up FAQ

Which departments will understand the potential of my version-one product, minimum viable product (MVP), or even my base technology?

The challenge is to attract the attention of the real decision-maker and economic buyer. Many start-ups try to sell features, not business benefits which is not directly relevant for a decisions-maker: the priority is that your counterparts understand the benefit and return on investment (ROI) for their business, and not exactly how a start-up product works. Once a C-Level decision-maker is interested, technical due diligence may become an issue but rarely before. The advantage of this approach is that the corporate manager, not the employee, is covering the risk, and ideally also owns the resources and power to decide and sign the deal. Always sell to the person who can authorize the deal. Don't try to sell to an operational level.

Which is the buying centre with the budget to buy the product?

Evaluate who has the biggest potential benefits from your solution, a short sales cycle, and the right to sign a deal without a request for proposal (RFP). Pitches have to be tailored for each of the potential buyers. Start-ups should start to pitch to the top-level managers first. It is harder to get their attention but there is also a higher likelihood of closing a deal.[10] Initial champions of collaboration are the corporate's innovators, but they often lack the bigger budgets. If you want to sell long-term contracts, you need to "cross the chasm" and sell to the pragmatists who are feeling the pain of a changing market. They need a clear return on investment (ROI).[11]

Is co-innovation helping to grow a start-up's business or does it lead to high dependency on a few big clients?

Both can happen, but this also allows the start-up to generate revenue quite early. The dependency problem can be solved as the generated cash flow will allow the start-up to hire sales teams and attract more clients. Dependency is rather a late-stage problem, which can be avoided by working with 5-10 clients.

How to ensure cash flow during long corporate sales cycles and complex purchase processes in large enterprises?

Investors are a necessary ingredient for surviving two-year sales cycles, which are not uncommon in corporates. An early alignment of expectations with such investors is important to an early-stage start-up to secure enough breathing space and avoid running out of money. At the same time, the corporate sales team and their management need to be made aware of the constraints in which a start-up is operating.

It is always recommended for start-ups to choose an industry that is open to innovation or feels significant pain from developments in the market. It is also better to sell to challengers looking to grow, as they feel more pain than the market leaders.

How to cope with naysayers within corporates?

Naysayers may be scared of losing their own position in the company. Therefore, approaching the so-called C-Suite is often best for a start-up due to the longer-term focus of the management as well as their ability to take more risk than middle managers: the latter tend to secure the status quo rather than to disrupt it.

What are good practices for an initial cooperation?

Start-ups should try to get a foot in the door of the business department as the innovation department is often willing to test new technologies but hardly ever signs deals lasting more than 3-12 months. In any scenario, it is important for start-ups and corporates to align on expectations early, and to agree on a sufficient amount of time to co-create or cooperate, particularly because a corporate often finds itself under pressure to show progress quite early.

"The key success factor for a start-up is most importantly money but also access to a distribution network. For enterprises, it's important to make sure they are easy to do business with and to secure a constant flow of innovation."
Carsten Thoma, President, SAP Hybris

How to resolve the need for having a product completed when the corporate buys in 6-12 month cycles?

Start-ups should be bold and remember that big players pitch long before they have finished product development, as exemplified by Apple's iPhone presentations. Most of the time not even a demo is requested as the solutions later need to be customized. After 6-12 months, the product however really has to work. Start-ups should make sure to close a deal first, including in the best case a pre-payment, which in turn allows them to finalize the development of the product. Start-ups should start by concentrating on their vision in sales meetings, but when the deadline hits, they also need to be able to deliver.

Can start-ups work with a partner that has long technology-adoption cycles?

Yes, otherwise disruptive innovation is not possible. In deep tech, it takes years to develop products and even longer to roll them out. The challenge in this field in Europe is to raise enough funding to survive up to 10 years or more in domains such as med tech, bio tech or engineering.

Corporate FAQ

Is it sufficient to have an innovation centre, Chief Digital Officer or Chief Innovation Officer?

