

THE STATE OF STARTUP/CORPORATE COLLABORATION 2016

A JOINT RESEARCH STUDY BY:



imaginatik



MASSCHALLENGE



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INTRODUCTION

Corporations and startups have begun working together in fundamentally new ways, with a focus on flexible, early-stage, open-ended partnerships. Early adopter corporations have been engaging with startups for many years, but behaviors are only now starting to change.

The trend towards early stage interactions is pivotal. Most corporations are well-versed in acquiring startups (once the startup has already built and proven its value to the acquirer); yet, times are changing. A growing proportion of corporations now also seek flexible upstream partnerships with startups, in which both sides take risk and share in the rewards.

Both MassChallenge and Imaginatik have been driving engagement between corporations and startups for many years. This study is a collaboration between our two organizations that stems from a common recognition that the connections between startups and corporations have never been more important. The underlying research effort gathered both startup and corporate opinions, the first of its kind to do so, to get to the heart of this global trend.

We see startup/corporate collaboration as long-term and highly significant. In what we anticipate becoming an annual study, we aim to shine a light on the key trends in this swiftly changing landscape and break down the misconceptions that hinder true startup/corporate collaboration.

“This is the first report I have seen that includes the often-overlooked, but incredibly important, startup and scaleup perspectives on corporate collaboration. We know that the dynamics between scaleups and corporations is one of the top three methods for delivering productivity gains, and helping improve our economy overall.

This study, written by leaders who work with growing businesses and corporations everyday, is an invaluable overview of what is happening in the field along with veteran insight.”

SHERRY COUTU,
ENTREPRENEUR, INVESTOR,
AUTHOR OF ‘THE SCALE-UP
REPORT’, AND FOUNDER OF
THE SCALEUP INSTITUTE



KEY FINDINGS

1 INTERACTIONS MOVING EARLY STAGE

While most startup/corporate interactions used to begin at the negotiation table, corporations and startups increasingly recognize the benefits of earlier interactions. Corporations said that 67% now prefer working with startups at earlier stages, mainly “to explore new technologies and business models”.

2 INTERACTIONS WITH STARTUPS BECOMING “MISSION CRITICAL”

At an overwhelming 82%, corporations now view interactions with startups as “somewhat important” to “very important”, and 23% indicated that these interactions were “mission critical”. Innovation efforts, it seems, are no longer just nice-to-have programs within corporations.

3 CORPORATE INNOVATION MODELS ARE STILL IN THEIR INFANCY

While 86% of large organizations view innovation as crucial to their future, most of their current attempts to work with startups to further that objective are early stage, underfunded, and scattershot—such that 25% of corporations aren’t even sure how much they’re spending.

4 STRATEGIC FIT IS PARAMOUNT, BUT THE UNDERLYING GOALS VARY

Startups and corporations agree that “strategic fit” is by far the primary criterion for working together, but the way they interpret the term diverges significantly. Thus, a lost-in-translation problem sometimes persists, despite the best of intentions. This is exacerbated by remaining cultural issues within corporations: many are still struggling to re-organize themselves to enable productive interactions. Conversely, startups are persistent, but remain frustrated at the number of hoops to jump through.

5 MINDSET CHANGE—NO LONGER ‘US’ VS. ‘THEM’

Startups are seeing corporations in a variety of roles—no longer are they cast solely as either “competitors” or “potential acquirers”. As the startup culture matures, founders are realizing that corporations have a lot of wisdom, experience, and resources to be leveraged, and that perhaps working with, rather than against them, could be the smarter way to go. Also, in a post-Uber and Airbnb world, startups realize that the power is not only with large corporations, and that leads them to be more selective with whom they choose to work. In fact working with corporations is shaping up to be a startup’s most powerful growth hack.

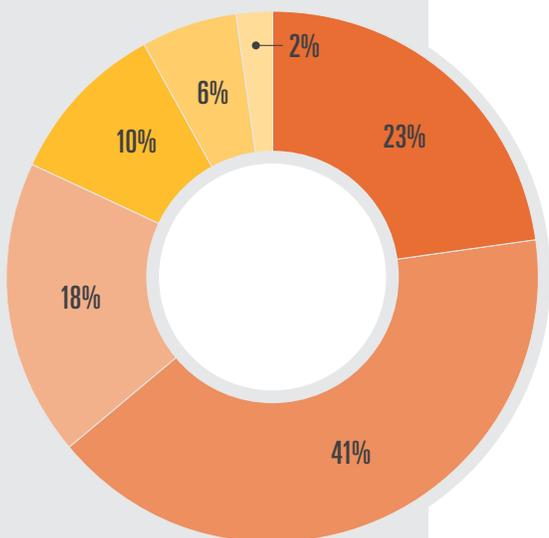
PART 1:
**STARTUP/CORPORATE
COLLABORATION
BECOMING
“MISSION CRITICAL”**

A JOINT RESEARCH STUDY BY:

 **imaginatik**  **MC** | **MASSCHALLENGE**



Fig. 1: How important is it for your organization to interact with external startups?



- Very important (mission critical)
- Important, but not mission critical
- Somewhat important
- Not that important
- Unimportant / doesn't matter
- Don't know / not sure

82%

of corporations say it's at least somewhat important to work with startups

It used to be that corporations and startups only interacted at the negotiation table. Corporations had few incentives to pay attention to scrappy young firms. Startups were left alone to fend for themselves until they ripened into acquisition targets, at which point they were deemed lucky to be granted access to corporate-scale operational levers.

Today, it's a different story: corporations are actively seeking relationships with startups. A significant 82% of large companies now view interactions with startups as important, and 23% say it is "mission critical" to their business (see Fig. 1).

THE NEW NORMAL: 67% PREFER EARLY-STAGE STARTUP INTERACTIONS

For corporate respondents who answered the question "For what reason(s) does your organization seek to interact with startups?", 60% responded that one of the top two priorities was to "explore new technologies and/or business models". The next highest priority was to "explore nascent industries" (26%), also strongly suggesting a preference for early stage interactions. Taken together, 67% of companies voiced one (or both) of these early-lifecycle



activities as a priority. These options handily beat out other priorities like “leverage new and/or faster routes to market”, or “earn a financial return on (venture) investment”, which were priorities for a mere 18% and 10% respectively (see Fig. 2).

