MATCH-MAKER VENTURES & ACCCOI

The race to startups:

How to benefit from startups' innovation power to drive immediate business impact?

February 2017

Introduction

Innovation has evolved sustainably over the past years. It has never been easier to set up a business, to launch a product or service, and to directly address global markets. The consequential startup boom has forced corporate leaders to reflect on this phenomenon when forming their strategies.

Unfortunately as yet, few corporate leaders confirm an initially positive RoI from their startup activities. The central question remains: How to benefit from startups' innovation power to deliver a more immediate business impact?

In this brief perspective, we want to share our experience; we will demonstrate how corporates cannot only participate profitably in the startup boom, but realize tangible business benefits from their startup engagements. We will place special emphasis on the "Business Accelerator" as a "startup quick start" - valuable for even the most inexperienced corporate.

Match-Maker Ventures and acccoi Partners dedicate their time to making startup-corporate collaboration simple and successful. We do match-making, set up Business Accelerators and help both parties to maximize impact from collaborating.

A. Starting Right – Know Your Why

80% of corporates and startups alike state that collaborating is of high strategic value (see MMV study: "The Age of Collaboration: Startups and Corporates need each other"). Given the highly complementing haves-and-needs synergy–i.e. corporates' lack of new products and services and the need to have access to latest technologies (see figure 1) and startups' lack of market access, customer trust and capital power–the conclusion is obvious: Both need what the other has and with shortening time windows, collaboration represents an attractive option of shortcutting.

II. The less experienced a corporate is, the higher the level of support will be required. In general this is a CEO-topic and requires top-management support.

III. The shorter the time window to achieve tangible business impact, the higher the focus for selecting later-stage startups should be.

IV. The stronger the focus on revenues, the closer the relationship to existing business units are to be prioritized.

V. The further the focus from current activities ("non-core"), the more people and partnerships from outside are required.

VI. The more the startup engagement is intended to create an internal change or momentum, the more supporting intrapreneurship programs and wider corporate activities need to be implemented.

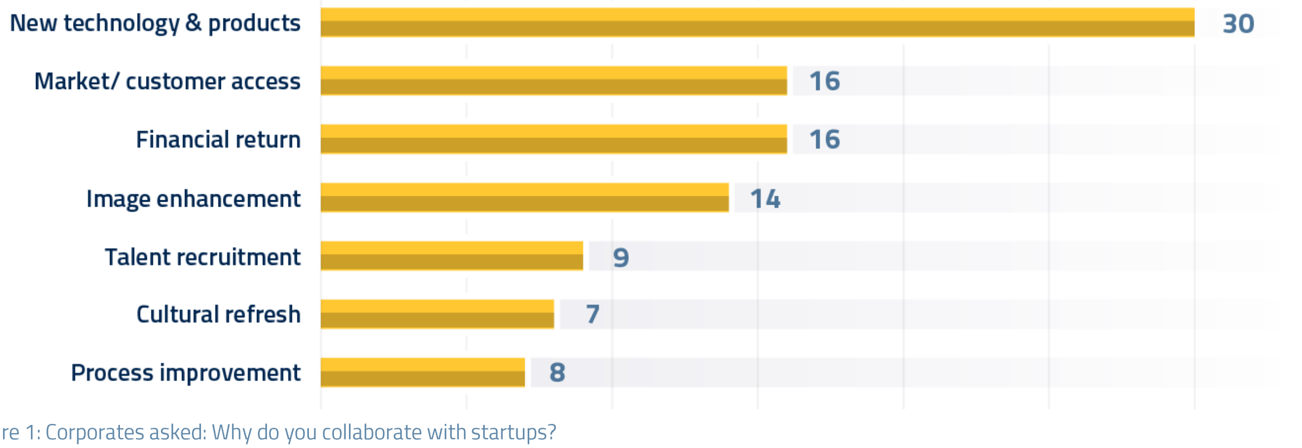


Figure 1: Corporates asked: Why do you collaborate with startups?