No, this is far from enough: mastering the Fourth Industrial Revolution requires a complete rethink of the current status quo and a cultural change. Many Chief Digital Officers have a representative function but not enough influence on the core business to implement new technologies and business models.

Is a corporate venture capital fund (VC) a way to mitigate risk?

A corporate VC or a corporate mentoring and coaching function for young entrepreneurs is a good way to start working with start-ups. It allows a traditional enterprise to get in touch with the start-up ecosystem while giving something back. That said, funding start-ups is good, but is only one ingredient for cooking a new product, and not the final meal.

How to choose the right timing for a partnership?

Corporates will remain laggards if they wait until a start-up has many references. Creating a competitive edge means risking failure. Even from failure, corporates will learn something about what works and does not work for their business.

What is the best way towards collaboration?

Corporates could buy start-up products and support the entrepreneurial ecosystem through angel networks, co-working spaces and mentoring, as well as opening data assets for new uses.

Is buying a start-up's shares a way to reduce risk and increase control?

This is a good way to get in touch and also make a nice return, but on its own it may not create enough real change to help a corporate's core business to cope with the challenges of the Fourth Industrial Revolution.

How to decide between make and buy?

In general corporates should always buy. Making takes longer as a corporate will use its current production processes, which are designed not to lead to disruption. Pursuing differentiation in core competencies by way of collaborative innovation is a suitable measure. However, in areas where services or products simply add value to their portfolio, buying helps them remain at the competitive edge.[12]

What are possible Key Performance Indicators (KPIs) for cooperation?

KPIs are dependent on the industry and could be the return on investment, the degree of customer satisfaction, the revenue increase, savings, the total cost of ownership or the new competitive advantage in a core business line. However, standard operative KPIs should not be applied short term to allow for some time for the start-up to develop.

Can I evaluate which start-ups/technologies are the right ones?

The key is to hire the right people with in-depth knowledge about technology from the start-up ecosystem, and attend conferences. The markets of game-changing start-ups often do not yet exist. A deep understanding and evaluation of potential is necessary.

Best practice: Qualification questions

Key questions for start-ups to qualify business impact of the collaboration

In B2B enterprise sales there are several models – such as MEDDIC, BAND and CHAMP – to qualify deals with long sales cycles. Nearly all professional corporates have their own adapted deal qualification process and questions. These models are used by many companies around the globe and implemented in CRM systems to predict the likelihood of success from an opportunity. Start-ups can use the questions adapted here to qualify collaborations with corporates:

Budget
Is the budget of the start-up sufficient to deliver the product and services sustainably and successfully in a professional way the corporate expects?

Economic buyer
Who will sign the deal and has the power to protect the project against the pitfalls of the corporate environment? Is the pain level high enough to make them act?

Amplifyer
Who is the amplifier in the corporate who helps you close the partnership, deal and collaboration?

Success metrics
What are the KPIs for a successful collaboration? Can you fulfil the expectations and deliver what was promised?

Target for the corporate
What is the target of the corporate? Why do they want to work with you?

Key questions for the corporate to identify the most promising innovative start-ups for collaboration

What
are the benefits and long-term competitive advantage of this collaboration?

Why
is this different from what we could build internally?

Why
is the start-up interested in working with us?

Which
model of collaboration will be applied?

Who
are the internal stakeholders driving the process?

Collaboration and organization models for corporates

Concepts to innovate for corporates

Studies, anecdotal experience, a questionnaire and in-depth interviews with innovators and entrepreneurs have identified five prevalent models of interaction between start-ups and corporates as they collaborate to bring innovation into corporate business processes.

The main feature most have in common is the creation of mechanisms to reduce the risks involved with the start-up having to negotiate the often-confusing and conflicting requirements of corporate culture and internal structure and dynamics.