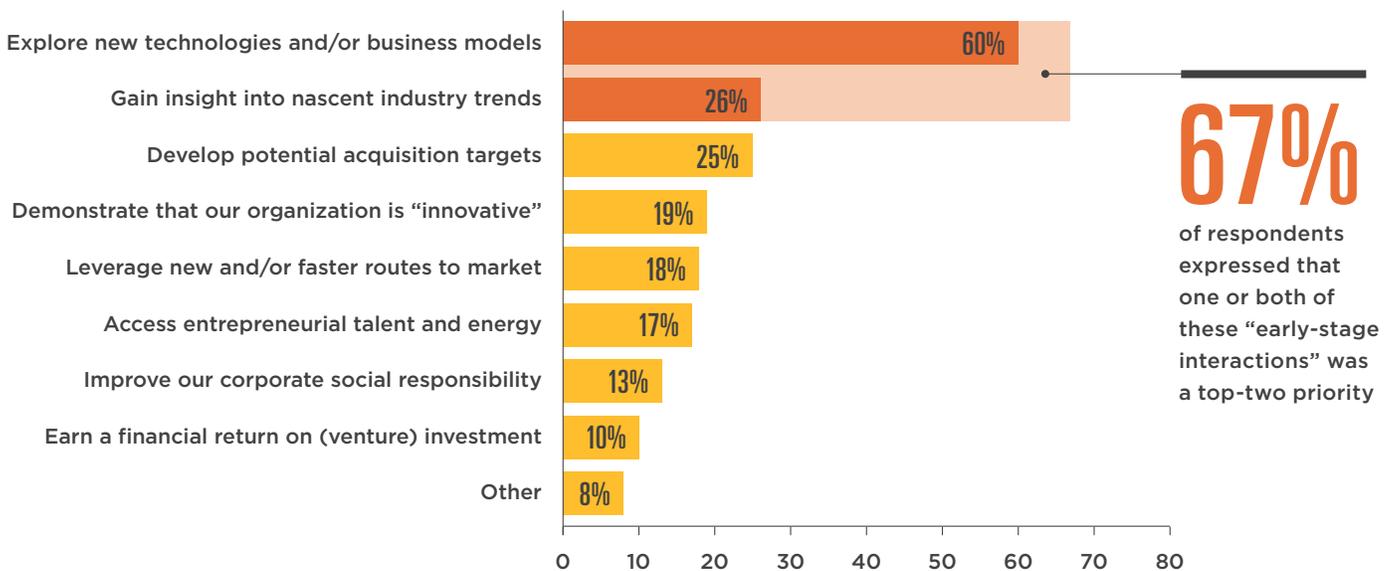
Roberto Ortega, Head of Digital Innovation at Caterpillar, explained that his team constantly scouts for startups to assist their efforts—rather than looking for acquisitions or other late-stage goals. “We try to meet each startup on equal footing, looking for win-win relationships to help us both achieve our goals,” he explained.

Investments and acquisitions still matter, but now they occur farther downstream from the initial point of contact, and often after the two organizations have already been working together for some time. Rather than ends unto themselves, investments and acquisitions have become strategic levers to deepen or accelerate an existing and productive relationship.

According to Patricia Forts, Director of Innovation and Strategy for Harvard Pilgrim Healthcare, “Our primary interest is to build future value in the healthcare space. We only make an investment when it’s clearly the best mechanism to achieve those goals.”

Fig. 2: For what reason(s) does your organization seek to interact with startups?

(Forced ranking from a list of priorities. Percentages indicate proportion of respondents ranking as their #1 or #2 priority.)





Caterpillar

Roberto Ortega
Head of Digital Innovation

Describe your innovation initiatives, and approach with startups. I lead the Digital Innovation program within Caterpillar. Our goal is to help the company leverage new digital technologies for growth. My team is constantly scouting the marketplace for new and interesting startups that might aid our efforts. We also communicate regularly with Caterpillar Ventures, global R&D, and the business units, each of which also liaise with startups for their own reasons.

How do you measure success? Success metrics vary widely, depending on the nature of the relationship. For example, when broad, strategic partnerships succeed—such as our relationship with Uptake—the benefits radiate in multiple directions across Caterpillar. For more tactical engagements, e.g., when we hire a startup to build a specific technology component for an internal project, success might mean their component worked and the project moved forward.

Advice for other corporations? Two principles have served us extremely well. First, vet startups carefully up-front. Startups tend to make outlandish promises; most are overstating the case. We work hard to figure out exactly what they bring to the table. Second, be very clear about what you want, and the nature of your working relationship. This includes level-setting around the likely speed at which you can move, how much legal documentation you'll need in place, etc. This allows the startup to choose whether they'll engage with eyes wide open.

“We try to meet each startup on equal footing, looking for win-win relationships to help us both achieve our goals.”

ROBERTO ORTEGA,
HEAD OF DIGITAL
INNOVATION,
CATERPILLAR

STRATEGIC FIT IS CRUCIAL TO SUCCESS

Nearly 45% of respondents cited strategic fit as the most important factor in success or failure of a given startup relationship (see Fig. 3). In fact, strategic intent determines not only which startups a corporation chooses to interact with, but also how they build the relationship, and which vehicles, processes, and people are involved.

Generally, these objectives can be grouped into three categories (see Fig. 4):

- **Improve core business:** The simplest aim is to improve the core business—e.g., cutting costs, boosting margins, expanding market share. Startups can be very useful for these purposes because they often take novel approaches, work faster, and are more cost effective than more established providers or partners. Lucas Moreno, Innovation VP at Cementos Argos, a global leader in the cement and concrete industry with operations in more than 15 countries, focuses on finding startups that can solve current business problems within the company, for example, a data/analytics startup that is applying Big Data techniques to improve energy efficiency in their manufacturing plants.

Fig. 3: Which factors most determine the success vs. failure of your interactions with a startup?

(Multiple responses allowed.)

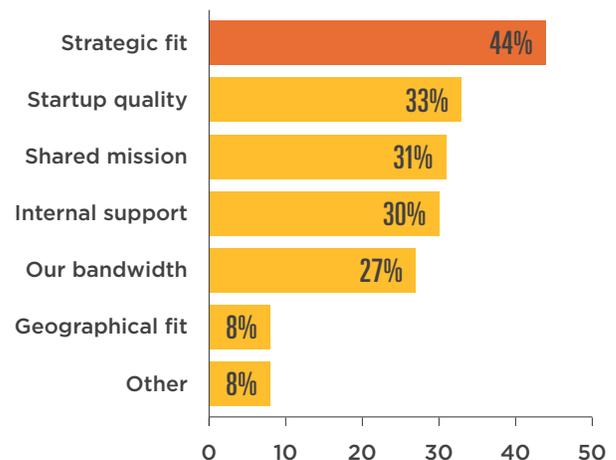


Fig. 4: Three types of innovation objectives.

	Core Business	R&D Product	Moonshots
Objective	Leverage startup capabilities to improve operations, costs, or digital technologies within the core business(es)	Work with startups to accelerate new technology development / product innovation	Gain a foothold or strategic presence in disruptive new technology or market spaces
Staff	Project managers and startup scouts	Technologists, data hackers, startup scouts	In-house entrepreneurs, designers, marketers, startup scouts
Mode	Startups as business execution lever	Startups as technology/product development accelerator	Startups as disruptive ecosystem partners / accelerants



- Moonshots:** Moonshot innovation objectives occupy the opposite end of the spectrum—focused solely on disruptive industry shifts, and are often accountable to no one except the CEO and Board. Insurance companies, increasingly threatened by fintech and insurance startups, are a good example. We spoke with several large insurance companies that are either building, or have already built, a dedicated “incubator” or “accelerator” unit to nurture internal and external startups—an effort typically driven directly by the CEO and firewalled from the core business.
- Technical or product innovation:** Technological or product innovation is the objective most familiar to many organizations—particularly in high-tech and engineering-heavy manufacturing industries. As Innovation Officer Marty Curran explained, Corning’s innovation centers orchestrate a global network of startup scouts looking for leverage in building new technologies and/or commercializing new product lines in their core focus areas of glass, ceramics, and optical physics.

Although most companies we interviewed for this study maintained a strict focus on one of the above objectives, it is becoming more common to manage a blended portfolio. However, doing so requires an associated mix of team skills, scaling levers, and types of relationships into and out of the mainline business. Most companies are still in their infancy in building the medley of assets required to coordinate a portfolio with that degree of sophistication.



Fig. 5: Different names, same program.

INNOVATION LAB
 TECH GARAGE
 INNOVATION CoE
 CENTER FOR INNOVATION
 CORPORATE INCUBATOR
 TECHWORKS R&D SKUNKWORKS
 LAUNCHPAD
 DIGITAL HATCHERY
 DIGITAL LABS

“I try to get promising startups in front of our executives early. This way I assess the level of interest before wasting time on both sides.”