Unfortunately, startup-corporate collaborations actually realize their undoubted potential only rarely. Too often corporates fall victim to their own enthusiasm and jump straight to a conclusion without having reviewed and assessed their options. We believe it's critical to find clarity in the following questions first:

1. **Why to engage with startups?**
2. **What are the options and how do they support the objectives?**
3. **How to start and how to scale?**

While there certainly is no "one-size-fits-all" answer, we believe there are several guiding principles for any corporate already engaging or wanting to engage with startups:

I. The less experienced a corporate is with collaborative ventures, the more dedicated resources and budgets are required.

B. Making the Right Choice – Understand Tradeoffs

Below, we have mapped today's main startup engagement vehicles along the dimensions of time-to-impact and level of company involvement: **Corporate Venture Capital** (investing in startups to achieve a financial–and potential strategic–return); **Company Builder and Incubator** (providing a seeding environment for business ideas); **Intrapreneur Programs** (creating and leveraging an internal innovation spirit); **Corporate Accelerators** (working with batches of startups in a business support program); **Corp-Ups** (collaborating with startups in any form with the focus to create short-term business impact).

Both Corporate Accelerators (CAs) and Corp-Ups are well positioned to create short-term impact but are challenging to implement, as the close link towards existing business units is decisive for future success. Going forward we will focus on these two vehicles.

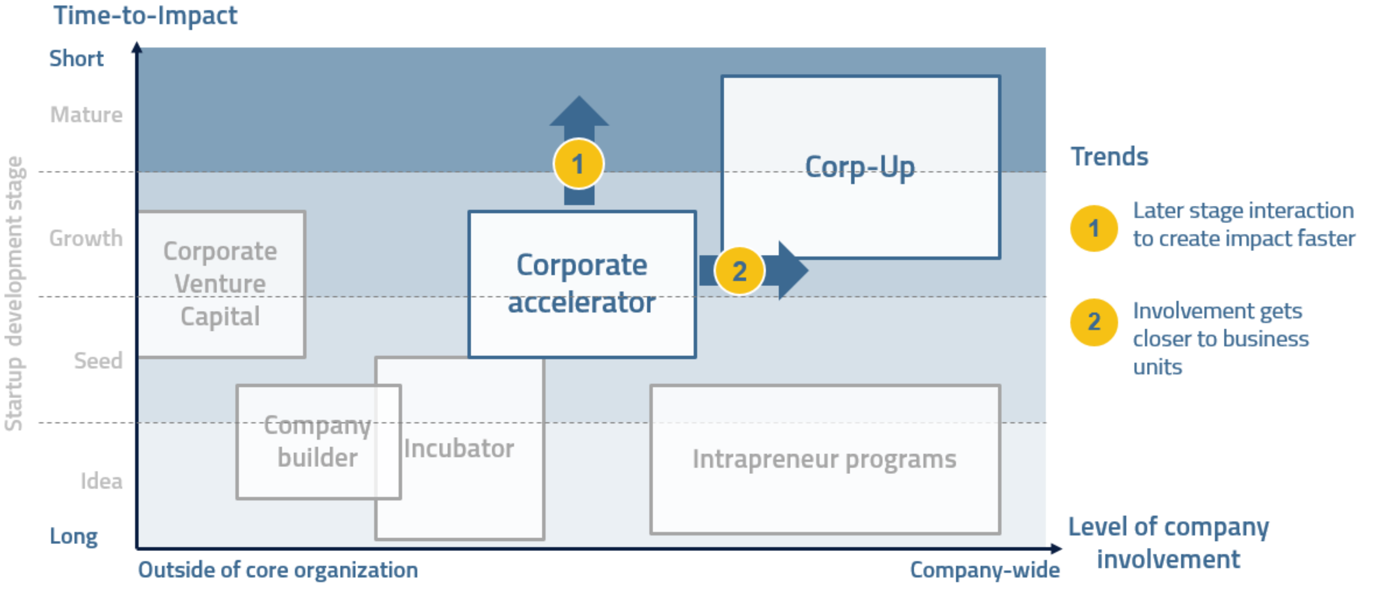
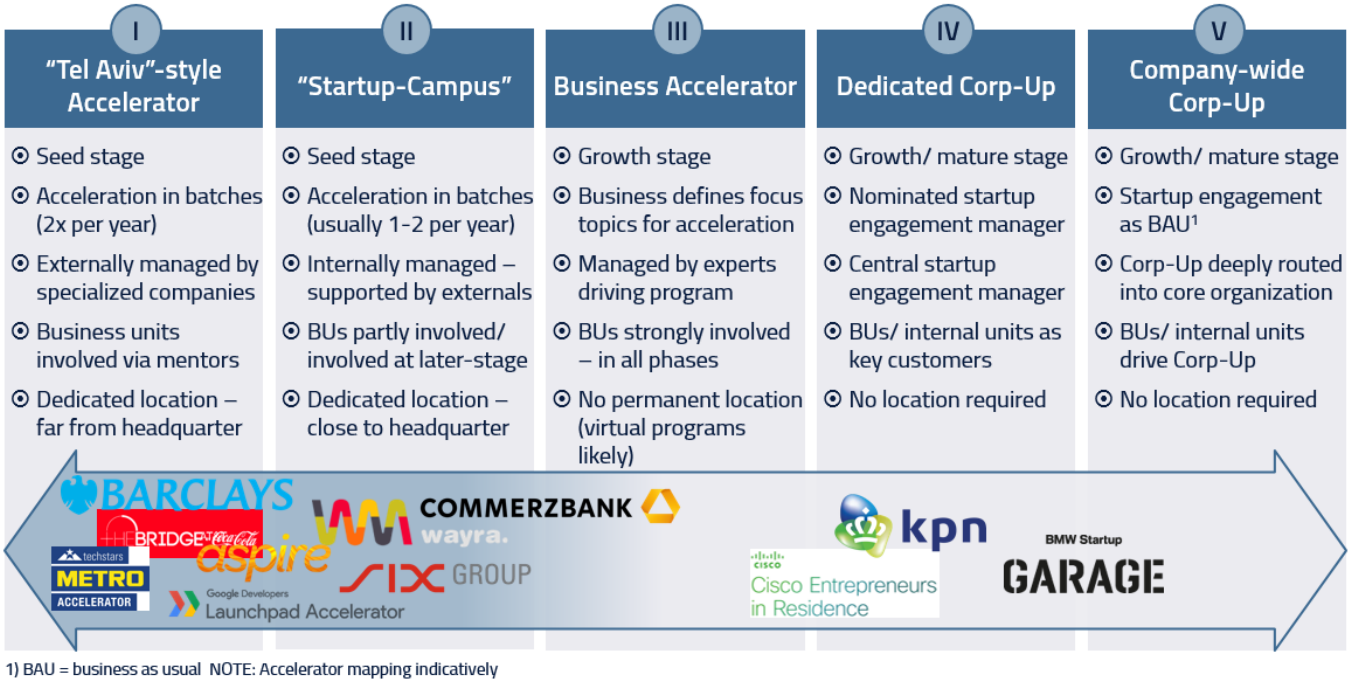