In general, the corporate unit tasked with managing this interaction benefits from being given meaningful forms of autonomy to pursue forward-looking innovations of strategic importance, unfettered by existing corporate processes or infrastructural constraints.

In order of autonomy, the five models are:

1. A very flat model in which each of the corporate business units directly engage with the start-up.

2. A dedicated innovation unit that operates within the corporate.

3. A separate corporate incubator tasked with attracting promising start-ups whose innovations may later be integrated in the operations of the mother corporate.

4. An external subsidiary to which the mother corporate delegates the task of quick innovative prototyping, based on business ideas vetted as promising at the mother company.

5. An entire process designed to spin off a new entity, of which the mother company will become an investor, for each business idea that is aligned with the general strategy of the mother corporate but could not be effectively be pursued in the mother corporate environment.

1. Direct Sourcing
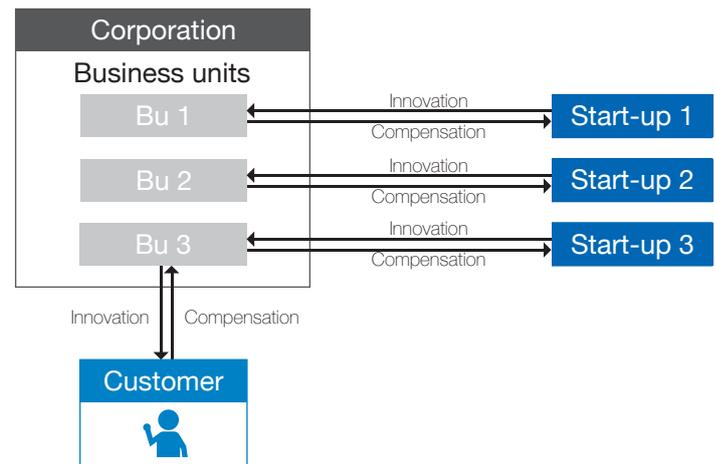
In the purest form of collaboration, start-ups and corporates interact as regular business partners without any internal channelling or intermediaries:

1. A start-up approaches a business unit with a proposal for collaboration or vice versa.

2. The two parties form a partnership focused on creating direct business value, e.g. corporate sourcing a software solution from the start-up.

3. The corporate uses or resells the start-up's product and benefits from the innovation.

Successful direct collaboration depends not only on empowering managers to take risks and creating the right incentives, but also on technological knowledge. The internal innovation unit model, in particular, tries to address this matter.

2. Internal Innovation Unit
The corporation's internal innovation unit is given the objective of:

1. Coordinating all corporate innovation activities and securing board-level sponsorship.

2. Presenting a single contact point to guide the interactions of co-innovating start-ups with all other divisions of the corporation.
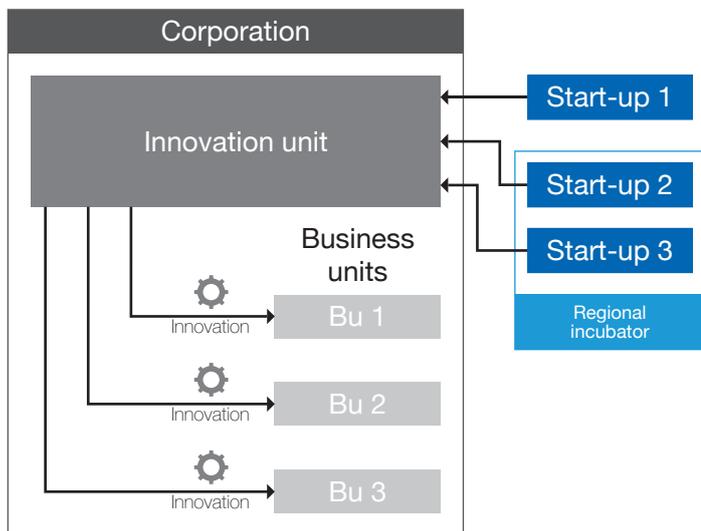
The innovation unit may use various channels to attract suitable start-ups to work with:

– Interactions with independently established (e.g. from local governments) accelerators and incubators

– Intelligence gathered from the corporation's venture operations

– Technology-based industry events and fairs

– Word of mouth and personal business contacts

– The innovation unit oversees a co-developed innovation prototype and steers it towards appropriate business units, facilitating its technical integration

Examples: Rabobank, Accenture

3. Corporate Incubator Model
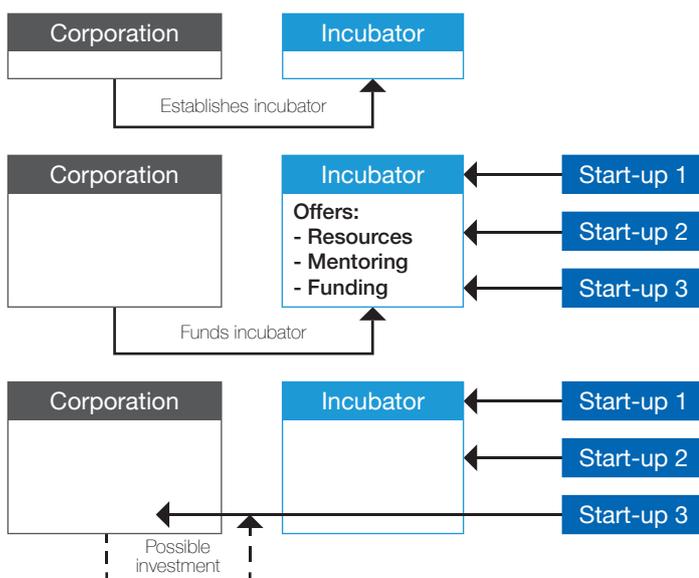
1. The corporate establishes and funds a corporate incubator as a separate entity.

2. The incubator attracts start-ups working on technologies broadly aligned with the corporate's strategy.

3. The incubator offers to its resident start-ups various resources, including:

   i. Office space

   ii. Computing resources

   iii. Mentoring

   iv. Funding

4. If and when a start-up develops an innovation sufficiently mature for integration into the corporate's existing or future business activities, the corporate becomes its customer.

5. Optionally, the corporate becomes an investor in the successful start-up.

Examples: Telefonica Open Futures, Wayra, Telia Division X

4. External Subsidiary
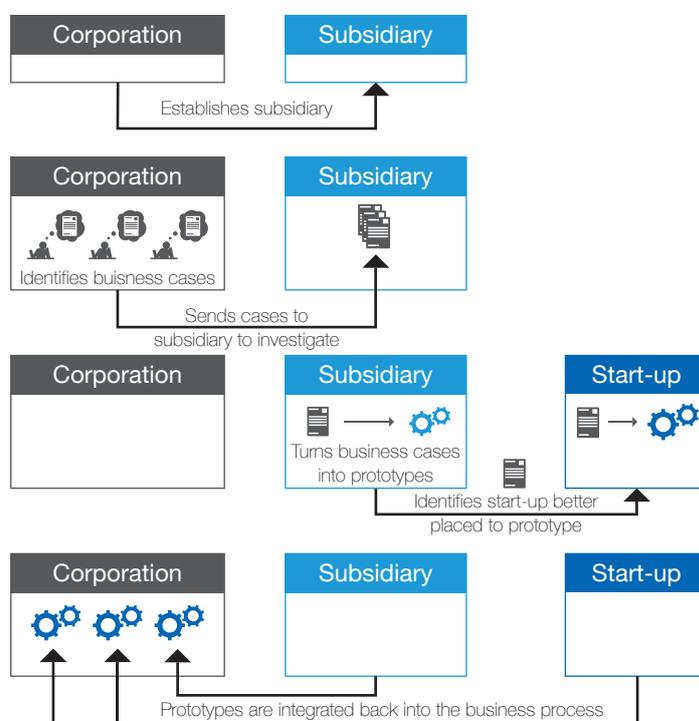
1. The corporate establishes – and funds as a separate entity – a subsidiary dedicated to the development of innovative technologies.