ROGIER VAN BEUGEN, KLM

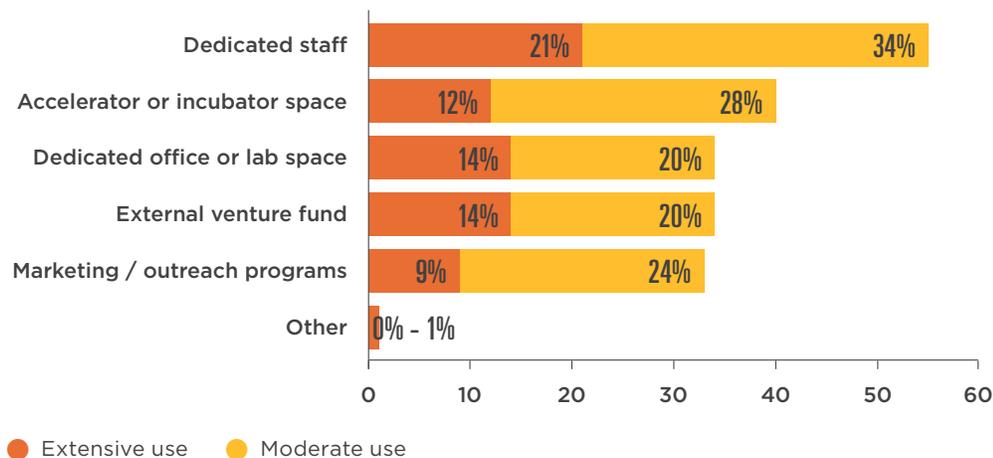
DEDICATED PROGRAMS ARE STILL UNFOCUSED AND UNDERFUNDED

A growing number of large companies now have dedicated programs to proactively create, and then manage, relationships with startups. Various referred to as innovation labs, incubators, or any of myriad other names, very few of these programs existed more than one to two years ago, and have now proliferated (see Fig. 5 and 6).

These programs mainly serve two purposes:

- First, they play the role of **startup scout**, sourcing promising startups that align with the company’s strategic innovation interests. Regardless of where corporate headquarters may be, scouts are placed in cities with a high concentration of startup activity and venture investment.
- Second, these programs act as a **matchmaker**, mediating initial interactions with business stakeholders—ranging from people within product lines to the innovation team itself, depending on the strategic objectives. If the stakeholder is elsewhere in the business, a handoff occurs at some point.

Fig. 6: Which corporate resources (if any) are being used for external startup interactions?



As Rogier van Beugen at KLM noted, “I try to get promising startups in front of our executives early. This way I assess the level of interest before wasting time on both sides.”

Rise of the innovation department: Most often, the corporate innovation function manages this set of activities (see Fig. 7). Since many corporate innovation teams are themselves relatively new—most having been created within the last three to five years—the nature of their startup coordination role is still evolving. Most are well aware they’re not the only game in town, since other departments tend to have existing startup relationships of their own.

Leadership from a dedicated innovation team provides two benefits over established functions. First, sourcing and incubating new innovation opportunities is their full-time job, rather than one activity among many for those in R&D or Technology. Second, an increasing number of innovation programs benefit from sweeping change mandates directly from the CEO and/or

“Our primary interest is to build future value in the healthcare space. We only make an investment when it’s clearly the best mechanism to achieve these goals.”

PATRICIA FORT,
DIRECTOR OF
INNOVATION
AND STRATEGY,
HARVARD PILGRIM
HEALTHCARE

Pharmaceutical Company

Senior Innovation Representative

Describe your innovation initiatives, and approach with startups. We have three main aims: 1) scan and monitor the external environment for disruptive innovation and connect it to our long term strategy; 2) connect to the entrepreneurial ecosystem and make working with entrepreneurs part of our DNA; and 3) develop and execute a model for rapid experimentation for both transformational and disruptive innovation.

What has worked, and what hasn’t worked? We had a successful collaboration with a machine learning company that went from testing to full deployment in three months. An unsuccessful one was a patient engagement platform that became embroiled in internal and external bureaucracy. So even if it’s a good company and it’s taking forever to implement, it won’t work. One of the key success factors is being able to rapidly get a startup through the cycle from identification to experimentation to evaluation.

What are the main benefits of engaging with startups? They bring a fresh viewpoint and innovative approach by creating their own reality rather than just responding to outside factors. Some of the craziest stuff ends up working really well.

Fig. 7: Which function (if any) has explicit responsibility for managing startup interactions?

(Multiple responses allowed. Percentages reflect respondents indicating “complete responsibility”.)

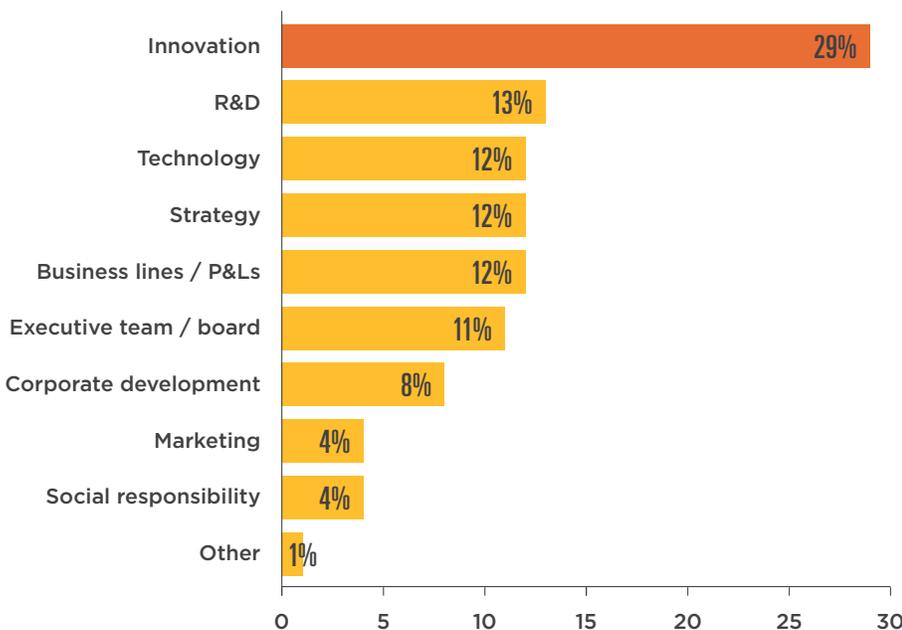
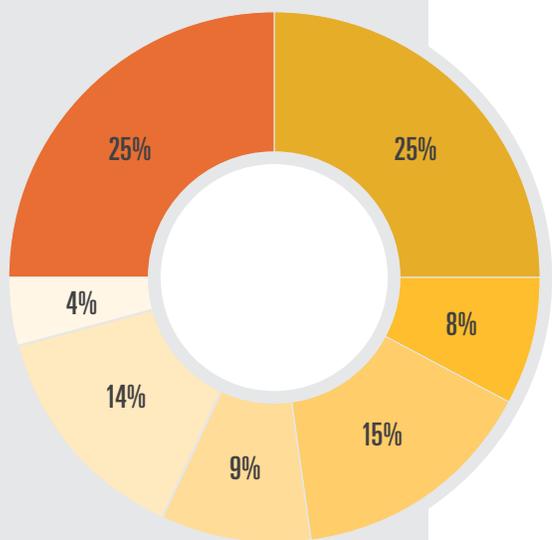




Fig. 8: What level of budget investment has your organization allocated for managing interactions with external startups?