Figure 2: Innovation matrix

C. Creating short term impact – Set-up your business accelerator

Both CAs and Corp-Ups area a fairly young phenomenon. In 2005 Y Combinator launched the world's first Accelerator in Cambridge. Corporates swiftly followed suite in 2010 (Microsoft, Telefonica, Citrix) and ever since CAs have risen in popularity. For the sake of simplicity we differentiate the types stated in figure 3.

The key objective of any CA is to enable a corporate and a startup to collaborate. The acceleration program is a dedicated business-support program focused on systematically helping startups to define and build their initial product, to identify promising customer segments, and to secure resources– including capital and employees. CAs usually work with batches of 5-10 startups, which show early traction and address a similar topic or business challenge, with a duration of 3-6 months.



1) BAU = business as usual NOTE: Accelerator mapping indicatively

Figure 3: Corporate Accelerator – Corp-up continuum

In the past two years, we observed three major developments: (1) A considerably stronger focus on creating immediate impact for internal BUs; (2) a subsequently stronger focus towards later stage startups; and (3) an extension of the acceleration program (i.e. the acceleration phase followed by a "post-acceleration phase") to ensure that stipulated value is being realized.

The combination of these three factors is what we call a "**Business Accelerator**" (BA).

Corp-Ups are even more short-term, driven and focused on a specific problem or opportunity. As opposed to a CA or BA, Corp-Ups are usually 1:1 relationships. This can range from an innovation partnership, to a supplier relationship or a sales partnership.

To enable Corp-Ups, corporates are well advised to prepare the organization to deal with startups. This relates to defining a sourcing and evaluation process to avoid the pitfall of each and every department engaging individually (rather than collaboratively) in reviewing startup opportunities. This also relates to defining an onboarding process to ensure identified opportunities are being leveraged.

Introducing a Corp-Up usually entails a lot of rework in procurement and legal, in the domains of sales steering and incentives as well as in the overall steering of startup engagements. Remember the saying: "You can't be fired for hiring IBM if things go sour but you will most likely get fired if you hired a startup and things go sour."

There is a strong overlap in setting up a BA and preparing the organization to engage with startups in regular Corp-Ups. In the following section, we will primarily focus on setting up and running a BA.

D. Avoiding common pitfalls – the basics

When we setup BAs we are adhering to a four-phase process (see figure 4). We believe any corporate is well advised to consider these four phases:

1. **Setup Phase:** Define the key objectives of the startup acceleration and ensure alignment with top management as well as key stakeholders.
2. **Attract Phase**: Conduct in-depth workshops and discussions with the business unit(s) who are the target customer of the BA to ensure the right startups, partners, and mentors are identified.
3. **Accelerate Phase**: This is the core of the BA. It involves intensive work with the startups and the future "owners" of the intended collaboration.
4. **Post-Accelerate Phase**: The post-acceleration phase is highly startup specific. The key objective is to ensure the stipulated value is being realized.

