Corporate-scaleup top-line growth

Innovative scaleups drive significant new revenues – if corporates will let them

2020 was an undeniably challenging time for many sectors, with revenues drastically receding globally. As corporates struggle to move forward from the challenges of the COVID pandemic, the focus is shifting again towards identifying opportunities for top-line growth – growth that, while difficult to attain, could enable corporates to establish themselves as industry leaders in the post-COVID era. To discuss corporate-scaleup collaborations and their impact on top-line growth, a complementary goal to the also increasingly relevant corporate bottom line, one session of the four-part Scale Up Now webinar series co-organized by Arthur D. Little and Match-Maker Ventures was dedicated to this topic. With our curated panel of corporate (Verizon, AstraZeneca, Wayra) and scaleup representatives (Amodo), we explored the invaluable contributions that these collaborations can make, and how to overcome key challenges to ensure the most successful collaboration possible. This event summary recaps the main takeaways and highlights the discussion's overarching conclusion: when done right, corporate-scaleup collaborations are the secret sauce to reach elusive new revenue streams.

Finding new revenues is not optional – or easy

Analysis by Reuters shows that global corporate profits are likely to decline by nearly 8% in Q3 of 2021, the first time since the 2020 introduction of massive COVID stimulus by global governments that corporates have seen falling margins. The decline in profits is spurred on by a combination of factors, most notably the widespread shortages of crucial input materials for corporates around the world due to extended impacts of the COVID pandemic. Past months have seen corporates trying to shore up their margins despite rising production costs by simply charging end customers more for their products, but this is not a foolproof strategy: although total revenues in Q3 2021 will be higher than those of Q2, margins are nevertheless falling, as costs rise faster than corporates can manage them. The two solutions corporates need to explore to resolve the issue of falling margins are obvious: cut costs (to be discussed in another event summary in this series) and boost revenues (offset costs).

With core products and services at least temporarily bogged down in shortage concerns, the need to explore new revenue streams is increasingly clear– offering the chance for expanded customer offerings as well as the necessary offsetting of rising costs beyond raising the price of core offerings. A promising pathway to reach these kinds of new revenues has long been innovation, drawing in new customers or enticing existing customers to purchase more by bringing an exciting and innovative solution or product to the market. Moreover, these kinds of new offerings achieved through innovation could be the lifeline for corporates struggling with stagnating revenues, even if they are not facing the kinds of cost challenges we are witnessing today. They can offer the chance to advance within today's accelerating technological landscape and not only keep pace with, but actually set the pace for competitors.

"Technology is changing and accelerating at an unprecedented speed, so for corporates it is difficult to reinvent the wheel at every turn."

– Carlos Rodrigues,
Match-Maker Ventures

Beyond the potential benefits, however, innovation also requires the commitment of significant resources and, perhaps most challenging, the willingness to let go of existing processes. But for those who are willing to devote the necessary effort, the stakes could not be higher.

Luckily for corporates, scaleups are ready and willing to help them meet their innovation goals and achieve the top-line growth that they aspire to. Their agility and expertise make them the natural partner for rapidly pursuing promising growth opportunities, if corporates are willing to collaborate.

Risk-averse corporates face an important decision

One of the most important steps that a corporate should take before considering working with a scaleup is to determine an appropriate risk appetite for the collaboration. After all, corporates can be highly risk-averse, which can lead to an overabundance of caution when approaching third-party collaborations, even if they are valuable.

When it comes to risk, there is a big difference between startups and scaleups

When considering risk, it is necessary to recognize the true difference between a startup and a scaleup. "Scaleup" is more than just a trendy turn of phrase – it is a title that separates mature innovations from earlier-stage prototypes, indicating the readiness and capability to scale. Without the preparedness to bring a solution to a very large customer base, corporate collaboration possibilities for startups will remain slim.

Corporates may fear that partnering with a startup that is too immature could put the corporate brand at risk or damage their reputation with customers. Furthermore, they may wish to avoid the cost of implementing a truly innovative or completely new solution if it is too different from a current process. Risk-aversion in collaborations is especially visible in larger markets, where the rollout of a partnered solution has a considerable impact. Panelist Daniel Gurrola, Senior Vice President of Strategy and Wholesale at American telecommunications company Verizon, emphasized this point by highlighting the challenges in the particularly large American market:

"The major operators really think twice and are more risk averse when engaging with startups, because deployment means reaching 100 million plus subscribers."