- Greater than \$1M
- \$500K to \$1M
- \$100K to \$500K
- Less than \$100K
- None
- Other
- Don't know / not sure

25%

of respondents are unsure of what the innovation budget is or whether it actually exists

Board. In such cases, they have both the resources and the latitude to fund and launch innovation bets on their own, even in the absence of a mainline business champion.

Efforts still in their infancy: Unfortunately, most corporate teams do not yet have the benefit of a CEO mandate, nor sufficient resources to achieve their ambitions. We spoke to a wide variety of companies that admitted their efforts are in their infancy and still have a long way to go toward maturity.

Some companies had clear objectives and were focused on certain channels to interact with startups. They cited “extensive use” of certain programs and “no use” of others—there was very little middle ground. These respondents showed a clear strategy behind their engagement with startups. The vast majority of companies, however, showed an uncertain and muddled approach to the various programs. Those companies reported “moderate use” of almost all program types, but did not extensively use any. Unsurprisingly, these corporations reported mixed results of success.

Most budgets are still small and uncertain, with 25% of respondents unsure of what the innovation budget is or whether one actually exists. Typically, it is limited to pockets of discretionary money, often borrowed from other parts of the organization (see Fig. 8). Common to many companies is a sense that they are not spending much money yet, primarily because they are still learning what to do and how to think about using resources judiciously.

PART 2:

STARTUPS ARE MORE CORPORATE SAVVY THAN EVER

A JOINT RESEARCH STUDY BY:



imaginatik

MC

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The global startup community is arguably more cohesive and more confident than ever before.

Being the founder of a startup is an increasingly accepted, and sometimes preferred, career path for ambitious young professionals. A growing number of academic programs, accelerators, and investment houses now coordinate the startup ecosystem around the globe. And despite occasional bumps, the level of investment dollars and entrepreneur success stories continue to grow (see Fig. 9).

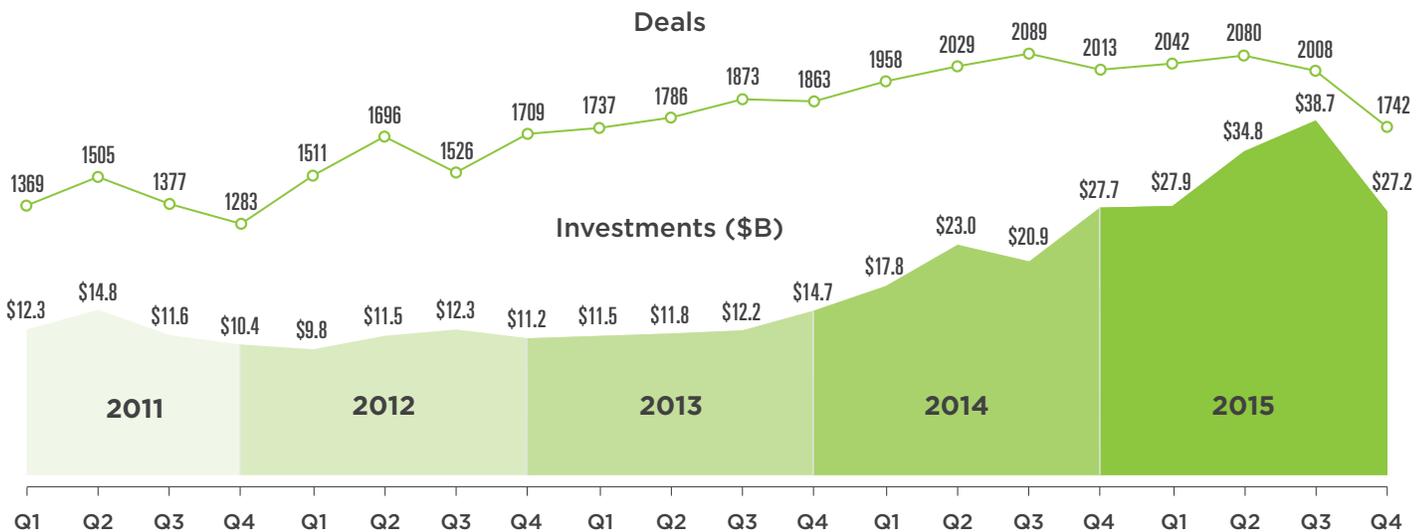
This means entrepreneurs have more options at their disposal—and are less dependent on corporate patronage for their success. Nonetheless, an extraordinarily high 99% of all startups profess at least some desire to

work with corporations (see Fig. 10). That is compared to 82% of corporations who said it was at least somewhat important to interact with startups (see Fig. 1). This disparity suggests that startups need corporations more than corporations need startups. However, it also indicates that corporations still undervalue the importance of working with startups.

Yet startups are clearly selective about the corporations with which they engage. As one respondent said, “If we don’t interact with the right company, they will never adopt what we’re looking to help them with. They need to be ready as much as we are able to implement change.” The corporations that are open to and experienced in working with startups are far more likely to attract the best entrepreneurs.

Fig. 9: Startup economy continues to grow globally.

(Quarterly global financing trends to VC-backed companies.)



Source: CB Insights – Global Venture Capital Report Q4 2015



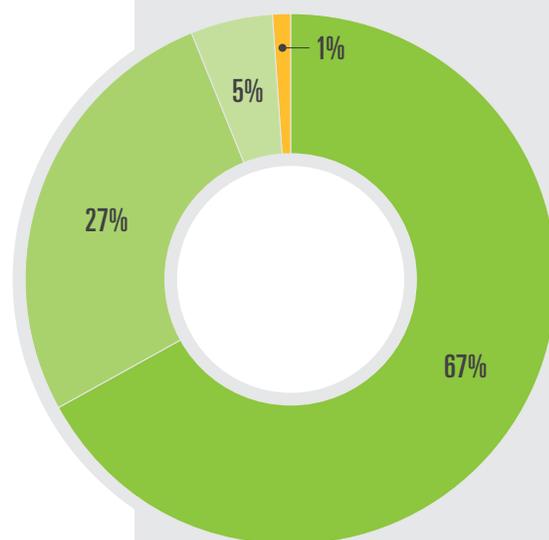
STARTUPS HAVE MULTI-FACETED ENGAGEMENT NEEDS

Interestingly, most startups view corporate relationships as multi-faceted, and potentially leading to a variety of benefits over time. Some startups think that instead of trying to disrupt a whole industry, working with incumbents could help them gain access to markets faster than doing it by themselves, or learning from them could help lead to greater success, and mutual benefit, for both.

Corporations as customers: Our study shows that B2B and B2C startups often have different end goals. Startups listed a variety of objectives guiding their decisions on whether to work with corporations (see Fig. 11). The prioritization of these reasons depends heavily on the space in which the startup operates. B2B startups consistently mentioned corporations as potential customers. As Chloe Nicholls, Marketing & Partnerships Manager at startup EditorEye, explained, “For us it’s all about direct sales—corporations are our customers.”

Corporations as marketing channels: In contrast to the above, B2C startups tend to see corporations as established marketing channels for gaining presence in new markets. “We want to work with the biggest brands, allowing us to advertise [to] millions of users worldwide.” This relationship could be developed through a variety of tactics—by being customers, strategic partners, investors, licensing, and more.