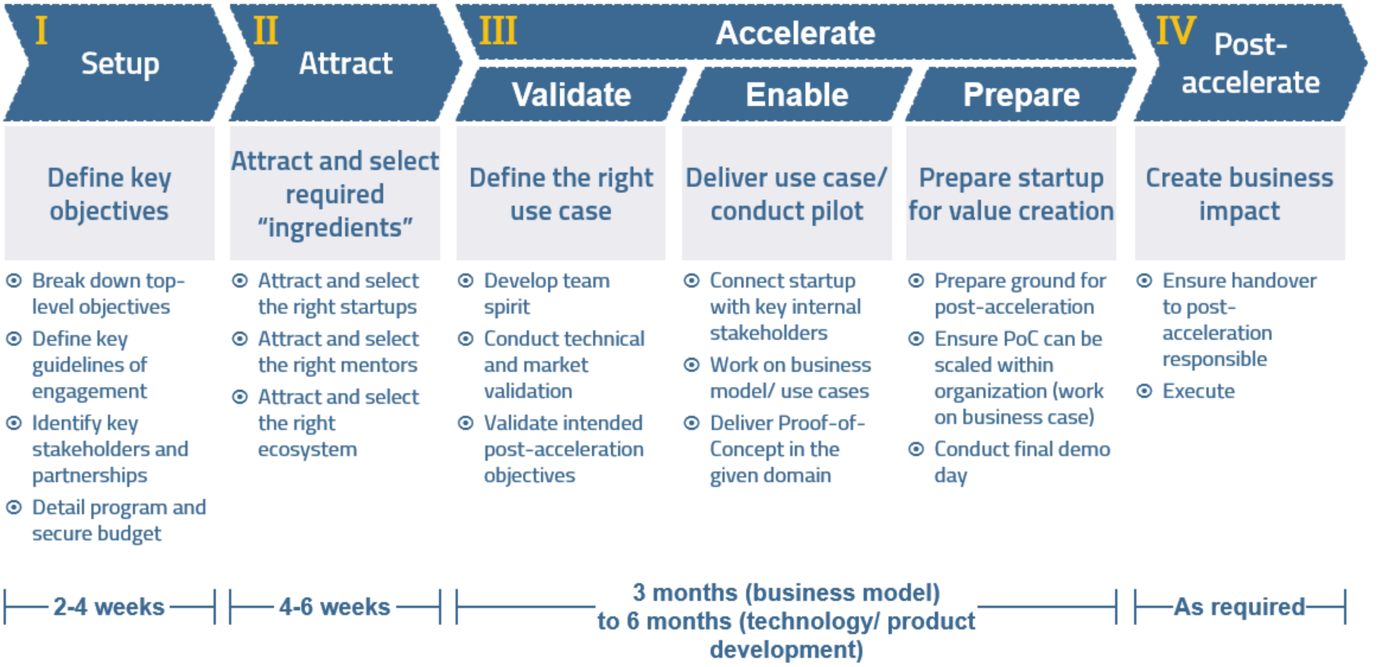


Figure 4: Business Accelerator phases

If set-up correctly, corporates can benefit from the startup collaboration (new products/services to sell, new technologies to build on, jointly developed products, etc.) and from creating a trigger for a wider transformative change. The following tips and recommendations are experience-driven to ensure maximum impact from any BA activity.

Before start: Ready to commit?

Any half-hearted start will lead to a sustainable damage of the internal belief in the corporate's innovation capabilities ("I knew that we just can't work with startups!") and its reputation in the startup ecosystem ("Don't go to them – they give promises, but can't keep them."). If corporates are not willing to commit to a full BA program they would be better off to focus on other, less budget-intensive forms of startup collaboration (most notably Corp-Ups).

If corporates decide to go ahead, **budgeting for the following key blocks must be secured**: Dedicated resources (both internally committed as well as external experts), marketing expenses, travel expenses, event costs, and infrastructure expenses. Best-practice BAs also provide cash support to the accelerated startups to enable them to focus as much as possible. Given any startup needs to manage its cashflow very carefully, this comes as an obvious truth.

If a BA is seriously operated, full costs per startup batch will not likely be less than Euro 500k. As learning experiences will significantly increase by each batch, corporates are well advised to budget for at least two batches.

The program: Team is key

Any accelerator will only be as good as the team running it. There are four key roles: (1) The team running the accelerator operationally, (2) the team responsible for ensuring the link to the BUs, (3) the mentoring team, and lastly (4) the BA head. The head needs both power and budget and should report to the CEO or some other top-level executive directly. The rest of the team should be a good mix of internals and externals.

1. Setup: Getting the basics right

Once the decision to launch a BA is taken and budget is secured, the objectives need to be operationalized. This requires defining how the BA shall support the corporate strategy and agreeing on the key entals of how the BA should best operate. It's important to stipulate and capture these discussions, as this enables to revert to the originally agreed at a later stage. This relates in particular to top-level KPIs. We believe that the number of products subsequently launched by BUs is a tangible, measurable and strong KPI, which could properly serve as an overarching objective.

The location: On-campus or off-campus?

Deciding on the location should not be done on the basis of what is more attractive but what is actually required to reach the desired goals. Holistically we believe that a BA needs to be very close to the BUs, as this is where short-term value can be created, but there are likewise arguments to move to startup hotspots or to split the acceleration between on-site and off-site work.

Business impact: Involve the BUs

The BUs are of utmost importance throughout the entire acceleration process and beyond. It is critical to involve the BUs right from the early setup phase, especially to get input on specific innovation areas, which shall later on be addressed by the startups.

2. Attract the right ingredients

A BA is a multi-sided business model. There are various customers and stakeholder groups to satisfy. It is important to be crystal clear on the "pitch" to each of these groups.

Startups: Attracting startups became more and more challenging. Today there are several hundred acceleration programs globally. There is tough competition for the best startups and with increasing sophistication it became harder to provide a true value to startups. According to our research the majority of startups seek access to markets (53%), financial investors (47%), access to sales channels (41%), and a knowledge partner (41%).

Besides the basic reasons to participate, corporates need to put energy into the sourcing process as well. An announcement on the homepage or local newspapers/websites won't be sufficient. This is where the ecosystem partners are demonstrating a critical importance.

Ecosystem partners: Almost any city today has an established startup ecosystem, whereby the level of sophistication certainly varies. For the short- and long-term success of corporate startup activities, it is critical to establish ties to the key players in such ecosystems. Starting with the home town and then moving forward (there are usually strong ties between different startup ecosystems) is well advised. As always though, this does not happen overnight and requires time and dedication.