– Daniel Gurrola,
Verizon

Considering the scale of many corporates and the potential risk involved, it is certainly sensible to approach collaborations with some level of caution. However, corporates also have to reckon with the fact that failure to innovate also has risks – like the rise of a competitor for example – which might far outstrip the short-term costs or failures of a collaboration. Indeed, there is often far more to gain from a collaboration with a scaleup than there may be to lose if the collaboration does not succeed.

If a scaleup can present a clear business case, and the corporate can see a significant enough level of top-line growth potential, then the collaboration should move forward. Partners should therefore approach collaborations ready to align on their priorities and balance the value of innovation with the cost of the potential risk.

"If there is a business case with a clear top-line growth or bottom-line impact, it's worth the risk to partner."

– Carlos Rodrigues,
Match-Maker Ventures

Scaleups are agile innovation engines, the natural choice to innovate

Though corporates can sometimes prefer the relatively low risk that comes with working with other corporates, agility rather than name recognition is what matters when it is crunch time. Mature scaleups can bring a more innovative solution than can established brands, often in just a fraction of the time and at a much lower cost than developing a solution in-house. With digital technologies accelerating at an unprecedented speed, quick responses to changing market trends are increasingly crucial.

"Established vendors are not necessarily the most agile innovators."

– Karim Taga,
Arthur D. Little

For example, Verizon's Daniel Gurrola noted how rapidly Verizon was able to implement cashless stores in the US in response to the COVID pandemic, condensing an ordinarily years-long process into a matter of weeks with the help of innovative scaleup partners. Similarly, panelist Magnus R. Björsne, CEO of AstraZeneca's BioVentureHub, praised the speed at which AstraZeneca was able to develop its COVID vaccine thanks in part to third-party collaborations. While established vendors may bring a stronger reputation to a collaboration, what they lack in terms of speed and agility gives scaleups a considerable edge.

More than just products, scaleups can bring innovation to business models, helping corporates to not only access current revenue streams but also to be trailblazers for their industries. Panelist Darko Tukulj, Chief Growth Officer of Match-Maker Ventures' portfolio scaleup Amodo, noted how his company's telematic-enabled, usage-based insurance solution brings corporate partners far beyond pure technical innovation. They enable partners to adopt a new business model that better serves the market of today, and will shape future markets.

"As a corporate investing in startups, we aim to ensure not only our financial but also our strategical ROI."

– Augustin Rotondo,
Wayra Hispam

Agile scaleups can respond to the needs of corporates much more quickly and effectively than many established vendors, and their focus on innovation enables them to keep ahead of the market, pulling their partners along with them. If the risks and benefits can be balanced, and the right partners are connected at the right time, collaborations between corporates and scaleups can be invaluable.

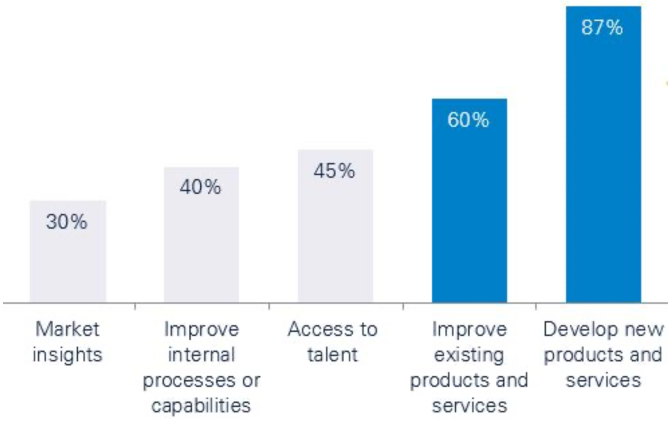
"This was the innovation of the business model […] not because we would like to play with the technology, but because we have real-life challenges in front of our clients."

– Darko Tukulj,
Amodo

A variety of collaboration models makes collaboration a flexible solution

The case for collaboration with scaleups is clear, but there are many different models for these collaborations. 2019 research by Match-Maker Ventures and Arthur D. Little indicated that the most common reasons that corporates partner with scaleups are to improve existing products and services, or to develop new ones – impacting the bottom and top line respectively. This finding marked a rising tendency for bottom line impact collaborations since a similar previous study in 2016, shaped by a growing trust in scaleup collaborations to deliver reliable results. Nevertheless, with the development of new products and services remaining the primary collaboration rationale even as the total number of collaborations rose considerably during the same time period, the findings also demonstrated that top-line growth remains an incredibly attractive reason for collaboration.