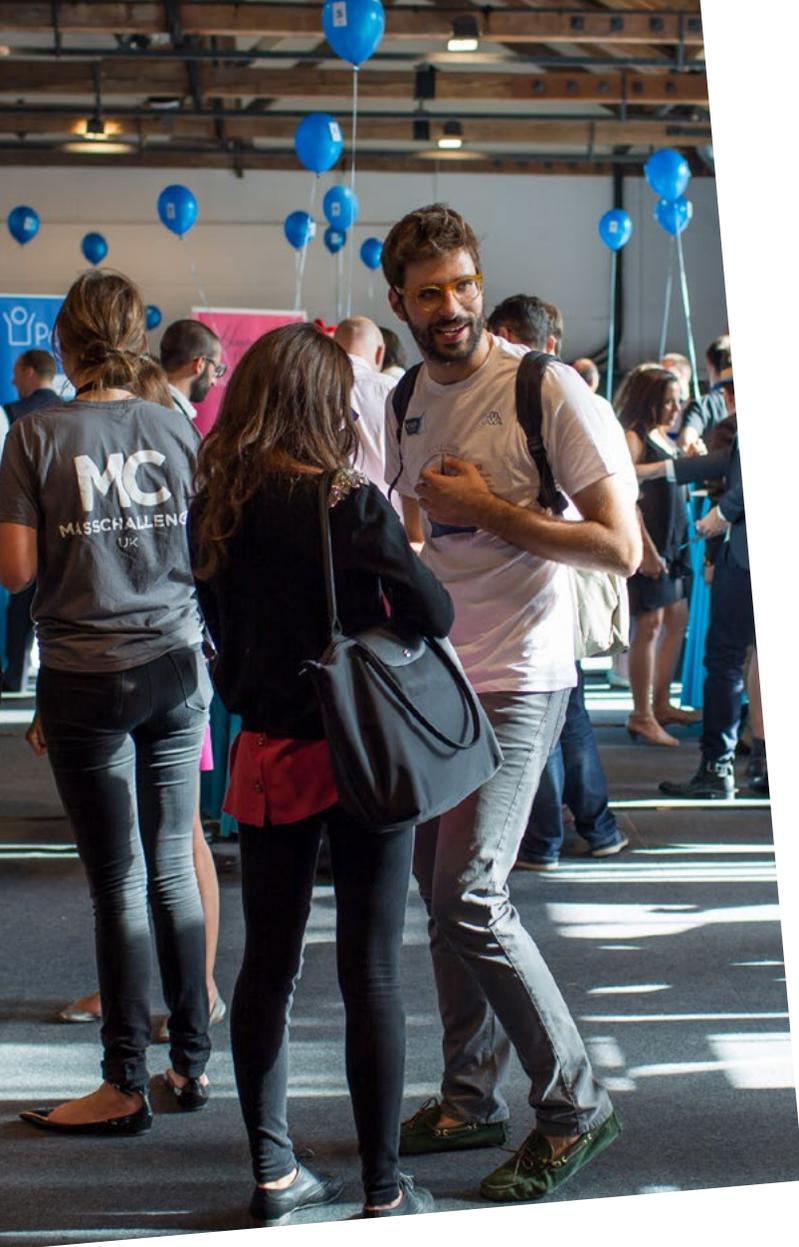
Fig. 10: As a startup, how important is it for you to interact meaningfully with (the right) corporations?



99%

of startups said working with corporations was at least “somewhat important”

- Very important (mission critical)
- Important, but not mission critical
- Somewhat important
- Not that important

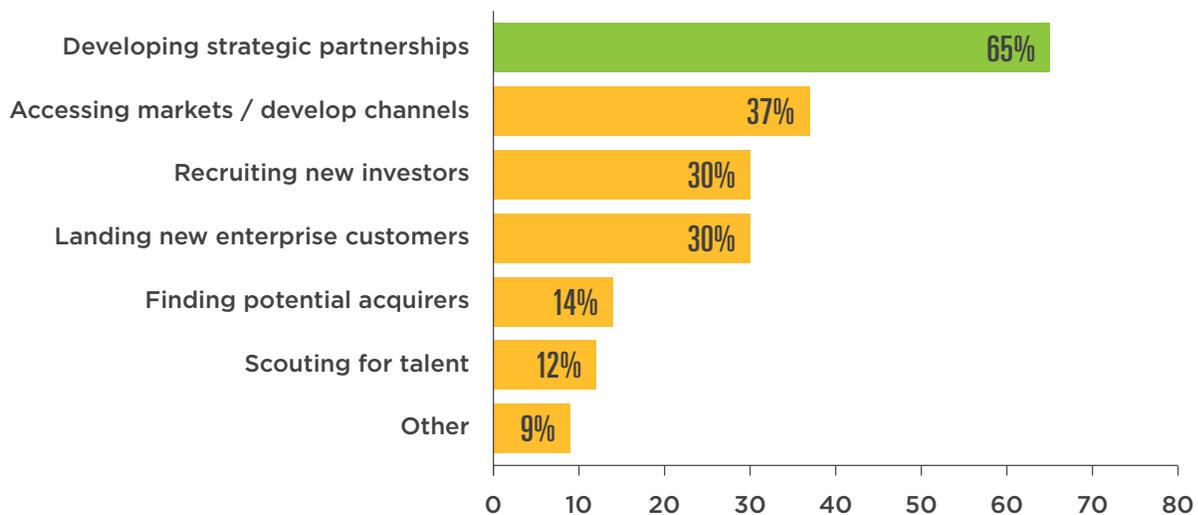


Corporations as strategic partners: Strategic partnerships, mentioned as important by 65% of startup respondents, tended to stand for super-sized versions of other goals. Partnerships create deeper relationships that lead to a growing array of benefits on both sides. According to CEO Sandro Kunz at startup Pingen GmbH: “A strategic partnership is where you as a startup can leverage resources from the corporation, like having access to their marketing, research, and managers who can support you.”

For this reason, the best startups tend to concentrate time and attention on corporations where the human intangibles line up well. As CEO Moshe Shlissel at GuardKnox Cyber, another startup, explained, “It’s very important...to pick your partners based on product fit, company, and culture. Don’t pick your relationships based on your exit plan.”

Fig. 11: Please rank your objectives as a startup in interacting with corporations.

(Forced ranking from a list of priorities. Percentages indicate proportion of respondents ranking as their #1 or #2 priority.)





CORPORATIONS OFFER MORE THAN JUST MONEY

Startups consistently stressed the corporation's role as an informal mentor. They also see corporations as partners who can offer access, advice, and strategic opportunities for mutual gain in the short- and medium-term.

Mentorship really matters: "Interacting with [corporations] helps us to share ideas because they are [more] experienced than we are. Also they act as role models to us, giving advice... on how we can grow or overcome challenges." Another startup respondent said, "When you interact with... corporations, you can get more know-how and knowledge."

Other advantages included bringing insight into complex industries with high barriers to entry, like the automotive industry. One startup said that having former automotive company executives on his board added immense insight as well as credibility when dealing with potential customers.

Build value now, worry about acquisitions later:

By comparison, the promise of an acquisition tends to be a distant, and thus relatively unimportant, priority. Most entrepreneurs stressed the importance of building value now and worrying about an exit once there was actually something to acquire. Only 14% of startup respondents said that an acquisition was their main aim in working with corporations.

"From our perspective, we're not looking for an exit. We're looking to build a successful company. Our first priority is to help our customers. It's a possibility just not the first priority."