2. The corporate identifies and validates novel business models that are not possible with current technology and submits them to the subsidiary for rapid prototyping.

3. The subsidiary uses whatever technology it sees fit (i.e. with no constraints deriving from the corporate's existing infrastructure) to develop, within a few months, a minimum viable product or prototype (MVP).

4. The subsidiary may itself identify an external start-up as the best partner with whom to implement the MVP or a start-up with novel business models that would benefit from access to the corporate's resources (e.g. networks of customers or suppliers).

5. If the MVP proves to be viable, it is integrated in the corporate's existing or future business processes.

Examples: Klöckner and Klöckner-i

5. Entrepreneurial Co-Creation Model
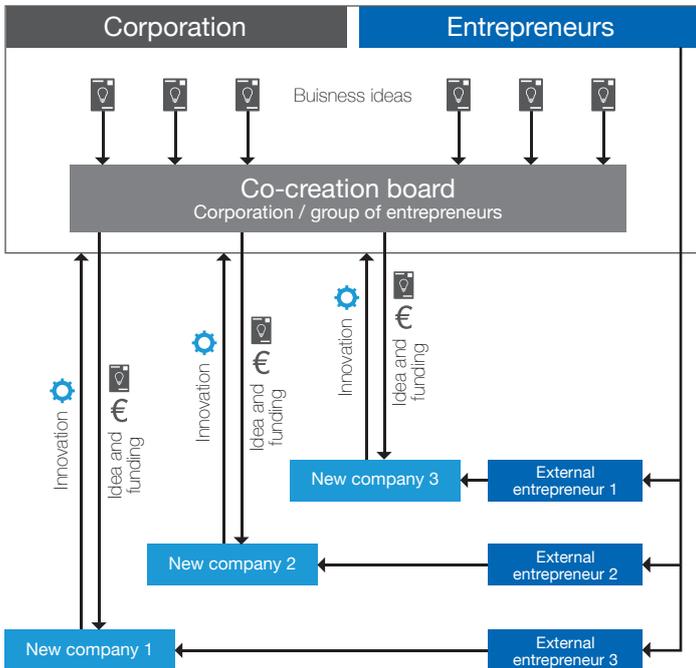
1. The corporate sets up a co-creation board, composed of internal innovation champions, board-level representatives from the corporate and external entrepreneurs.

2. The board carries out a fast-paced strategic analysis and identifies opportunities and threats that the corporate cannot pursue with its current structure and require substantial digital innovation.

3. Using its innovation and R&D budget the corporate quickly (6 to 12 weeks) evaluates the viability of the business model, strategic relevance and capital requirements of each such innovation.

4. It also evaluates technical feasibility and early customer interest in the innovation and comes to a decision as to whether the innovation should be built.

5. For each innovation for which a built decision is reached, the corporate creates – together with experienced entrepreneurs, typically from those previously involved in the co-creation board – a new external legal entity, entrusted with the task of bringing the innovation to market. The corporate funds the new entity by becoming an investor, either by itself, or together with other investors.

6. The corporate, together with experienced entrepreneurial advisors, supports the founding team through an active board; the entrepreneurs start with the technical development of the innovation and continuous customer testing of the solution with high agility to find product-market fit. As the innovation

becomes a stable, viable digital business with strong customer traction and revenue, the corporate integrates it into its existing or new operations by means of buying back the remaining equity stakes of the entrepreneurs, often at a pre-defined formula.

7. Simultaneously, the corporate fosters the growth of the new business entities into relevant markets, from which it benefits as an investor.

8. The corporate would need to invest an average of 10-15 million euros a year over a 5-10 year period in order to create a broad enough portfolio of 10-15 innovative digital businesses with no substantial follow-on funding risk that could fuel the overall growth of the company.

9. For this reason this model is applicable only for corporates that have sufficiently large annual earnings (a reasonable estimate is 50 million euros) or other means of capital to allow multiple simultaneous bets on co-created digital businesses.

Example: Factor10 with Vattenfall Europe

Cooperation possibilities from a start-up perspective

It is not only corporates that need to find a collaboration model. Start-ups also need to decide which kind of collaboration makes most sense to support the launch of the product and the sales and growth of the company.

Stand-up phase

Accelerator and incubator programmes are good collaboration models for entrepreneurs when they are about to start their companies.
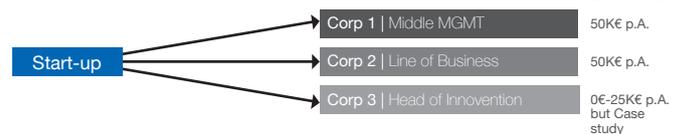
Direct Sales – Proof of Concept
Typical duration: 0-12 month sales cycle depending on industry.
Target: Get first references as a young company to generate trust.
Benefit: Revenues, clients, trust, industry expertise, understanding of corporate processes and ways of working.

Accelerator Programme
Typical duration till collaboration starts: 3 months for application, 3-month programme
Target of the collaboration: Become venture-ready. Typically a team is needed, as single-founder companies are less likely to be accepted. A dummy – or preferably a minimum viable product – should be available, as many

Stand-up: Accelerator Programme

Entrepreneur
(best min. 2 persons)

Business
Plan

Application

Funding
mentoring
team

3
Months
programme

Own
Company

Stand-up: Incubator Programme

Incubator Programme | Financing phase | Start-up phase

Entrepreneur

Applies to
several
Incubator
Programmes

Onboarding

Ideation &
product
validation

Go to
market
& Sales

Finance &
business
model

Mentoring &
iterations

Graduation /
final pitch

Investor
meetings /
get a term
sheet

Close
financing /
take the
money and
run

Start-up

decision-makers do not want to take too much risk. Entrepreneurs should apply for several programmes.

Incubator Programme
Typical duration: 3-12 months with several phases
Target: Develop an idea into a venture financing-ready MVP and business plan. An incubator usually takes 5-15% shares and sometimes provides first financing, typically a five-figure amount.

Start-up phase

In an early phase of a start-up, corporates often want to try out the technology or solution and offer only short-term contracts. This has advantages and disadvantages: often the innovation departments run a lot of trials, but it may be several years before a long-term contract is secured.

Partnership Co-Innovation
Typical duration: 6-48 months with several phases, depending on the industry.
Target: Work with R&D and innovation departments and create a product out of a raw technology or prototype.
Benefit: Access to a corporate's huge network.
Risk: The number of people involved can slow down processes.

Start-up

Corp 1 | R&D / innotation department
Corp 2 | Line of business
Corp 3 | ...
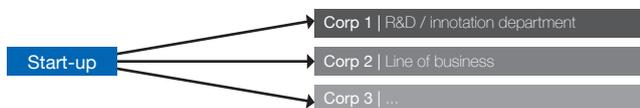
Corporate Venture
Typical duration: 6-12 month for pitching VCs, due diligence and closing.
Target: Receive funding and gain access to corporate decision makers and industry network.
Benefit: Revenues, clients, trust, industry expertise, understanding of corporate processes and ways of working.
Risk: Corporate VC blocks working with competitors of the mother company or exit to competitor. The risk can be mitigated by always taking an independent VC in, as they will not allow any special rights to be granted to the corporate.

Angels

Invest money and typical want 20-30% equity

Start-up

VC

Corp VC
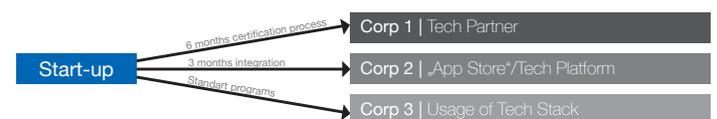
owned by

Corp
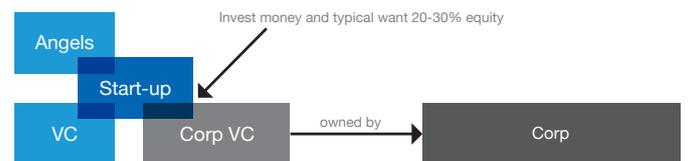
Technology Partner Model
The start-up uses technology platforms as basis for their products and innovations.

Typical duration: 3-12 months, depending on the industry and maturity of the partner.
Target: Create partnerships and integrations to make it easier for (potential) clients to work with the start-up.
Benefit: Increase level of trust and ease of use for client. Get logos of big brands on your sales deck and leverage technology stacks of market leaders.
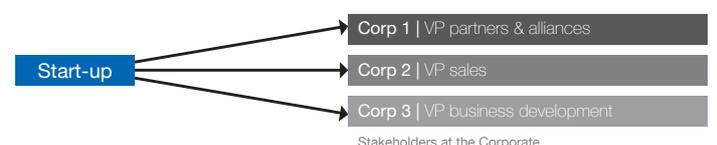**Examples:** SAP or Salesforce app platforms, Klöckner-i, MSFT Bizspark, Google TensorFlow.

Start-up

6 months certification process
3 months integration
Standart programs

Corp 1 | Tech Partner
Corp 2 | „App Store"/Tech Platform
Corp 3 | Usage of Tech Stack

Sales Partner Model
The start-up works with corporates.

Typical duration: up to 12 months for certification process and on-boarding.
Target: Create partnerships to sell the product, ideally all big vendors.
Benefit: Reduce risk and costs in scaling from first clients to global expansion.

Start-up

Corp 1 | VP partners & alliances
Corp 2 | VP sales
Corp 3 | VP business development

Stakeholders at the Corporate

Scale-up phase

Sales, innovation, technology and even corporate venture partners are key to scale a company globally. It is critical to be selective: if a company has under 50-100 people, it is hard to work with more than five partners. Partnerships involve a long on boarding process.

B2B Direct Sales

Direct sales are the key method and collaboration model for each start-up to generate revenues and should be the focus when approaching corporates. Several direct sales models exists, for example, in Predictable Revenue (2011).[13]

Typical duration till collaboration starts: 6-12 month sales cycle per client.
Target: Build a real sales pipeline to grow the business.
Benefit: Key for the company is to increase revenues. The best way of working with a corporate is selling the product to them.

Define market segment &
list of target corporates

Add target contact
of decision makers

Prospecting &
qualification phase

Opportunity and
purchase process

Negotiation
phase

Deal
closing

Partnership with Original Equipment Manufacturer (OEM) or White Label Partner

Typical duration: 12-24 months.
Target: Use the corporate to sell your product as part of their solution. Intel Inside is the most famous model, where the technology becomes the vendor's key component.
Benefit: Not direct sales but built-in.
Risk: A long-term process with high dependency and success not guaranteed – a strategy change from the corporate can kill your business.

| Start-up | → | Corp 1 | VP alliance | C-level |
| | | | VP product | VP sales |

-> Define how your product fits into the
corporate solution and improve their product
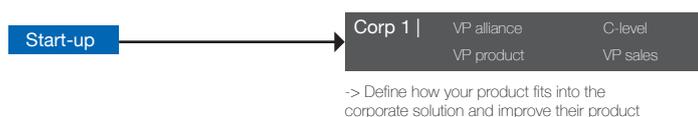
Conclusion: Developing a common understanding of collaboration

Collaboration between corporates and start-ups is a challenge for the mind-sets on both sides. Corporate employees are trained to follow standardized processes and are challenged by the creative behaviour of entrepreneurs. Many entrepreneurs start their companies with the intention of disrupting the status quo, and are challenged by the idea of working with the players they set out to topple.