Why corporates collaborate with startups & scaleups



Source: Match-Maker Ventures & Arthur D. Little, "The Age of Collaboration II"

These results may not be surprising: with agile scaleups offering attractive solutions that can provide rapid access to new revenue streams, it follows that they would make valuable partners to develop these new opportunities. Scaleups can bring in ideas that a corporate has either never considered previously, or that they have not had the time or resources to develop themselves. Through the collaboration, the corporate can harness the external expertise offered by the scaleup to drastically shorten the time to market and launch a high-quality solution to their customers or to improve outdated existing products. Within these top-line growth-targeted collaborations, however, there are multiple different models that a corporate can follow to achieve success with a scaleup counterpart.

Broadly speaking, the commercial relationship between the two partners can be divided into four main categories, each carrying its own unique potential:

1. Buyer-supplier relationships in which a corporate simply purchases and utilizes the solution, often to improve existing products or processes
2. Re-selling models, in which a corporate can leverage its customer base to distribute scaleup products
3. White-label branding models, in which the scaleup product or service can be launched under the brand of the corporate but powered by the scaleup
4. Joint product development collaborations, in which the combined assets of the scaleup and the corporate can be leveraged to create a new product. Depending on the needs and resources of both the corporate and the scaleup, different models might be more attractive for different collaborations.

The scaleup and corporate can jointly decide which model is most fitting to their needs. Whichever model they choose, the collaboration can truly drive significant results for top-line growth by introducing new products and services to the corporate's potentially outdated lineup, highlights Karim Taga based on his experience with many collaborations:

"Your future depends on your partners."

– Karim Taga,
Arthur D. Little

Beyond risk, corporates consider geography and scalability

To succeed with large corporates, scaleups have to be ready to do just that: scale adequately to match the needs of a large customer base. For some corporates looking for potential innovation partners to drive top line growth, this prerequisite of scaling readiness means a primary emphasis on digital-only solutions, which can be rolled out rapidly at relatively lower marginal cost.

However, while digital solutions are the prevailing target for collaboration, there are notable exceptions to prove that hardware can still provide promising opportunities and remains a consideration for corporates. Match-Maker Ventures highlighted its portfolio scaleup Otodo, an innovative smart-home solution which unifies control of Wi-Fi-enabled smart-home devices using a physical hub. The growing smart-home industry is certainly an exciting avenue for top-line growth for many corporates, and there is sufficient interest in and need for the solution to justify the hardware-enabled collaboration.

Additional consideration is also given to geographical differences, as panelists indicated that corporates in some regions may be less willing to explore third-party collaborations just yet, while other regions have already seen numerous successful collaborations of this kind.

Collaborations with scaleups have real impact

Beyond the business model innovation offered by Amodo, examples of successful top-line growth collaborations abound. To name just one, Match-Maker Ventures' portfolio scaleup EyeOnID, which offers proactive identity-theft protection services, successfully collaborated with Telenor Norway to jointly launch a new product bundle called SAFE in early 2020. The collaboration, which follows elements of both white-label and joint development models, saw Telenor Norway not only distributing EyeOnID's white-label solution, but also building a completely new product offering around the solution, including an added VPN and identity-theft insurance. The collaboration created a strong value-added service that has been recognized as one of the most valuable service launches of this kind ever offered by Telenor. This collaboration demonstrates the highly successful top-line growth that can be achieved when corporates partner with scaleups.

Conclusion

As the world struggles to move on from the COVID pandemic and continues to face related challenges, it has never been more opportune – nor more necessary – to explore top-line growth pathways like innovative corporate-scaleup collaborations.

To fully grasp the potential of these collaborations and make them successful, stakeholders should take notice of three key considerations:

1. While not all collaborations succeed, corporates have far more to lose from stagnation – as finding new revenues is not optional
2. Scaleup agility trumps established brand-recognition when rapid action is needed – as it often is for true innovation
3. Scaleup flexibility enables collaborations to thrive in many contexts and configurations – corporates should be willing to enter open discussions to find the best path forward

When done properly, corporate-scaleup collaborations can provide significant opportunities for top-line growth.

This event summary is part of a series of articles on our Scale Up Now Webinar Series 2021. The other articles focus on customer experience, ESG, and bottom line impact. You can view the other articles in the series here: *https://www.match-maker.ventures/category/webinars/*

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