GILAD ISRAELI,
FOUNDER, TBUS

Cake

Suelin Chen
Founder and CEO

When did you start engaging with corporations and why? We have always wanted to engage with corporations because we are a portal that connects our users to service providers they're already looking for; we want to help our users navigate the fragmented landscape of end-of-life planning. Later on, we realized that our product offers a clear value-add or complementary service to many corporations, so we explored distribution partnerships.

What has worked and why?

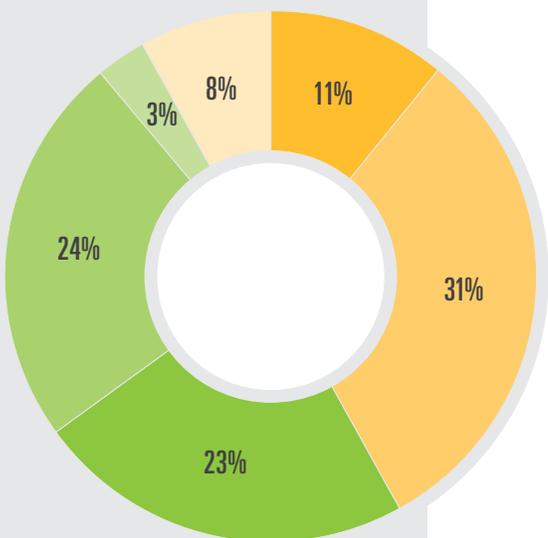
Working with Liberty Mutual has been surprisingly fast and smooth. They were ready to take action and try something new. My understanding from talking to my contacts there is that they have excellent leadership who communicated a company-wide commitment to innovation, and our champion has had enough pull and motivation to make things happen.

Advice for corporations looking to work with startups? Hire people who have worked in startups before, preferably in a founding or leadership role. Someone who has only ever worked in corporations is going to have a much harder time understanding the best way to work with and capture value from startups.

If every collaboration is viewed as an experiment, even a "failure" is a success because you've learned something. Ensure that the decision-makers are not penalized for these "failures," but are instead rewarded for trying something new. Make sure incentives are aligned with taking action. Nothing ventured, nothing gained.



Fig. 12: As a startup, what has been your experience in attempting to interact with corporations?



- Exceptional
- Good, but not great
- Average
- Difficult / challenging
- Terrible
- Don't know / not sure

50%

of startups said their experience interacting with corporations was mediocre or worse

Nonetheless, a fruitful relationship can at times lead to acquisitions. One startup we interviewed is running its first prototyping and pilot alongside a large corporation in the sports and fitness wearables space. The founder hopes that the corporation will come in as an investor on their first round so that they can grow the product and company together, and eventually acquire the company. However, he said that he would still look for traditional investors to preserve the “balance of power” on the board.

SUCCESS IS IN THE EYE OF THE BEHOLDER

Despite all the reasons to engage, startups voiced plenty of frustrations. In fact, 50% of startups said that their experience working with corporations was mediocre or worse (see Fig. 12). Entrepreneurs were quick to list numerous difficulties in trying to work with corporations. A common complaint sounded like this respondent, “It’s often tough to find the right person to talk to, and that person being interested doesn’t necessarily mean they can get buy-in.”

FUNDING RAISED

CASE STUDY STARTUP



BuyerDeck

Gerald Vanderpuye
Founder and CEO

When did you start engaging with corporations and why?

The idea for BuyerDeck was actually born out of a corporate environment, where I was working as an enterprise sales rep at Rackspace three years ago. While working on a sale, I accidentally shared my notes intended for our internal management with the buyer.

This unintentional transparency gave the prospective buyer an opportunity to validate his notes and collaborate on the major assumptions of the sale. I ended up leaving my role at Rackspace and partnering with my co-founder to create BuyerDeck—a tool that enables sales reps to collaborate with their buyers and be more transparent throughout the sale cycle.

What has worked and why? After being an early alpha partner of BuyerDeck alongside two other companies, Rackspace became a customer of ours and their sales reps use our product to facilitate their complex deals today. I think this partnership was so successful because BuyerDeck was dreamed up at Rackspace and was built specifically to make enterprise salespeople, in that corporation and similar ones, more successful.

Advice for corporations looking to work with startups?

I would recommend they focus on the process rather than a complete vision. Too often they want a perfect picture of the end goal when innovation rarely happens that way.



Bureaucracy is a blocker: Startups also pointed out the difficulty of navigating the intricacies of a corporate bureaucracy, especially if they did not have a single point of contact or champion. Many suggested that having a team dedicated to working with startups might mitigate the problem.

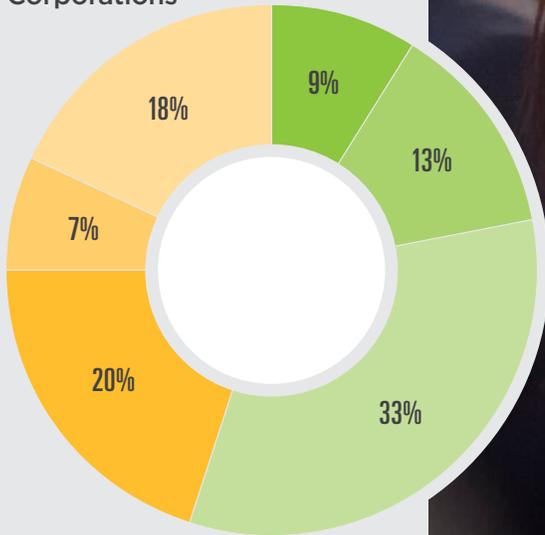
Another added, “Corporations tend to be very slow and difficult to deal with. They seem to be poor at innovating. It is very unfortunate how difficult and time-consuming working with corporate clients is. It seems like a cultural problem that results in a lack of innovation, low desire to try new things, and low risk tolerance, which I personally believe hinders progress tremendously.”

The silver lining: Despite the cultural hurdles, 60% of startups still said that working with corporations has been “somewhat successful” to “very successful”, perhaps because of the ultimate advantages corporations can provide (see *Fig. 13*). This is similar to what corporations said in the reverse direction, with 55% expressing at least some degree of success.

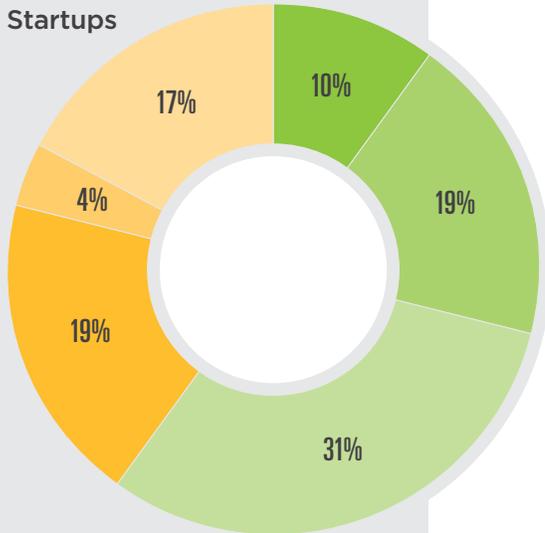
The successes they described varied greatly, however. One respondent had a hands-on example: “We actually worked [on] our first prototype with one large corporation. The project went from nothing to a successful initiative presented to the CEO two months later. We have two more contracts with them already.” Others were more general, “Interacting with [corporations] has let us increase our knowledge, both regarding market needs and knowledge of new discoveries regarding our line of business.”

Fig. 13: How successful have your organization's interactions with [corporations / startups] been thus far?