Clients and partners: With shifting value chains, innovation becomes more integrating/disintegrating, meaning that additional stakeholders often need to be involved to yield maximum value. In this regard we also experience a new form of collaboration between corporates: namely what we call Accelerator Co-Innovation, i.e. Corporate Accelerators run by several companies (e.g. IoT ChallengeUp! by Deutsche Telekom, Intel and Cisco or Microsoft and Akamei).

Employees: As outlined before, true and sustainable impact can only be generated when more and more employees are integrated in the startup engagement process. This relates to startup mentors, supporters, or any other form of contributor.

3. Validate: Ensure you have something!

The initial phase of the actual acceleration is the closest to a "market" accelerator. During this phase, startups are "prepared". This means the pitch is being reviewed and challenged. The true value-add is being identified and sharpened. Most often startups only have a high-level understanding of the actual corporate needs and haves. It requires strong support to craft a value proposition that is truly and reliably beneficial for the corporate and the startup.

We believe one critical success factor is early-on development of a hypothesis on the post-acceleration objectives. At best, this hypothesis was already developed when selecting a startup to participate in the accelerator. During the validation phase, the hypothesis needs to be further validated and developed. Open communication with the startup is therefore of critical importance.

The following objectives are most common:

- **Supplier relationship**: Startup to serve products/services to the corporate.
- **Sales partnership (often as white-label)**: Corporate is used as a sales-channel of the startups' products/services in B2B2X.
- **Co-innovation**: Development of new products/services – this often requires a longer acceleration phase.
- **Co-invest**: Corporates take an equity stake in the startup and focus on the equity side. In this case we heavily recommend involving professional, outside investors.
- **Acquire and integrate**: Startups becoming exclusive to the corporate.

The acceleration phase might also reveal the uncomforting truth that there is no joint value creation potential. Although unpleasant, it is important to remain honest and address these concerns early on to ensure both parties can minimize potential harm.

4. Prepare scaling: Can't start too early!

Once the post-acceleration goal is defined and validated, all energy should be focused on preparing the startup for this. This usually means that the involvement from the intended BUs (in case this is the envisioned post-acceleration goal) significantly increases. This also means that the acceleration becomes more and more startup specific as each startup will have very different needs and requirements. During this phase the transition of ownership to the future team should be initiated.

5. Post-accelerate: It's not a 3-6 months program!

Although three or even six months may seem long initially, the time usually flies and we've often experienced a vacuum arising at the end of the program. After being well-nurtured, startups suddenly have to survive within the corporate minefield independently. This represents a major risk to the success of the entire program.
We strongly recommend to think well beyond the actual acceleration program and ensure a soft transition from dependence of the initially defined and validated joint value creation potential.

E. Closing remarks – How can we help?

Corporates need to find a way to engage with startups. Among the options, Corp-Ups and BAs represent an engagement style focused on creating short-term impact as well as triggering a wider change momentum. To succeed on the journey, we are convinced that tangible success is of critical importance to secure engagement for the long-haul.

We help corporates and startups alike to achieve successful collaborations. Among many others, we support along the following critical phases:

- **Ready to engage?** We help you to understand your options and their implications, and align your entire team to fact the way forward.
- **Ready to set up a Business Accelerator or want to re-evaluate your activities?** We run BAs end2end, helping you to maximize impact from already started activities.
- **Ready to Corp-Up?** We build your startup portfolio and help your organization to source, evaluate and onboard new opportunities.

About Match-Maker Ventures

Match-Maker Ventures accelerates innovation by fundamentally changing the way corporates and startups collaborate. **We drive the process from the beginning to end** and are measured against actual impact created. Our unique network approach enables startups to scale fast by connecting startups to the global markets.

Our vision is to become the global reference for making startup-corporate collaboration simple and successful.

About acccoi Partners

acccoi partners supports early stage companies and corporations with business acceleration, co-innovation, and co-investment in B2B and technology areas to grow their business. We have started more than 10 companies in international B2B/IT/Technology, built and managed startup accelerator and the Co-Innovation programs with leading corporations and their industry partners in EMEAR – and accelerated 22 Start Up's in 24 months.

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