This white paper has set out to help corporates and start-ups understand each other, and the common perceptions on each side. Corporates often feel that start-ups have the wrong expectations. Start-ups need a better understanding of corporate structures and incentives. Entrepreneurs, meanwhile, often feel that corporates do not take them seriously enough – that they are not being treated at eye level by their corporate partners. Corporates need to avoid seeing start-ups as innovation units or sources of free consultancy: entrepreneurs resent corporate "start-up safaris" that distract them from their core activities.

Mutual understanding depends on each side appreciating the risks and the differences the other faces in embarking on collaboration. Start-ups, for example, have to deal with the constant risk of running out of money due to long corporate sales processes and vendor risk assessments. Corporates may see their reputation or brand at risk. Expectations need to be aligned.

"For collaboration, the following points are crucial: First, strategic alignment: If it is just a "nice to have" for the corporate, it will not work. Second, upper management commitment on both sides. Third, expectation management on both side, especially on resources and timing. Corporates are not as agile as start-ups, and start-ups tend to over-commit. Fourth, regular upper management steering committee meetings. This will help to rapidly address any variance, hurdles or new situation arising from the cooperation."
Thibaud Le Séguillon, Chief Executive Officer, Heliatek

Failure to appreciate each other's mind-sets, incentives and concerns can lead to failure to realise the potential for win-win collaborations. In Europe, it is especially important to nurture collaboration because the lack of risk capital – relative to the US – increases the need for start-ups to collaborate with corporates to reach scale.

The authors hope this paper will help start-ups and corporates to understand the different ways to structure collaboration – and thereby help the European economy to remain innovative and competitive in the Fourth Industrial Revolution.

"We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction."
Bill Gates, from his book, "The Road Ahead," published in 1996.

Contributors

Endnotes

[1] The Digital Leaders of Europe is a multi-stakeholder community of approximately 100 innovators, entrepreneurs and corporate representatives from 28 ecosystems in Europe who have the common goal of identifying and addressing structural barriers to a pan-European innovation ecosystem in which tech entrepreneurs, established corporates and public services are able to easily scale their operations across borders.

[2] The Regional Business Council Europe is a group of approximately 30 multinational businesses with operations in Europe.

[3] Eurostat, 14 November 2017: http://ec.europa.eu/eurostat/documents/2995521/8444168/2-14112017-BP-EN.pdf/2de0034c-e53f-4bf7-ac31-c553a2ce7de5

[4] Wehmeier, Tom, *The State of European Tech*, Atomico and Slush Report, 2017

[5] Schwab, Klaus, *The Fourth Industrial Revolution*, 2016

[6] Accenture Research estimates the collaboration failure rate at 44% in: Berthon, Bruno, Jusserand, Emmanuel and Medland, Ben (2017) *Building a Digital Ecosystem, Collaborate for Growth*, Accenture Strategy https://www.accenture.com/us-en/insight-digital-ecosystems

[7] https://hbr.org/2016/02/big-companies-should-collaborate-with-start-ups (Eddie Yoon and Steve Hughes in HBR, 25 February 2016)

[8] https://www.forbes.com/sites/nathanfurr/2011/09/02/1-cause-of-startup-death-premature-scaling/#5426904b1fc9

[9] Moore, Geoffrey A., *Crossing the Chasm*, 2014

[10] Ibid

[11] Ibid

[12] http://internetofthingsagenda.techtarget.com/blog/IoT-Agenda/Why-start-up-corporate-collaboration-is-a-hot-topic-and-why-you-should-care

[13] Aaron Ross and Marylou Tyler, *Predictable Revenue: Turn Your Business into a Sales Machine with the $100 million Best Practices of Salesforce.com*, 2011.

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to shape global, regional
and industry agendas.