Corporations



Startups



- Very successful
- Successful
- Somewhat successful
- Not that successful
- Unsuccessful
- Don't know / not sure



Organizations that have seen at least some success:

55%
CORPORATIONS

60%
STARTUPS

“Know that startups talk to each other, and corporates have different reputations for ‘startup-friendliness’. Time is our most precious resource, so we always have to prioritize. What this means is that we will avoid companies that we’ve heard will only waste our time. If a corporate wants to innovate with startups, they need to establish themselves as a good actor in the startup ecosystem.”

SUELIN CHEN, CEO, CAKE

PART 3:

RECOMMENDATIONS

A JOINT RESEARCH STUDY BY:



imaginatik



MASSCHALLENGE



SUMMARY

At their core, corporations and startups are very different, and always will be, but the balance of power between startups and corporations is changing and so is the relationship. It is no longer simply antagonistic or acquisitive; nuanced partnerships, joint pilot programs, and early-stage interactions are becoming the norm. Understanding the changing dynamics is crucial for both startups and corporations to gain from this trend and to innovate together.

Ultimately, the key to a successful startup/corporate partnership is to see it as just that, a partnership, rather than a quick one-off transaction. More often than not there is a lot more to be learned and developed together and both sides can learn and grow in the process.

GUIDANCE FOR CORPORATIONS

1 THE GOOD ONES WON'T WAIT

It's easy for large corporations to take startup interest for granted—doing so is a mistake. Startups will keep calling—but not the best ones. Top entrepreneurs are savvy enough to focus on corporations that show genuine interest and are capable of making decisions swiftly enough to keep pace. Reputations in the startup community spread quickly and can last a long time. Gaining access to the best early-stage opportunities means treating entrepreneurs right and seeing the relationship as one that can provide long-term, mutual value. Filtering is key here—whether through accelerator programs, competitions, or scouting—as it is not always immediately obvious which startups are worth talking to. Finally, be upfront with the startup as to whether this is a learning exercise or whether there is an actual intent to partner.

“A startup can turn into a big business. They're very small but innovative, so they can do what the big companies can't in that period of time. Take them seriously—every startup has potential.”

VAGAN MARTIROSYAN, CEO,
TRYFIT TECHNOLOGIES LTD

“It's very important [to find an acquirer], but you need to pick your partners based on product fit, company, and culture. So don't pick your relationships based on your exit plan.”

MOSHE SHLISEL, CEO,
GUARDKNOX CYBER
TECHNOLOGIES LTD.

2 GET YOUR HOUSE IN ORDER

- **Appoint a startup champion:** A key recommendation is to structure a startup liaison role—either a team or an individual who can ‘own’ the relationship and not just guide the startup through the corporate maze, but also internally influence key stakeholders and shape solutions. Many stories emerged of startups being endlessly passed among dozens of people within a corporation—each with an interest in the relationship, but none with sufficient clout to move things forward on their own. Creating a control tower for external startup relationships is a necessary first step.
- **Establish internal structures:** Establishing a liaison is just the beginning. Once startup conversations develop in earnest, the liaison must quickly figure out who the real relationship owner(s) within the corporation will be, and which resources are in play—usually on a case-by-case basis. Unless internal structures such as an executive steering committee are in place to triage and guide inbound opportunities, the corporate liaison will flounder just as badly as the external entrepreneurs.
- **Solidify the strategy:** Ultimately, corporations must delineate their strategy and nominate internal stakeholders to push those objectives forward. That’s the only way to give the outside world—and the nominated liaison—the ability to cultivate startup relationships with confidence. An “everything goes” attitude only works for a short period of time, and even then only as an experimental means toward discerning mid- and long-term strategic interests more clearly.

3 STREAMLINE PROCESSES

Finally, in following through on promising opportunities, corporations need mechanisms to work on partnerships quickly. Successful startup partnerships depend on being loose, fast, and generous early—allowing both sides to uncover potential and/or fail fast.

Lengthy up-front negotiations over IP concerns, access to talent, and expected time commitments may protect against exposure, but almost always lead to gridlock and failure. Forcing startup relationships to pass through rigorous processes designed for vetting other large companies makes no sense. Therefore, it is important to create parallel “fast-track” processes for startup relationships. Work early and often with internal departments—such as Legal, Procurement, PR, and others (depending on the organization)—to make sure everyone is on the same page and understands agreed-upon guardrails.



“Devote dedicated people to working with startups and take them out of the corporate structure so that they can act and move faster so they’re more in line with startup speed. Startups work against time and corporates usually go with time.”

SANDRO KUNZ, CEO,
PINGEN GMBH

GUIDANCE FOR STARTUPS

1 BE THOUGHTFUL AND DELIBERATE

The most experienced entrepreneurs fully understand the importance of working with corporations. They also appreciate the difficulty involved in making these relationships work. At times, even the best corporations can be slow, opaque, and cause significant wasted time and effort.

These are all good reasons to be thoughtful and deliberate about how and why to approach corporations—rather than reasons to walk away. In almost any industry, large companies are a significant part of the ecosystem, and cannot be ignored. Enterprise salespeople are masters at navigating corporate complexity and conflicting agendas—so consider hiring one as a coach.

2 THINK STRATEGICALLY, FROM THEIR POINT OF VIEW

The most important factor for both startups and corporations is strategic fit. Many large companies have unique strategic needs—for example, IBM recently acquired the Weather Channel and are looking more towards cloud computing and data and moving away from hardware. Understanding where the corporation wants to go in the future rather than where they have been is crucial for seeing where a startup can add value. This means keeping up with industry news, but also talking to someone within the company to understand their needs and vision.

3 USE NEW CHANNELS FOR ENGAGEMENT

Entrepreneurs need to understand that the corporate world is in flux right now. In many industries—particularly financial services, insurance, education, and certain industrial and consumer product categories—seismic shifts are quietly underway. Partly, these shifts are a response to growing threats and opportunities from the startup economy. Innovation, collaboration, and “disruption” are all rising to the top of the agenda.

Thus, now is a great time to look carefully for those large companies that have already set up an innovation lab or accelerator, or partnered with one. They will likely feel much less “corporate” than expected and will be more receptive and open to collaboration with startups, and the best among them will also be well connected within the larger corporate entity. However, identify as early as possible whether there is budget, or if the corporation is out to just meet startups and learn from them, and adjust expectations and time put into the relationship accordingly.

“Be really open and honest about your problems and pain points. What are you really experiencing where you can see tech helping? Be transparent about it. There can be a lot of talk, talk, talk, and not much doing. But transparency can help not waste time.”

STARTUP RESPONDENT





ABOUT THIS STUDY

MassChallenge and Imaginatik fielded a joint online survey between March 30th and April 24th, 2016. The respondent sample was recruited through public marketing efforts from both firms and partner channels, and was aimed at attracting representative respondents across a diversified global range of industries and geographies, from both corporations and startups.

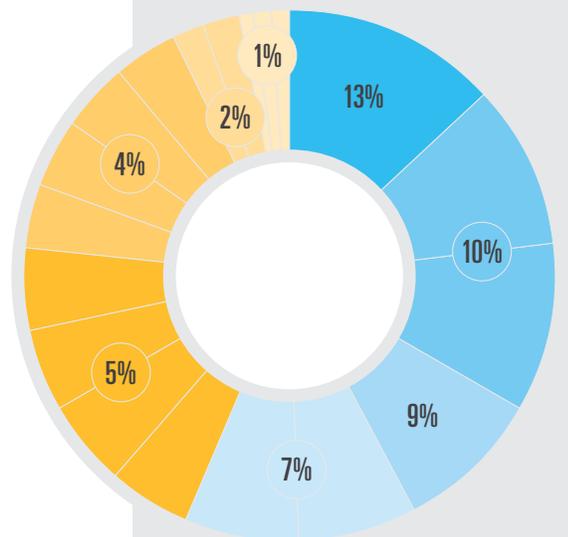
After screening for qualified respondents, the final respondent base was 112 corporations and 233 startups. Qualification criteria included size of organization, the individual's seniority level, completion of the entire survey, and other analytical screening methods.

We conducted 30-minute qualitative research interviews with a significant sub-set of both corporations and startups that responded to the survey, to add interpretive depth and nuance to the aggregate survey data.

Qualified respondents:

112
CORPORATIONS
233
STARTUPS

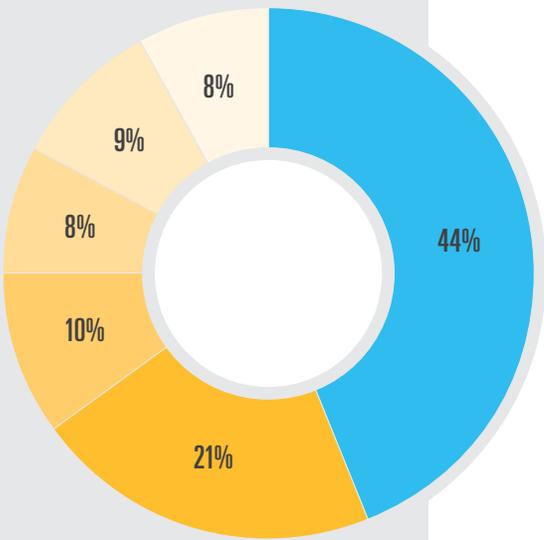
Fig. 14: What industry is your corporation in?



- Insurance
- 1. Education
- 2. Technology (software)
- Manufacturing (industrial goods)
- 1. Energy and environment
- 2. Web platforms or services
- 1. Business / professional services
- 2. Consumer products
- 3. Financial services
- 4. Pharma and biotech
- 1. Healthcare
- 2. Manufacturing (consumer goods, including automotive)
- 3. Technology (hardware)
- 4. Telecommunications
- 1. Media, publishing, and entertainment (including digital)
- 2. Travel, tourism, and hospitality
- 1. Non-profit
- 2. Retail
- 3. Transportation and distribution



Fig. 15: What is the size of your corporation in terms of annual revenue?



- Over \$5B
- \$1B - \$5B
- \$500M - \$1B
- \$200M - \$500M
- Under \$200M
- Don't know / not sure

44%
of respondent corporations had greater than \$5B annual revenues

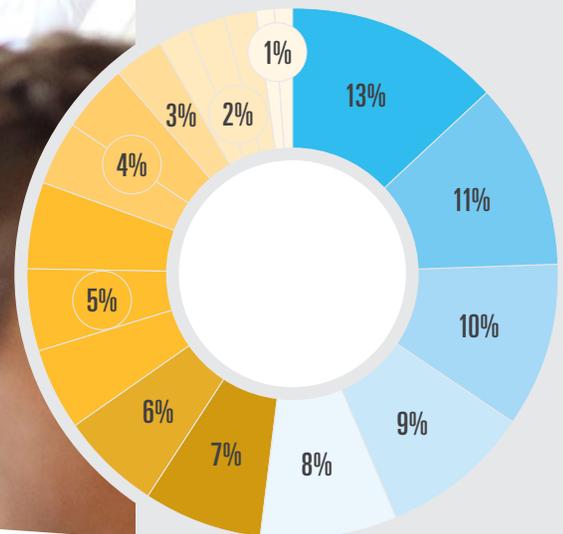
RESPONDENT BASE: CORPORATIONS

In total, we collected 112 qualified responses from corporations. The top industries among corporate respondents were insurance (13%), education (10%), software (10%), and industrial manufacturing (9%) (see Fig. 14). Nearly half (48%) of respondents hailed from corporations of more than 10,000 employees, with the bulk of the remainder (39%) from companies with between 1,000 and 5,000 employees. Similarly, nearly half of respondent companies (44%) had greater than \$5B annual revenues, and a substantial portion of the remainder (31%) had revenues between \$500M and \$5B (see Fig. 15).

In terms of the corporate respondents themselves, 38% were senior executives or C-Suite officers, 40% were middle management, and 16% staff. The most common functional areas for respondents' roles were R&D or Engineering (21%) and Corporate Strategy or Corporate Development (19%).



Fig. 16: What industry is your startup in?



RESPONDENT BASE: STARTUPS

In total, we collected 233 qualified responses from startups. The top industries among startup respondents were software (13%), web platforms or services (11%), healthcare (9%), and professional services (8%) (see Fig. 16). Nearly two-thirds (64%) of respondents hailed from startups with five or fewer employees, with the bulk of the remainder (32%) with between five and 50 employees. Similarly, more than half of respondent companies (59%) were pre-revenue, and a substantial portion of the remainder (32%) had revenues of less than \$1M. Relatively few startups (7%) had been in existence more than five years, with a fairly even split among other tenures ranging from three months to five years.

In terms of the startup respondents themselves, the vast majority (86%) were the founder and/or owner of their firm. The most common functional areas for respondents' roles were Executive Management (25%) and Corporate Strategy or Corporate Development (14%).

83%

of startup respondents had been in existence from 3 months to 5 years, with 11% less than 3 months

- Technology (software)
- Web platforms or services
- Insurance
- Healthcare
- Business / professional services
- Consumer products
- Education
- 1. Pharma and biotech
- 2. Financial services
- 3. Technology (hardware)
- 1. Energy and environment
- 2. Media, publishing, and entertainment (including digital)
- Consumer services
- 1. Non-profit
- 2. Retail
- 3. Travel, tourism, and hospitality
- 1. Manufacturing (industrial goods)
- 2. Transportation and distribution

ABOUT THE TEAM

IMAGINATIK®

Imaginatik is the world's first full-service innovation firm. We are an advisory, software, and analytics provider devoted to making innovation a sustainable practice within the modern enterprise. We've been named a World Economic Forum Technology Pioneer, and Forrester Research has cited our Innovation Central software platform as a Leader in Innovation Management Solutions in both 2013 and 2016. Our client list includes Cargill, Chubb, Dow Chemical, Exelon, ExxonMobil, Goodyear, John Deere, Mayo Clinic, TD Bank, and The World Bank.

Imaginatik was founded in 1996, with dual headquarters in Boston, USA and Fareham, UK. We've spent 20 years helping the world's largest and most respected companies innovate.

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MASSCHALLENGE™

MassChallenge is the most startup-friendly accelerator on the planet. No equity and not-for-profit, we are obsessed with helping entrepreneurs across all industries. We also reward the highest-impact startups through a competition to win a portion of several million dollars in equity-free cash awards. Through our global network of accelerators in Boston, the UK, Israel, Switzerland, and Mexico, and unrivaled access to our corporate partners, we can have a massive impact—driving growth and creating value the world over. To date, 835 MassChallenge alumni have raised over \$1.4 billion in investment, generated over \$575 million in revenue, and created over 8,500 jobs.

MassChallenge works with some of the world's best brands to help them innovate with startups. Top corporate partners include: Cisco, EMC², IBM, Fidelity, Honda, Microsoft, Nestlé, Pepsico, Pfizer, UPS, and Verizon.

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A JOINT RESEARCH STUDY BY:

