MATCH-MAKER VENTURES

The age of collaboration

→ Startups and Corporates need each other!

Arthur D Little

MATCH MAKER VENTURES

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Startups changed the world, but large corporates are still driving it

Dr. Nicolai Schaettgen is Managing Partner at Match-Maker Ventures, based in Vienna

About MMV

Match-Maker Ventures accelerates innovation by fundamentally changing the way corporates and startups work together. 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 them to the global market.

In today's fast paced global environment, nobody can neglect the impact innovation has on all our lives, where technology has moved from being evolutionary to revolutionary.
This holds true on an increasingly worldwide scale. Digital and mobile are not constrained to borders or arbitrary constructs. With many emerging revolutionary technologies like blockchain or even established concepts such as "Internet-of-Things" still being in their infancy, we don't expect any changes to the trend. In such market conditions, all players are constantly reminded to step up their game and ensure they do not meet the all-too famous Kodak debacle.
Having worked at, analyzed and discussed extensively with global leaders from all over the world the relationship between corporates and startups, we are convinced that the next winners will be those able to collaborate effectively: The age of collaboration has just arrived!
This relates to collaboration on all levels: With your competitors, along your value chain and with companies of all stages. We and this report are driven by the strong belief that corporates and startups can jointly create synergistic value. Having reviewed about 400 responses from relevant players and conducted about 40 individual interviews, we are certain that this is the path to follow.
Likewise, we are very aware of the challenges ahead and that currently far too many collaborations fail. We hope this report will provide not only practical facts and figures, but actionable recommendations empowering all parties to aggrandize the value of their collaborations!

Let's make it happen,
Yours truly,
nicolai

Karim is a Managing Partner and theGlobal Head of Telecommunication, Information, Media & Electronics (TIME) practice at Arthur D. Little

About Arthur D. Little

Arthur D. Little has been at the forefront of innovation since 1886. We are an acknowledged thought leader in linking strategy, innovation and transformation in technology-intensive and converging industries. We navigate our clients through changing business ecosystems to uncover new growth opportunities. We enable our clients to build innovation capabilities and transform their organization.

Embrace open innovation to co-create value

This comprehensive study drawn from corporates, startups and stakeholders reinforces the new reality for established players in any industry: participating in this age of collaboration requires embracing open innovation to collaborate and co-create value with startups.

Succeeding in this new era requires clarity of purpose and engagement models that will co-opt the internal organization to achieve breakthrough shifts across market spaces and customer shares. As observed with our clients, this journey is easier said than done and challenges will persist along the way. An enabling transformation that adapts the strategy and innovation approach backed by changes in mindset, operations and governance are required.

We trust you will enjoy reading this study and benefit from the unique and actionable insights.

Best,
Karim

Liz Kerton, one of the Silicon Valley's most influential women according to the San Jose Business Journal, is a marketing expert focused on technology and telecom. She founded Telecom Council of Silicon Valley in 2001 – a community of 1000s of telecom industry insiders from 100s of companies including 60 global telcos who are focused on telecom innovation. 10 years later, in 2011, she founded the Autotech Council which connects auto makers and their Tier 1 vendors with innovation and entrepreneurs.

TELECOMCOUNCIL
SILICON VALLEY

Professional Match-Making to enable collaboration

Historically, opportunities for startups to make deals with telcos were hindered by distance, and the challenge of finding the right person in the huge telco organization. Luck played a big role in carrier deals.

The smartphone revolution brought big telcos to Silicon Valley, and having worked for these scouting operations as a consultant, I began organizing a monthly meeting with the scouts to share and discuss the valley's startups and tech. I founded the Telecom Council in 2007 to reduce the role of luck in the biz dev process. The Council offers structure and a mechanism for startups and carriers to accelerate partnerships. Time-to-deal is more valuable than funding for startups, so a local pitch to not one, but 20 innovation scouts is incredibly attractive! Carriers also want deal flow, and our light-touch screening fills their funnel with qualified startups.

We are regularly organizing these meetings and our annual TC3 Summit is open to all and with the increasing interest every year, we expect 2016 to even exceed 2015.

Yours truly,
Liz

Welcome to a new innovation reality

Technological adoption has never been as fast as today, and many corporates have already suffered from not being able to keep up with the pace of change. Over the past 10 years, an average of 45 companies joined the Fortune 500 every year compared to only 29 during 1986-1995. 65% of today's Fortune 500 companies only joined within the last 20 years.
Startups have played a key role in accelerating this change. Today's well-experienced, well-educated and well-funded startups are certainly here to stay. We will likely see some correction at the high-end range of valuations, but we do not expect any bubble to burst, as fundamentals are intact.

Scale is king

Still, most startups won't survive. This is the rule of the market where the fastest and smartest win. For startups, growth is everything to ensure they maintain both customers' and investors' interest. Startups are striving to address large customer bases, which explains why startups active in consolidated markets like the US are experiencing higher valuations resulting in a significantly higher share of successful startups. This contrasts strongly with Europe, which suffers from its own fragmentation and inability to live up to its promise of being one market. Already today, Europe is trailing behind other major markets.

Age of collaboration has just begun

All players acknowledge that collaboration is key for future success, characterized by increasing complexity and blurring of industry borders. Corporate-startup collaboration certainly is no exception and there is no shortage of options to collaborate, from one-off events to corporate venture capital. Today we observe the clear gravitation away from equity-focused collaborations to creating actual business impact. Corp-Up, corporates and startups working together with the objective of creating real business impact, is high on corporate and startup agendas.

Corporates: Get up and Corp-Up!

Corporates urgently need to develop the capabilities to collaborate efficiently and effectively. This will require top management to take clear positioning and assign E2E accountabilities. Corporates need to enable fast decision-making based on solid, but also agile, processes.
To ensure identified business benefits are being realized, business owners need to be involved in the process early on and allocate sufficient (well experienced) resources.

Startups: It's on you!

Startups often approach corporates without a finished product or hypothesis for collaboration. Startups need to better investigate the joint value creation potential and properly prepare before pitching to corporates. Additionally, startups have to be persistent and highly resilient when interacting with corporates. They need to push the corporate, but also remain flexible in dealing with timelines.

CORPORATE | STARTUP

IMPORTANCE OF COLLABORATION (Corporate)

- short-term: **31%**
- long-term: **83%**

IMPORTANCE OF COLLABORATION (Startup)

69% **very or extremely high**

KNOW-HOW GAP
only **28%** consider themselves **very** or **extremely experienced** in startup engagement

Acting out of opportunities, not threats

only **20% of corporates** think startups seriously threaten their business

only **32% of startups** think they seriously threaten a corporate's business

MATURITY GAP
68% want to **colloborate** in **seed/early stage**, which often is too early for corporates

HAVE ALREADY COLLABORATED

Corporate		Startup
79%	HAVE ALREADY COLLABORATED	**77%**
85% of those who haven't are interested		**85%** of those who haven't are interested
ø 2.2 different vehicles		**ø 1.6** different vehicles

HAVE USED CORP-UP

Corporate: **55%** | Startup: **63%**

Objectives
- **30%** New technology & products
- **21%** Financial return
- **16%** Market/ customer access
- **14%** Image enhancement

Objectives: Corporate as...
- **22%** ... profitable customer
- **21%** ... reference customer
- **21%** ... sales channel
- **19%** ... access to markets

7–9 months to initiate the collaboration

17–18 months average duration of the collaboration

CORP-UP PRODUCED THE RESULTS EXPECTED

Corporate		Startup
30%	within 1 year	63%
19%	within 2 years	24%
13%	within 3 years	0%
38%	not at all	13%

KEY CHALLENGES (2 MENTIONS)

Corporate		Startup
58%	Cultural differences	41%
40%	Internal resistance in the corporate	50%
22%	Insufficient setup of Corp-Up	41%

WOULD COLLABORATE AGAIN

Corporate: **98%** | Startup: **100%**

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Introduction

Participants	Hours
Match-Maker Ventures team	1,200
Partners (Arthur D. Little and Telecom Council of Silicon Valley)	300
Startups	100
Corporates	100
Industry stakeholders	100
	1,800

This report is based on the first global, all-stakeholder encompassing research conducted over the past months and our extensive experience in this field. In total close to 2,000 hours were contributed by the various stakeholders.

We discussed intensively with successful entrepreneurs, corporate innovation experts, experienced venture capitalists, accelerators and other stakeholders. The quantitative results of this report are based on our own proprietary survey. The survey was targeted exclusively at experts working in the fields of innovation, strategy, and/ or collaboration. We leveraged our own network, the network of Arthur D. Little as well as of the Telecom Council of Silicon Valley to identify and address the right people for the survey.
In total we gathered online responses from **about 400 participants**, out of which 177 corporates, 103 startups and 82 industry stakeholders from more than **50 countries**.

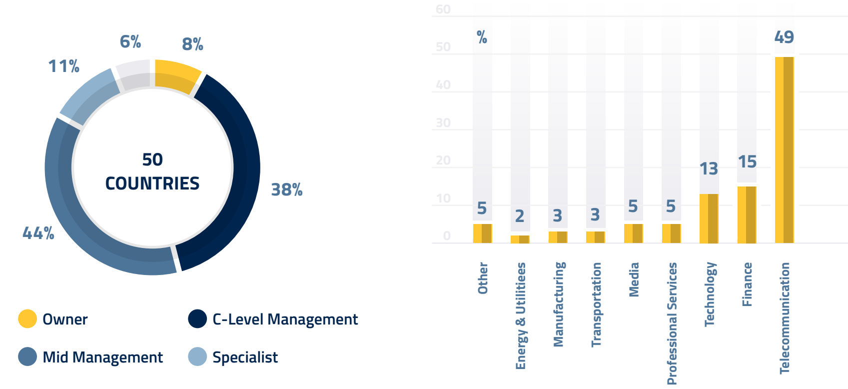
Furthermore, we conducted **39 individual interviews** elaborating on the collaboration process more in-depth. Valuable insights based on real experiences were used to draw key learnings and recommendations. Case studies and quotes within this report are based on these interviews.

The report summarizes our findings and is for anyone interested in corporate-startup collaboration. You should in particular read on, if you are interested in:

- Understanding the shift from the **"age of disruption" to the "age of collaboration"**
- Understanding the **challenges for both startups and corporates** to deal with today's increasingly challenging business world
- Understanding how to **initiate, conclude and manage the collaboration** between startups and corporates to ensure value creation for all players

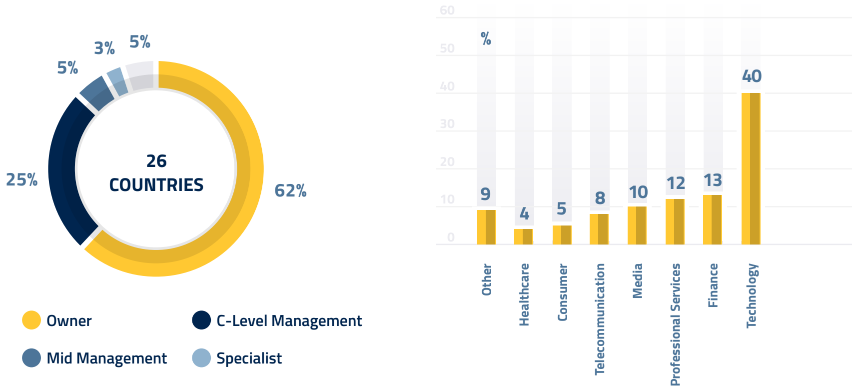
The report is structured in **five main sections.** The first chapter describes the new innovation reality and the importance of startups in it as well as challenges that corporates face. In chapter two we illustrate the challenges that startups encounter when they scale, especially in Europe. How these problems can be solved is set forth in the third chapter, which deals with corporate-startup collaboration, its importance and advantages, and the best suited vehicle to create mutual business impact – Corp-Up. The following chapters deliver practitioner tips and guidelines on how to successfully set up and manage it: Chapter four is primarily aimed towards corporates, and chapter five to startups.

Respondent statistics – Corporate



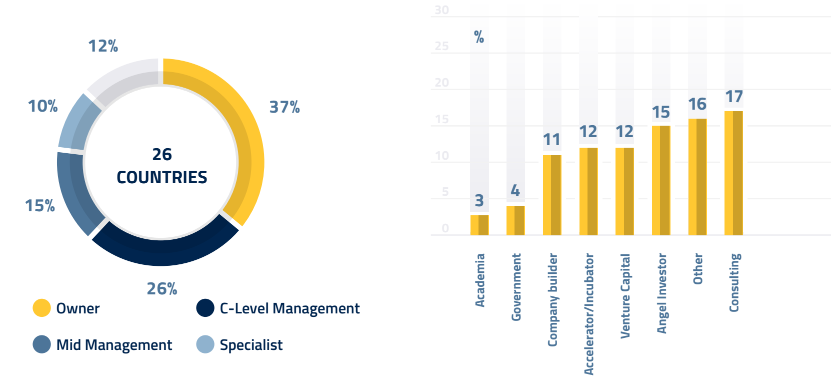
Source: Match-Maker Ventures Corp-Up survey 2016

Respondent statistics – Startup



Source: Match-Maker Ventures Corp-Up survey 2016

Respondent statistics – Industry Stakeholder



Source: Match-Maker Ventures Corp-Up survey 2016

01

Welcome to a new innovation reality

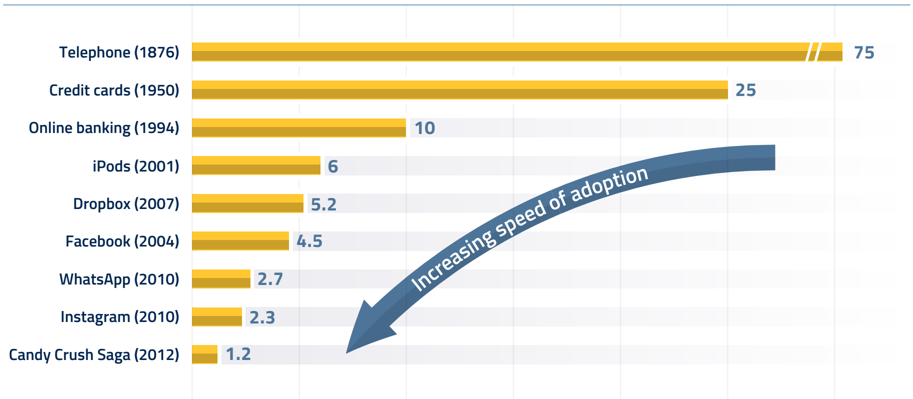
- → The rate of disruption is accelerating and corporates are being hit hard
- → Startups' impact is increasing and they are here to stay
- → Corporates risk falling into the same old traps

EVER FASTER DISRUPTION

"A disruptive innovation is an innovation that creates a new market and value network and eventually disrupts an existing market and value network, displacing established market leaders and alliances" (Wikipedia).

Today's business environment is tough for any corporate. Behind every corner there may be a startup emerging threatening to disrupt their business. And threats are multiplying: Founding a startup has never been easier and new technologies are constantly widening the field of attack. Innovation certainly has never been faster and more challenging – "Embrace it or you will be out" is today's theme.

Years to reach 100m (units/ users/ downloads)



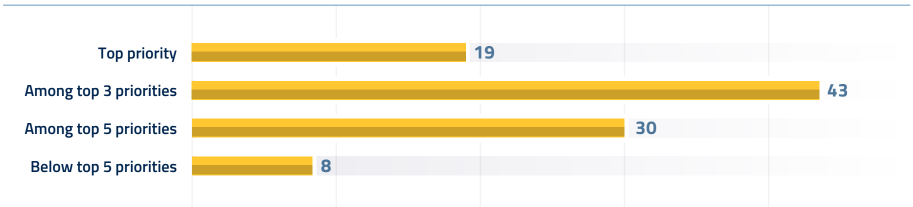
Source: Match-Maker Ventures and Arthur D. Little, Forbes, Techcrunch, Company information

As Clayton Christensen famously explained: "Corporates are not suited for disruptive innovation, it is the startups that have the time, dedication and fresh thinking to tackle issues from a new perspective."

Relatively speaking, innovation is of lowest importance for telecommunication leaders (only 50% rank innovation as a top-3 priority), and of highest importance for media leaders (75% rank innovation as a top-3 priority).

With all the challenges ahead, one should expect innovation to be of highest importance for corporate leaders. However, our survey shows a slightly different picture – only 19% of corporate participants ranked innovation as their top priority. On the flip side, 62% ranked innovation amongst their top-3 priorities. We found this surprisingly low. Potential reasons for this are a stronger focus on short-term business objectives than on transforming the organization to be able to participate in the innovation race (modernizing IT, scaling up sales capabilities, digitalizing processes).
Our results were even more surprising when we narrowed down to the industry level. Only 50% of telecoms, having already severely been hit by the emergence of OTT players (Over-The-Top) such as WhatsApp or Viber, rank innovation among their top 3 priorities. Financial Services came out slightly higher than the average at 66%, and the Media and Technology sector ranked innovation as of highest importance relative to all industries surveyed, with 75% ranking innovation as either the highest or among the top-3 priorities.

How high is the strategic importance of innovation in your corporate? (%)



Source: Match-Maker Ventures Corp-Up survey 2016

Certainly, the rapidly changing landscape has led corporates to explore new ways in approaching innovation. Today we see more collaboration among industry players than ever before. The R3 consortium, for example, has brought together more than 40 banks to design and deliver advanced distributed ledger (blockchain) technologies to improve financial services. Likewise, the Open Connectivity Foundation, formed in 2016 by industry leaders such as Cisco, Intel, Microsoft and Samsung addresses the opportunity offered by IoT (Internet of Things) and is geared to accelerate innovation through cross-industry collaboration.

Increasing startups' impact

Startup definition (ESM) „Startups are defined by three characteristics: (1) younger than 10 years, (2) featuring (highly) innovative technologies and/ or business models, (3) striving for a significant customer and/ or sales growth."

Eric Ries, author of the book "The Lean Startup" (2014), states that "a startup is a human institution designed to create a new product or service under conditions of extreme uncertainty".

Startups are more than just small versions of corporates – they are designed to disrupt and hence, work fundamentally differently. But why are startups doing it better than incumbents?

- Startups' lean structure makes them **flexible and agile**, must-haves in times of accelerating technology adoption rates and ever shortening time windows for commercialization.
- Startups are **risk takers and the possibility of failure** is inherent in their DNA, quick learning cycles inclusive.
- Startups show a very different **level of commitment** and belief, driven by great entrepreneurs living their dream day and night.
- Startups **don't take existing procedures and established rules of engagement as granted** and are not constrained by their risk or compliance teams.

In contrast, corporates are generally slow and risk-averse. Corporate structures and processes hinder innovation, as they are designed to optimize the existing and not to foster creativity and new ideas. In fact, most resources are dedicated to maintaining the status quo and not to challenge or break the existing rules.

STARTUPS ARE TODAY'S VALUE CREATION DRIVERS

Startups are a significant employment driver. Within only 2.5 years European startups create 13 jobs on average (ESM 2015).

Startups' innovative power is of critical importance for any economy by bringing dynamism and competition to the market and essentially creating the jobs of tomorrow. Looking at the European situation the ESM 2015 showed that within only 2.5 years startups created on average close to 13 jobs (about three out of these are founders). Hiring plans are just as ambitious with on average 7 new jobs to be created over the coming 12 months.

The US Census Bureau uses a different definition of startups (defined as businesses that began working in a given year). Nevertheless these numbers are highly interesting. When you compare net job creation between startups and incumbents (companies older than 26 years), the numbers are very eye-opening. "Startups" created 3.5m jobs in 2006, 2.3m in 2009 and 2.3m in 2013. The incumbents were responsible for 1m in 2006, a job loss of 3m in 2009 and again a job creation of 1m in 2013. Over these three respective years, "startups" created cumulative 8.1m jobs whereas incumbents suffered a net job loss of 1m in the same period.

Fortune 500 is an annual list of the 500 largest US corporations measured by revenues. The global Fortune 500 (or Global 500) represents the same ranking for the largest global corporations.

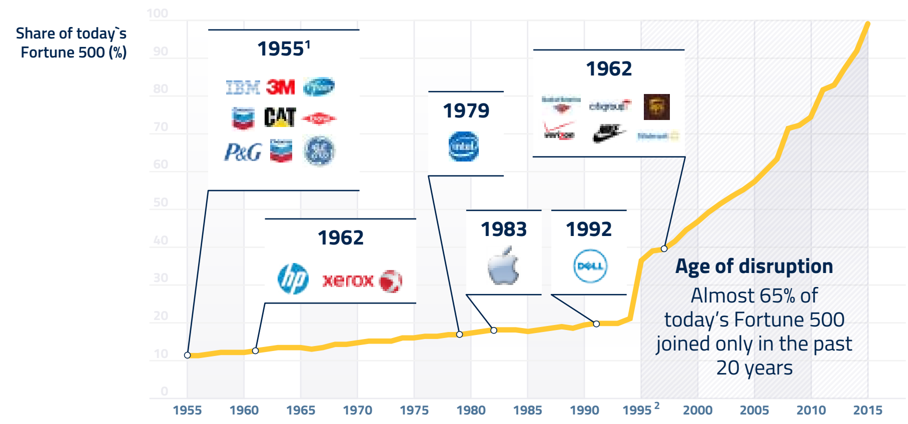
During the past 10 years 45 companies joined/ left the Fortune 500 on average every year. This is up from 27 during the period 1956-1965.

CORPORATES ARE FEELING THE IMPACT ALREADY

A lot has already been written about the shortening lifespan of Fortune 500 companies. We took a different angle when looking at the numbers and analyzed when today's Fortune 500 companies entered the list for the first time.

The graph below speaks for itself. About 65% of today's (2015 yearend) Fortune 500 companies joined in the past 20 years, that's what we call "age of disruption". We also looked at the average change in the Fortune 500 on an annual basis. During the period 1956-1965 there were 27 companies leaving, thus 27 correspondingly joined the Fortune 500 every year. This number slightly increased to 29 in 1976-1985 and to 40 in 1996-2005 on average. In the past 10 years this number increased to 45 every year.

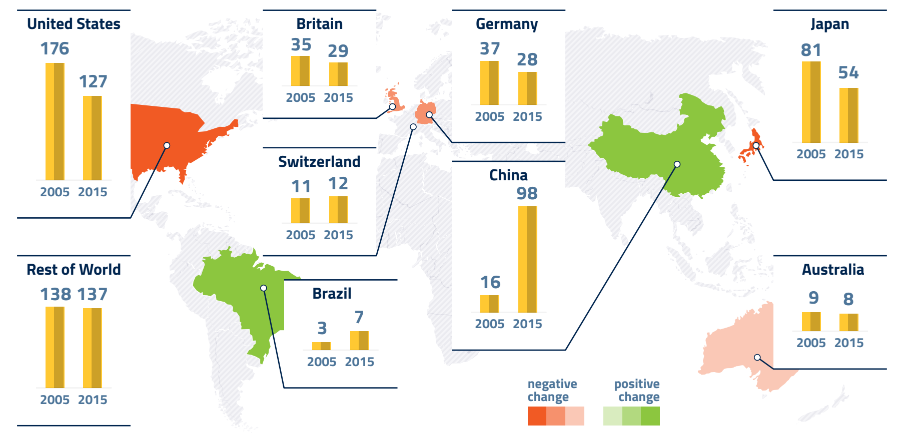
Entry year of today's Fortune 500



Source: Match-Maker Ventures and Arthur D. Little Analysis based on Fortune 500, 1955-2015
1) Selection 2) Significant changes due to methodological changes in 1995

The shortening commercialization window is also a consequence of increasingly global competition. When we analyzed the Global 500 over the past 10 years and compare geographic origin, the impact of global markets becomes easily visible. In only 10 years, corporates from the developed world decreased by 20%, while during the same time period corporates originating from developing countries increased by 260%.

Number of companies in Global Fortune 500 by origin



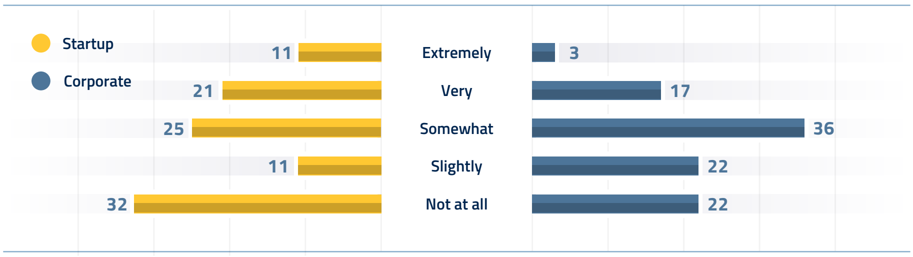
Source: Match-Maker Ventures and Arthur D. Little Analysis based on Global Fortune 500, 2005-2015

Corporates keep making the same mistakes

78% of corporates feel threatened by startups in some way, but only 20% feel "very" or "extremely" threatened

Corporates widely acknowledge the need to engage with startups, which holds true for all analyzed industries. As one interview participant stated: "We clearly see a change of mindset and change in the willingness to collaborate with startups at operators nowadays." This is reflected by almost 80% of corporates having already launched some kind of startup engagement (more in chapter 3).
To try to understand the drivers behind this, we asked corporates to what extent they felt threatened by startups (and vice-versa). The results indicate that corporates engage out of an opportunity-driven perspective rather than a defensive perspective, as only 20% feel "very" or "extremely" threatened. On the same note, the results can be aggregated to conclude that 78% of corporates feel threatened at least to some extent. Startups' own perception of themselves is more aggressive, where 32% believe they "very" or "extremely" threaten a corporate's business. Ultimately we feel that the corporates' gravitation to the middle of the scale (with 58% of respondents firmly in the middle) reflects how uncertain they are in their approach.

How much do you feel threatened by a startup/ how much are you threatening a corporate's business? (%)

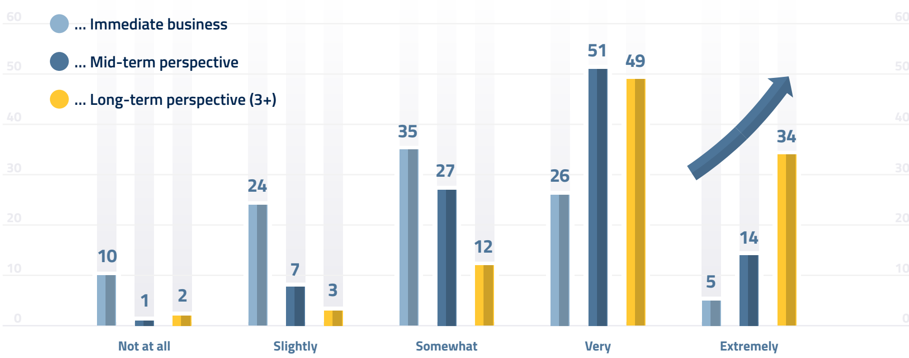


Source: Match-Maker Ventures Corp-Up survey 2016

83% of corporates rank startup collaboration as "very" or "extremely important" for long-term business (3 years+), but only **31%** for their immediate business.

When we narrowed down into corporates' claims of engaging with startups, a better understanding of the "Yes, but..." emerges: "Yes, collaboration is important, BUT only for my long-term business." Terms and quotes often heard were "lipstick-action", "we engage purely opportunistically", "me-too" or "it comes from the marketing budget". It appears that corporates have realized the need for digital transformation, but have put only one foot through the door to actively pursue this goal.

How important do you consider collaboration with startups for your... (%)

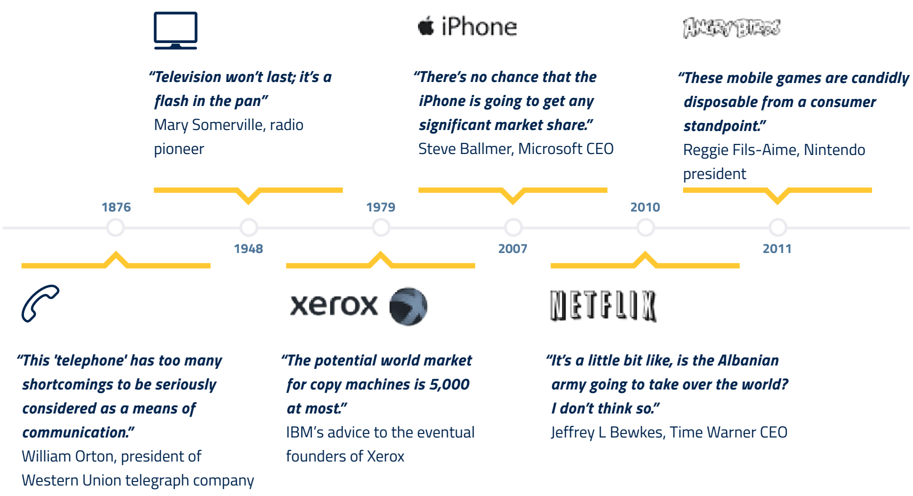


Source: Match-Maker Ventures Corp-Up survey 2016

Too often corporate leaders have misjudged the impact of innovation on their businesses: Telephones, TVs, printers, iPhones, Netflix and Angry Birds all proved to be major commercial successes.

Corporates are running the risk of repeating their mistakes from the past. Often cited managerial assessments such as the shortcomings of the telephone, the limited demand for printers or the inability of the iPhone to capture any market share are widely known. This can easily be attributed to poor management judgement, but it is important to take the appropriate learnings and corrective actions.

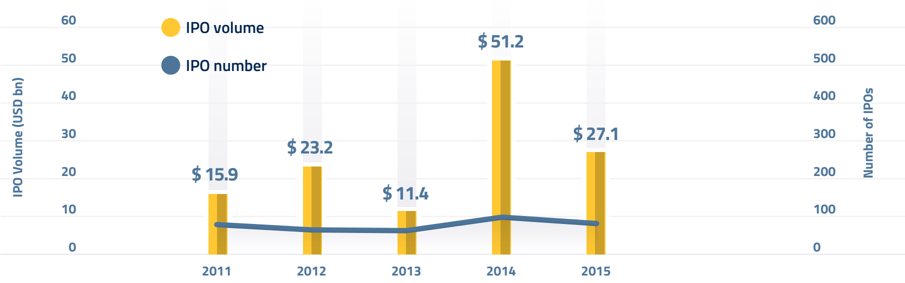
Many innovations have initially been neglected by corporate executives



Source: CB Insights, Inc., Watchmojo, Thinkbusiness.ie

Startups are here to stay

Global Tech IPO History (USD bn)



Source: PWC

WE MAY HAVE EXPERIENCED A QUIET YEAR...

"Unicorns" refer to privately held startups valued at over USD 1 bn.

Recently, a heated debate on "downrounds" and "poorly trading tech stocks" has emerged. Square really kicked off the debate when they had their November 2015 IPO at a price of USD 9 per share compared to USD 15 per share in their last private round. Corporate executives happily jumped on the bandwagon and pushed the idea of an impending tech bubble.

There have been notable cases, such as the previous performance of startups like Etsy. After closing at USD 30 on the first day of trading in April 2015 – up from an IPO price of USD 16 – Etsy tumbled and has not risen above USD 16 since August of the same year. Since cratering at USD 6.90 after the lockup for early investors and insiders ended, the stock has risen to trade close to USD 9. Once a company that traded at a sales multiple of 8x, double that of Amazon, Etsy clearly serves as a warning for unicorns enjoying frothy valuations in the private market.

Looking at a slightly bigger picture, 2015 still proved to be the second best year for tech IPOs since 2010 despite a respective decline of 22% and 47% in IPO listings and proceeds (PwC). While the US was mostly flat, Europe's performance was notable – accounting for 22% of all global tech IPOs, and 41% of total IPO funding (Capital IQ, PwC). The stock performance of new European IPOs is outperforming their US counterparts by almost 3 times based on weighted averages. A big contributing factor is that European investors tend to have longer time horizons and are thus more critical of potential investments. Ultimately, European IPO valuations are close to 50% of their U.S. based comparables.

2015/16 has been a tough year for tech IPOs, though we see this as primarily attributable to market volatility and market uncertainty.

We saw pronounced declines across the board in IPO listings and proceeds relative to 2014. One contributing factor is worsening of post-IPO performance. According to a study by Battery Ventures, ~40% of US tech IPOs since 2011 are either trading flat or below their last private valuation. Furthermore, the average return for 2015 IPOs as of March 2016 was about -22% (Renaissance Capital). The greater cause is more likely explained by broader market volatility, which plagued 2015 and has prevailed into 2016 – where we saw no US tech IPOs in the entirety of Q1. Market uncertainty could continue to discourage IPOs and valuations remain a concern, though we believe underlying startup fundamentals still remain intact.

... BUT FUNDAMENTALS ARE INTACT

There is a real market today with more than 3bn people online. Facebook is a cornerstone example of the successful monetization of this market, with their stock price rebounding by more than 6 times from their low in 2012.

Even in the US, where there are evident valuation discrepancies, forward P/E multiples for the S&P IT Index are at reasonable levels (comparable to early 90s) and nowhere near former bubble levels – indicating that underlying earnings are driving valuations.
Other KPIs also draw a positive picture for the tech industry. With now some 3.2 billion people on the internet and steady tech funding per person online since the tech bubble, startups are today engaging a real market. Andreessen Horowitz makes the following comparisons to emphasize their belief that "it's different this time".

	1999	2014
US tech funding $	$71bn	$48bn
Funding as % US Tech GDP	10.8%	2.6%
S&P IT index forward P/E	39.0x	16.1x
Global internet population	0.4bn people	3bn people
US ecommerce revenues	$12bn	$304bn
Number of IPOs	371	53
Median time to IPO	4 years	11 years

Source: Andreessen Horowitz

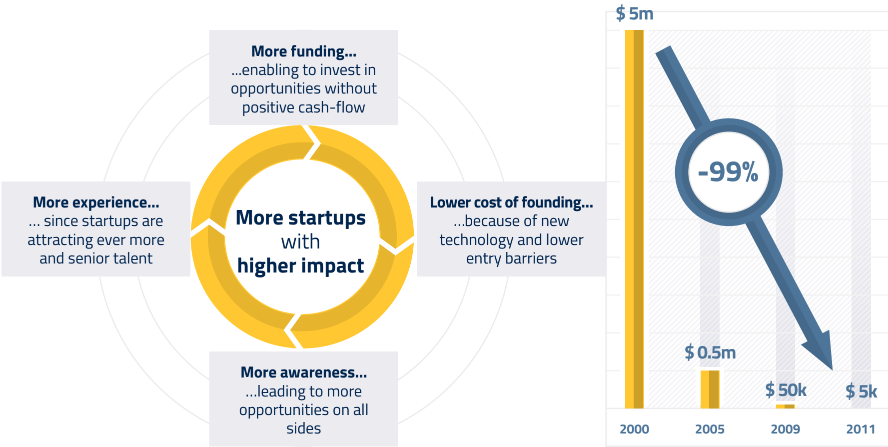
Facebook serves as one of the positive examples of a "real market". Initially, when Facebook's IPO at USD 38 met disaster in 2012, it would seem to match everyone's concerns about tech companies with overly ambitious valuations. Today, about 4 years post-IPO, Facebook has managed a recovery like no other, with the embarrassing first year of trading a faraway memory. Facebook grew from virtually no mobile revenue to more than 50% of its revenue coming from mobile ads, carrying investors along for the ride – rebounding more than 6 times from its crater of USD 18 in August 2012.

The first tech IPO in 2016 finally happened on April 22, but experienced an unimpressive debut with the stock remaining below its IPO price (currently trading around USD 13.00 as of 5/10/16).

The near term outlook will remain volatile. 2016 certainly is off to a slow start, but we still expect to see a number of tech IPOs after technical stabilization. Dell's cyber security firm "SecureWorks" finally broke the freeze on April 22 2016, but not before cutting their offering from between USD 15.50 to 17.50 to USD 14 and from 9 to 8 million shares. While not the average tech startup (the company is 17 years old), SecureWorks' represents the weaker demand from public investors given current market conditions, and the reluctance of many unicorns to pursue IPOs when funding at private market valuations are much more lucrative.
Going forward, we expect correction on high-end valuations to continue as per public market dictation. In the longer term we believe both post- and pre-IPO valuations will gravitate towards more reasonable public market multiples. Our belief in tomorrow's startups is fundamentally based on two factors: (1) The increasing opportunities offered by ever more disruptive technologies and corporates' inabilities to act accordingly, and (2) the increasing sophistication of the startup scene. Today even highly-paid corporate employees are drawn to work for startups. Corporate job uncertainty is fueling this transition even more as the often well-funded startups can today cope with the financial demands of highly skilled labor by offering a mix of salary and options.
The above has essentially led to the fueling of a virtuous cycle: More opportunities have

provided more funding while likewise the costs to start a startup decreased considerably. More awareness has opened many doors and led to more experience on all sides. This again will push funding as the opportunities become more tangible when an experienced team is chasing them.

Startups' impact increases on an upward spiral



Source: Upfront Ventures

Our outlook of the startup scene remains positive. Yes, many will remain to keep failing, but we are certain to see a continuous flow of winners.

02

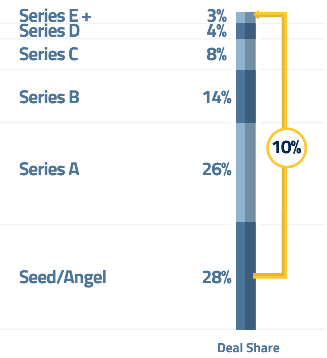
Scale is king

- Being a startup is tough – most won’t survive
- Scaling is the key challenge – manage your growth
- Europe is suffering from fragmentation and is falling behind

A 'scale-up' is an enterprise with average annualized growth in employees or turnover greater than 20 per cent per annum over a three year period, and with more than 10 employees at the beginning of the observation period.

Only 1 of 10 startups that received a seed/ angel investment will reach a series E financing round or beyond.

Most startups will fail



Source: CB Insights

TODAY'S STARTUPS ARE SIGNIFICANTLY BETTER EQUIPPED

Any startup ecosystem needs to strive to produce scale-ups. Scale-ups are those startups who are the landmark success stories with an overarching importance for the economy as such and also being responsible for the hundreds and hundreds of new, motivated entrepreneurs hitting the stage every day.

THE TOUGH LIFE OF BEING A STARTUP

The life of most startups is not the high-life many people envision it to be. Startups mean long hours, tight budgets, lots of frustration and adjusting, refocusing, and even pivoting. In reality, few startups make it. As numbers on failure rates of startups highly differ, we looked at the deal share split along financing stages. Being aware that this is a proxy, we believe that it is an indicatively good one. Successful, high-growth startups are usually moving up the ladder from Seed/ Angel investment to Series A investment and beyond. What the graph means: Out of 10 startups conducting a seed/ angel investment, only one startup will reach Series E financing or beyond. 1:10 relates with the average success numbers known from other Venture Capital firms.

As terminology highly differs on the startup stages, we are referring to the terminology as below.

Startup Stages

	Seed stage	Early stage	Growth stage	Maturity stage
Product ready	–	Testing or pilot	✔	✔
Proof of concept	–	✔	✔	✔
Revenues	–	Potentially	✔	✔
Age of company	< 18 months	< 3 years	> 3 years	> 7 years
Funding rounds	FFF[1], Angels	Seed, Series A	Series B & C	Mezzanine, IPO, Bank Products
Team size (indicative)	1–5	5–20	10–50	>50

1) Family, Fools and Friends

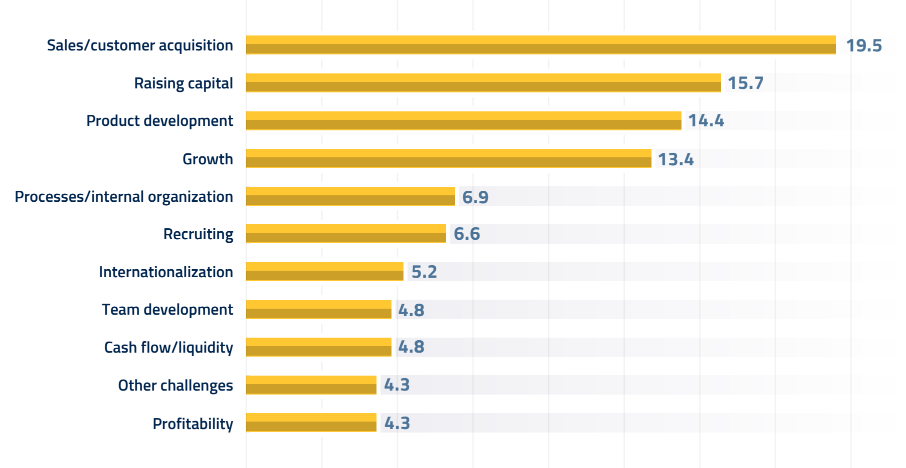
HIGHER & FASTER: GROWTH IS KEY

Startups confirm that sales/ customer acquisition is their single biggest challenge. Among top 10 reasons you also find "raising capital", "growth" or "internationalization".

Growth is the key essence of any startup, by definition "startups have or strive for a significant customer and/ or sales growth". If you want to maintain financing for your development, you must maintain a strong growth rate to ensure the next round's valuation exceeds the previous round. There is nothing worse for any startup than stagnation or a downround. The entire industry is measured by growth, month-over-month or even week-over-week.

The ESM report 2015 asked 2,300 startups about their key challenges. Customer acquisition came out highest. It represents the single biggest challenge for startups, followed by raising capital, which is again strongly linked to managing sales/ customer acquisition.

Key challenges for European startups (%)

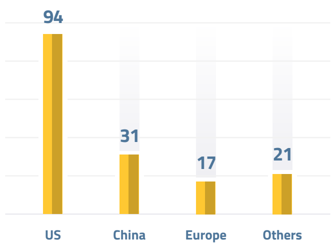


Source: Eurpean Startup Monitor 2015

Study

Europe has a problem: Europe counts fewer entrepreneurs, produces fewer unicorns, loses many successful startups to the US and overall is falling behind in the innovation race.

Number of unicorns by origin



Source: CB Insights, 10.05.16

Scaling is Europe's biggest problem: Legal, regulatory, and standard business procedures are still being dominated by national markets making cross-border activities incredibly hard for startups.

Europe lags behind: We have a problem

When looking at the European startup and ICT space, you must feel worried. When was the last time a European based company made global positive headlines? While we have many large old-economy corporates, there is certainly an issue of keeping pace with the growing digitization and upspring of tech-enabled startups.

To name a few concerning facts, without claiming comprehensiveness:

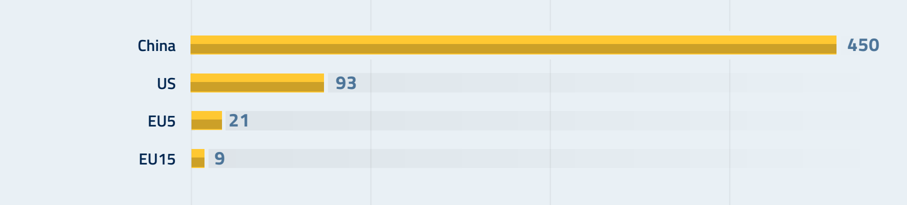
- In Asia and North America early-stage entrepreneurs make up about 13% of the adult population, whereas in the EU less than 8% of adults pursue early-stage entrepreneurial activities (GEM 2014).
- When we look at the origin of unicorns, Europe is only home to 17. This is less than 20% of the US unicorns, and just slightly more than 50% of Chinese unicorns.
- Many startups in Europe that have gained initial traction are trying to move to the US, the shallow reason being that the valuation gap simply allows tech startups to raise more money than domestically. The reason can obviously be seen in the different market dynamics reflecting the valuation difference.
- Through 2011-2014 47% of successful EU startups ended up being acquired by US companies, according to a study by the Startup Europe Partnership focused on European ICT startups that have been able to break the "early-stage barrier."
- Europe has also fallen from the largest to third-largest region (after Asia and US) for corporate R&D spending between 2007 and 2015. Most of Europe's drop in R&D spending was attributable to Western Europe (Strategy&, 2015).

THE EUROPEAN CHALLENGE IS MUCH BIGGER

Fragmentation is Europe's biggest startup challenge. We are far from being one market, not in the sense of language or cultural differences, but with regard to regulatory and legal constraints imposed on daily business activities.

Consequences are harsh for startups. Let's assume a startup targets mobile network operators (telcos). While you address one operator in China and instantly have access to 450m customers, this number already decreases to about 100m customers in the US. In Europe we instantly start counting. If we take the big-5 EU markets (ESP, F, GER, IT, UK), we are down to 21m customers, a fifth of the size in the US, and only 5% of the customer base in China.

Average customer base per telco (m)

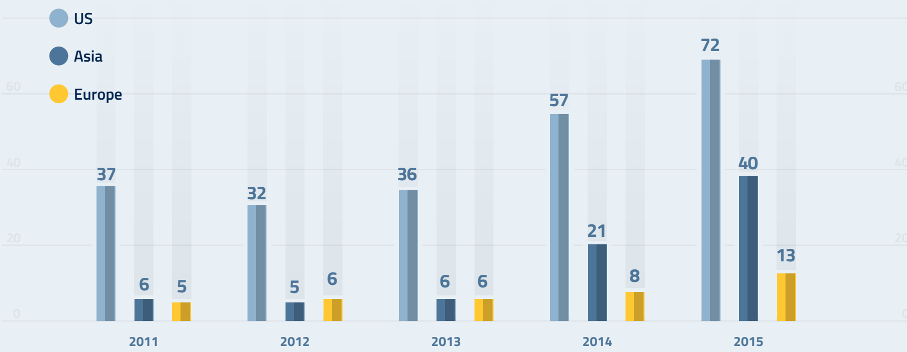


"The EU market is fragmented with borders serving to protect corporates from foreign competition, providing greater sense of security. Greater sense of security implies that they don't have to change so quickly, experiment, or innovate." Jan Jilek, Founder of 1000startupsEU

VC investment in Europe is on average 84% lower compared to the US and 26% lower compared to Asia (2011-2015).

National borders, different regulatory regimes and other market access barriers lead to a natural protection of national businesses. While this might be beneficial in the short-term, in the long-term the impact most certainly is disastrous. The consequences are that European corporates are driven by a higher intrinsic motivation to maintain the status quo. As individual EU markets are often small, it often takes longer for globally active companies to reach these markets. Just consider the expansion strategy and market domination by the "frightful 5" (Alphabet, Amazon, Apple, Facebook, and Microsoft). Essentially, market borders also lead to less availability of risk capital, which is urgently required to fund startups' growth.

Annual VC Investments (USD bn)



Source: CB Insights

ACTION REQUIRED

With regards to challenging the frame-conditions, we quote Guenther Oettinger, European Commissioner for Digital Economy and Society: "Our legal regimes should be streamlined and simpler to navigate for our startups. Hiring talent from all over the EU should be simpler, as should be access to finance. Policies should be focused on achieving measurable results, and decisions made simpler to take by access to quality information and data." (European Startup Monitor 2015)

Europe has a problem with producing urgently needed innovation and with retaining homegrown innovation in Europe. We strongly believe that a better, faster and more efficient corporate-startup collaboration can support in overcoming these challenges (although not solve it on a standalone basis). The following chapters deep dive into concrete recommendations.

03

Age of collaboration has just begun

- All try, few succeed
- Choice is yours, but take it carefully
- Shifting from financial focus to creation of tangible business impact

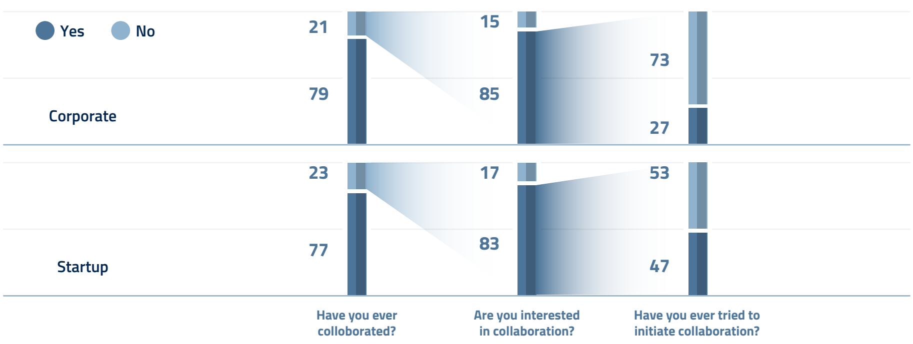
Times are very exciting at the intersection of corporates and startups. Often we heard over the course of numerous interviews: "Interest from corporates is increasing", "collaborative activity is just starting" and "we will see much more serious efforts in the coming years". We share that assessment.
Awareness among corporates and startups of the need and business potential of collaboration is still in its infancy, in particular as the number of success stories is still limited. With more and more success stories becoming public, enabled by increasingly experienced players on both sides, we are certain that we will overcome the challenges ahead.

KNOWLEDGE GAP

97% of corporates and 96% of startups either already possess experiences in collaboration or are interested in collaborating.

Most corporates and startups can count on previous collaboration experiences. About 80% of both players have already collaborated in some form. This is great news as we anticipated the actual numbers to be far lower. The truly great news though is, that the increasingly strong interest in collaboration is based on actual and not just theoretical experiences, and it holds true despite how difficult these interactions can be.
Even those who have not yet collaborated are eager to move ahead (85% and 83% respectively) leading to only 3% of corporates and 4% of startups who neither have previous experiences nor interest in collaboration.

High relevance of collaboration (%)

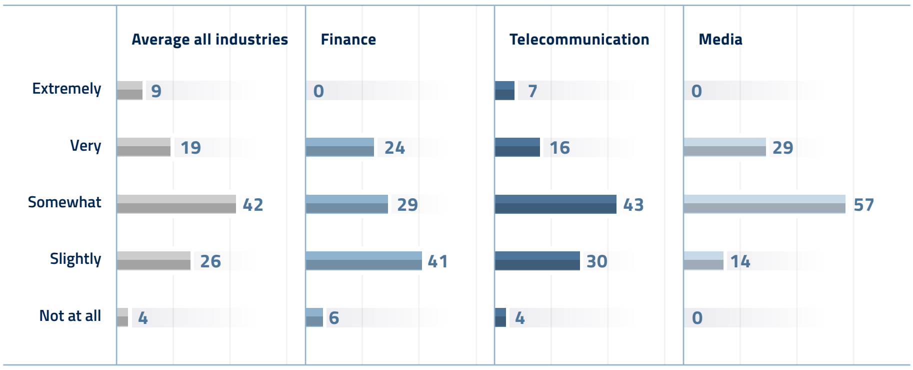


Source: Match-Maker Ventures Corp-Up survey 2016

Only 28% of corporates consider themselves "very" or "extremely" experienced in dealing with startups.

The challenge becomes more obvious when narrowing down on the experiences of corporates in dealing with startups. Only 28% consider themselves as "very" or "extremely" experienced. Those 42% calling their corporate "somewhat" experienced can actually count on only very limited experiences and would fall under "slightly experienced" in our terminology.

How experienced do you consider your corporate in dealing with startups? (%)



Source: Match-Maker Ventures Corp-Up survey 2016

The media industry is most experienced in dealing with startups: 88% already collaborated in any form with a startup, closely followed by telecoms (83%). Financial services falls short at 63%.

We also tried to understand differences by industry. Media seems to be the most experienced, which goes in line with the high strategic priority of innovation (as stated in chapter 1), followed by telecoms and financial services players.

STRONG RATIONALE

There are many good reasons for a startup to partner up with a corporate, and vice versa. Below, find a list of those most often observed by us.

Startup can get...	Corporate can get...
Market know-how by players being active on the relevant market for years. You might challenge how good a corporate's customer understanding is (unless the corporate is the customer), but definitely corporates possess a good understanding of market dynamics and value chain shifts.	**Understanding of how new technologies can be leveraged**. Startups have the freedom to think out-of-the box, which you often don't.
Sales support is an essential reason for collaborating with a corporate. This might come simply helping you to set up your sales process to actively selling your product.	**Access to unique content/ IP/ solutions**, which you can use to leverage on your existing customer access and provide actual incremental value to your customers.
International reach is the next step on sales support. Most corporates hold international subsidiaries and possess local market know-how. You can piggy-back to take internationalization to the next level.	**Speed and agility of operations** – startups can do things for which you often need years.
Credibility with regards to both the general market as well as potential suppliers. In this line PR benefits often go hand-in-hand by partnering with corporates.	**Image and/ or brand innovation** towards the market and towards your existing and potential future employees.
Funding either as an investor, as a strategic partner or as a pure end customer of your products and services.	**Return on investment** due to top-line growth, bottom-line efficiencies or as a financial investor.

Case study

geolad: geared to make telecoms leaders in mobile advertising

geolad is a startup founded in 2011 by experts from the advertising and telecom industry. Coming from two very different worlds, the team quickly realized that leveraging the telecom capabilities for the advertising world could be a game-changer for both industries.

Mobile network operators (MNOs) have long strived to venture into the mobile advertising market. The rationale is straight forward: MNOs naturally possess the highest data validity for providing mobile targeting information, yet still most of the value is captured by Silicon Valley based corporates and the operators are minimized to providing the rails to be used by others.

The advertising industry is until today facing the challenge of properly targeting users on the mobile device. HTML5, STTP-encrypted internet and a multitude of mobile apps prevent most existing targeting technologies to work. The advertising industry is doomed to work with Google and Facebook driving the already existing dependency even further.

But despite the apparently obvious rationale and business opportunity, neither side was able to capture the opportunity. An outside perspective was required to develop a solution fulfilling the high demands of both players. Applying a highly agile approach, the team managed to overcome and master the regulatory challenges, corporate bureaucracy and a hugely complex advertising ecosystem. Today geolad is enjoying its unique positioning and is working in Europe to drive the change further.

The choice is yours, but take it carefully

Time on reflecting back on your options and on understanding the different vehicles is well spent.

We are often asked by corporates: “How do we set up an accelerator?” or “How can we invest into startups?” We believe this is the wrong starting point. Once a decision is made that you want to engage with each other, we strongly believe corporates and startups should pause for a second and reflect on the reason WHY to engage before starting to discuss HOW to engage. Only afterwards you should discuss your options. And there certainly is no shortage of options to collaborate. As we like to keep complicated things simple, we will be referring to the following five “startup engagement vehicles”. We are well aware that there is a multitude of blends existing and continuously arising, still we keep focus on the following five:

Startup engagement vehicles

	One-off event	Accelerator/ Incubator	Corporate Venture Capital	Corp-Up	M&A
	Corporate-hosted events for startups often in competition format	Business support programs for startups in exchange for equity	Direct investments from corporates in exchange for equity	Any commercial agreement focused on creating joint value	Acquisition of a startup by a corporate
Startup stage	**Seed Stage**	**Seed/ Early Stage**	**Early/ Growth Stage**	**Growth/ Maturity Stage**	**Maturity Stage**

Corporates are truly engaged. On average a corporate that has already engaged in collaboration is using 2.2 different engagement vehicles. Likewise, startups who have engaged before have used on average 1.6 vehicles.

One-off events: One-off events represent the “softest” level for corporates and startups to get to know each other. Events can either be conducted independently or in collaboration with startup organizations. If conducted as a contest, winners often receive some kind of value from the corporate or join the corporate’s startup program. We also consider sponsorship and low-end business support services such as free office space or consulting by the corporate as a form of one-off event.

Incubators and accelerators: Incubators focus on validating and developing an idea to a business proposition. Nowadays there is a lot of mingling of corporate ideas/ pain points with external entrepreneurs. Often this happens in the form of a competition, which seamlessly transitions into an incubator or accelerator. We also consider “company builders” as a form of incubator.
Accelerators focus on slightly later stage startups. The accelerator program usually targets startups having a prototype or a beta version of their solution already, having achieved some kind of technical and commercial proof and most importantly already possessing a team to build with (in contrast to the incubator, where the team is less of importance).

Corporate Venture Capital (CVC): CVC represents a fund vehicle, where a corporate allocates a significant amount of capital (usually anywhere in the range of EUR 100-250m) to invest in startups. We consider both strategic and financial corporate venture capital here.

Corp-Up: Corp-Up refers to any form of commercial relationship between a corporate and startup. The range can be quite wide from setting up a Joint Venture to entering into a supplier-relationship. Equity is not a key focus of this form of engagement. We will discuss Corp-Up more extensively later on.

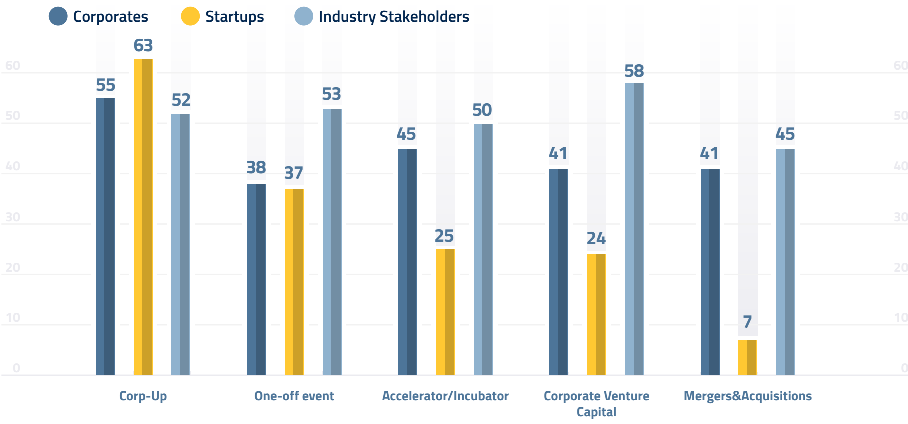
Mergers & Acquisitions (M&A): M&A is rather self-explanatory and refers to corporates acquiring the majority of startups.

Collaboration in any form is becoming more prevailing: Deutsche Telekom, Cisco and Intel have for example launched the ChallengeUp! Accelerator to address the Internet of Things opportunity.

We analyzed which vehicles today are most common among all parties:

- Engagement overall is very high – about 80% of startups and corporates have already collaborated or are collaborating.
- Corporates are most active in Corp-Ups (55%), followed by accelerators (45%) and CVC (41%).
- There are distinct differences by industry: Financial service corporates are leaning towards Corp-Up (63%), One-off events (56%) and CVC (38%), media players towards CVC (80%) and Corp-Up (60%), and telecoms towards Corp-Up (57%) and incubators/ accelerators (56%).
- Startup engaged naturally most in those vehicles not requiring any kind of equity. More than 6 out-of 10 startups have engaged in some form of Corp-Up versus 2.5 out of 10 having engaged in a corporate accelerator/ incubator or 2.5 out-of 10 in CVC, which is still very high.

Which vehicles did you use for collaboration? (%)



Multible answers possible. Source: Match-Maker Ventures Corp-Up survey 2016

UNDERSTAND YOUR REASON WHY

As outlined before, corporates need to understand first why they want to engage. The following key objectives by vehicle can be crystallized.

One-off events: Focused on image enhancement both in the market as well as towards employees and potential employees. Targets early-stage startups.

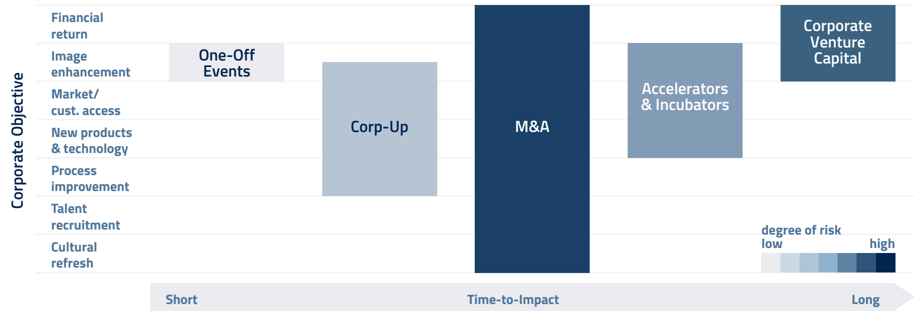
Accelerators & Incubators: Focused on image enhancement as well as new products & technologies. Targets early-stage startups.

Corporate Venture Capital: Focused on creating a financial RoI from the investment itself. Slight differences by type of investment occur (strategic vs. financial investment). Strategic investment are also supposed to create benefits for the core business.

Corp-Up: Focused on getting access to new product & technologies as well as internal process improvements and access to new markets and customers (if startup is already later stage). Focused on more advanced startups compared to one-off events.

M&A: No clear focus as it highly depends. Usually the focus lies on owning a new technology or having access to the actual team (acqui-hire). Depending on the stage also market & customer access can be a key objectives.
The subsequent diagram ranks the vehicles according to corporate objective (y-axis) and time to create impact (x-axis). Time to impact is highly dependent on the stage of the startup and investment horizon. Degree of risk reflects the exposure/ investment taken.

Engagement vehicles fulfil different objectives



Excerpt

Collaboration in Africa kicking off between corporates and startups

by Marcello Schermer, Regional Manager for Africa at Seedstars

Africa is experiencing a startup boom and an increasing need to foster corporate-startup collaboration. Players like Seedstars are strongly engaged and try to push the ecosystems by fostering collaboration between corporates and startups.

Africa is the new frontier of opportunity when it comes to startups and entrepreneurship. It is a continent that is home to over 1bn people while growing faster in terms of GDP, mobile penetration and internet connectivity than any other continent. However, building a startup in Africa is still a daunting task due to local challenges as well as a fragmented market of over 54 separate countries and over 2000 languages in Africa alone. This is why the key for African startups to succeed is not just capital, but access to markets and customers, which is one of the key assets that corporates can bring to the table. Pressured by competition and the need to innovate, corporates are launching a variety of programs to find, grow, invest in and collaborate with startups.
At Seedstars, we have successfully supported major African and international corporates such as Standard Bank, Lastminute.com group, AP-Swiss, Inmarsat, Google, Orange and many more on developing a variety of initiatives to increase their support and collaboration with startups across emerging markets and in Africa in particular. From our experience, the main types of programs that corporates in Africa are involved in are:

Accelerator programs: Taking existing startups through a 3 months corporate accelerator program where they will be grown and groomed to provide services or integrate with the corporate partner are the newest addition to the corporate entrepreneurship space. The most prominent example is the Techstars accelerator that is being run with Barclays in Cape Town.

Dedicated innovation development: A variety of corporates are hosting hackathons – weekend events where innovative ideas are created over 72 hours – as well as longer term programs to create dedicated solutions in a predefined problem space. Together with a clear process and resources to grow and integrate the best programs into the corporate, these programs have the potential to create low-cost and highly targeted innovations. Corporates such as Standard Bank & Twitter have leveraged these events to create new products and services on their platforms. Beyond that, Seedstars is running an Academy program in Lagos that takes potential FinTech entrepreneurs from idea to revenue in 6 months with potential follow-up investments from corporate and VC partners.

Events & competitions: Lastly, corporates across the continent have been supporting or hosting a variety of startup competitions. Not only are these events great opportunities to source interesting startups, but they also provide a significant marketing and branding upside to the involved corporate. Programs like the MTN entrepreneurship challenge that was hosted in 16 countries across the continent, the

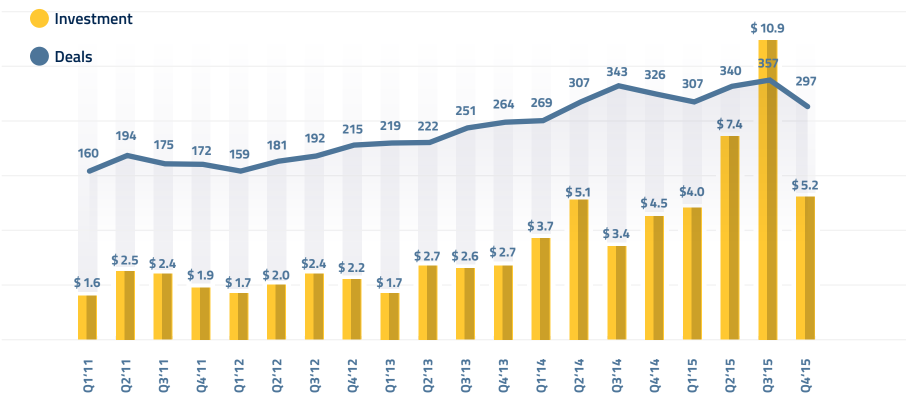
Africa startup cup, and our own Seedstars World competitions hosted in 20 countries on the continent have offered a valuable platform for corporates to connect with entrepreneurs.
Considering the increasing potential of startups and entrepreneurship on the African continent and the naturally symbiotic relationship between startups and corporates, we believe that the avenues of collaboration between the two will only become more important in the years to come.

A new approach is required: Corp-Up!

Corporates like to own. CVC activity has steadily increased. Even if Q4/2015 was significantly lower than the previous quarter, it still represents a growth year-on-year and at least a five year high.

Corporates like to own, but equity has an inherent issue: Instead of focusing on creating business impact for your customers, you are inclined to focus on valuation increase. This results in "free riders" on the equity side targeting the maximization of startup valuation within 5 years. Such results are easier to accomplish by playing around with P&L and balance sheets than dealing with actual customers, demand driven product development, and creation of actual revenues ("Corporate accelerators want to get rich on your equity, but you want customers.").
We are often receiving the question by corporates: "But aren't you missing the upside?" as our business model is focused on a participation of the actual revenues generated as opposed to a valuation increase. Corporates often have issues with grasping this model, which is telling in and of itself.
We often experience at corporates the fear of missing out (FOMO), which is so present that alternatives to "mine, mine, mine" are simply not pursued. The focus on equity can clearly be observed by the increasing activities of CVCs over the past years.

Global Quarterly CVC Financing (USD bn)



Source: CB Insights

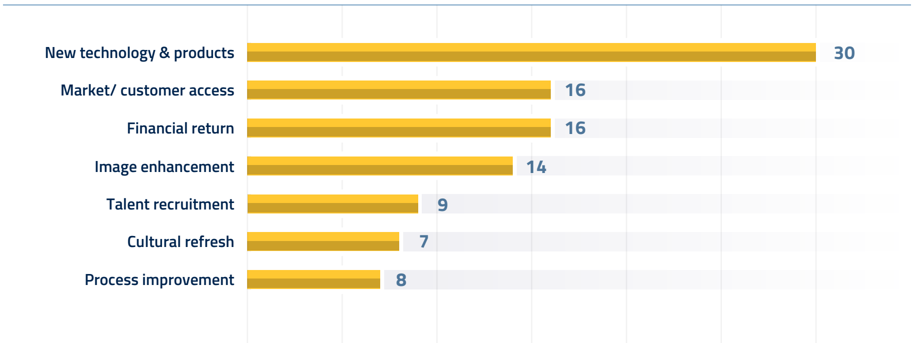
"It's time that collaboration is moving from being financial-driven to business-driven."

Corporates are following a fundamental flaw in their own logic. The equity game is far more expensive and far from adhering to a key startup theme: "Trial fast, fail fast." Once you are invested, you are committed and often your focus becomes blurred.
Throughout the interview we increasingly experienced a rising frustration among

corporates as neither the strategic investment nor the financial investment into startups starts to pay off. Likewise, startups start to realize that they are not at all set with their first large customer only because they were admitted to a corporate's accelerator program or the like.

The equity "obsession" of corporates becomes even more surprising as the main objective across all vehicles clearly lies on "new products & technologies": 30% of corporates state this is the key objective followed by market/ customer access with 16%. The question to be asked is, WHY do you need to own the startup? Corporates are not buying all their suppliers, but acknowledge that specialized companies are simply doing certain things better. The same should hold true for startups. It's time to move to creating value for your customers and start focusing on Corp-Up engagements.

What were your objectives for the collaboration?



Source: Match-Maker Ventures Corp-Up survey 2016

CORP-UP TO LIVE UP

Corp-Up encompasses a broad field, but an essential difference to other vehicles lies in the focus to create business impact for the existing operations. This can be in the form of a supplier relationship or by creating a joint venture. The Corp-Up can target to jointly launch a proposition (common in particular in the field of data analytics) or target the corporate directly as an end-user. You can differ the following Corp-up models (thanks to Nesta).

Types of Corp-Up

Procurement	Marketing/ Distribution Partnerships	Licence Agreement	Joint Development	Joint Ventures
Startup supplies products and/or services to the corporate	Joint marketing campaigns/ corporate distributes the startup's product or service	Corporate licenses the startup's IP/technology or vice-versa	Shared resource arrangements (labour, intellectual property, capital or other assets) with no new legal entity	Joint contribution of labour, intellectual property, capital or other assets into a new entity

Increasing integration

Source: Nesta

CORP-UP IS PAINFUL

Stating that startups have "poor" sentiments towards corporates would be a huge understatement. We asked startups and corporates both, what is the first word coming to your mind when you think of the other? The results speak for themselves, and indicate a lot of the work to be done on the corporate side. On the other hand they also state an opportunity for startups: The doors to large corporates have never been this open before.

Corporates about startups

Startups about corporates

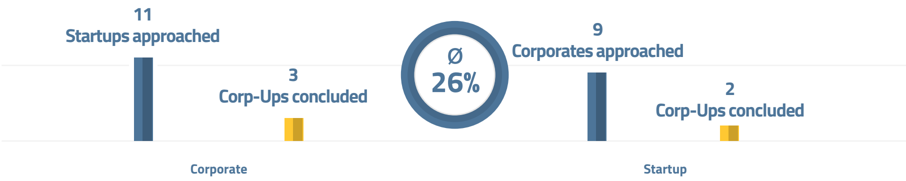
Source: Match-Maker Ventures Corp-Up survey 2016

It takes on average between 7.3 months (corporate view) to 8.7 months (startup view) to reach a signed contract from initial contact. Average duration of a startup – corporate collaboration ranges from 16.5 months (startup view) to 18.3 months (corporate view).

We looked at the figures, and asked both how many corporates approached startups and vice versa over the past 12 months. The results are below. Corporates being active in Corp-Up (63%) approached on average 11 startups over the past 12 months. Out of the 11 approached, 3 Corp-Ups were concluded. On the startup side the figures are similar. 55% already engaged in Corp-Ups and they approached on average 9 corporates over the past 12 months, on average 2 Corp-Ups concluded. Good or bad? A 26% conversion ratio is not bad, but two facts do worry us:

1. Many of these relationships eventually **ended in pilots**, so even if a Corp-Up concluded no actual business impact was realized.
2. Also to put the number of **9 vs. 11 approached in perspective**: The median startup having participated in this survey counts between 20-49 employees, whereas the median corporate counts more than 1000 employees. A proportion in balance would be somewhere close to 1:50 in terms of potential partners for collaboration approached.

How many Corp-Ups were concluded out of the startups/ corporates you approached?

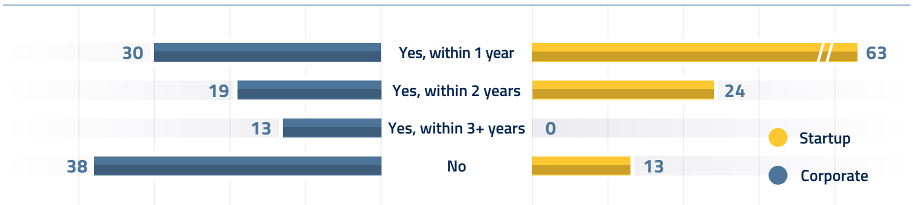


Source: Match-Maker Ventures Corp-Up survey 2016

63% of startups agreed that Corp-Up results are realized within 12 months against only 30% of corporates.

Once a Corp-Up is concluded we also asked, how long does it take to create the expected business impact? Startups and corporates have a very different perception. This indicates that startups' understanding of expected results differs from those of corporates, reflecting poor initial alignment. The results also show that startups have shorter timelines – the maximum they wait for results is two years. If benefits are not achieved in this timeframe, the Corp-Up can be declared failed.

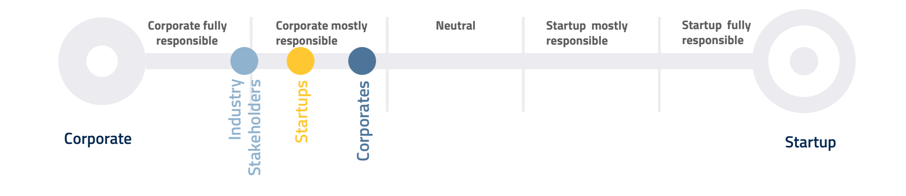
Did the Corp-Up produce the results you expected?



Source: Match-Maker Ventures Corp-Up survey 2016

Naturally we asked the question: "Whose fault was it?" Not surprisingly the finger most often pointed to corporates. Even corporates considered themselves more responsible for the challenges arising.

Which side was mostly responsible for the challenges?

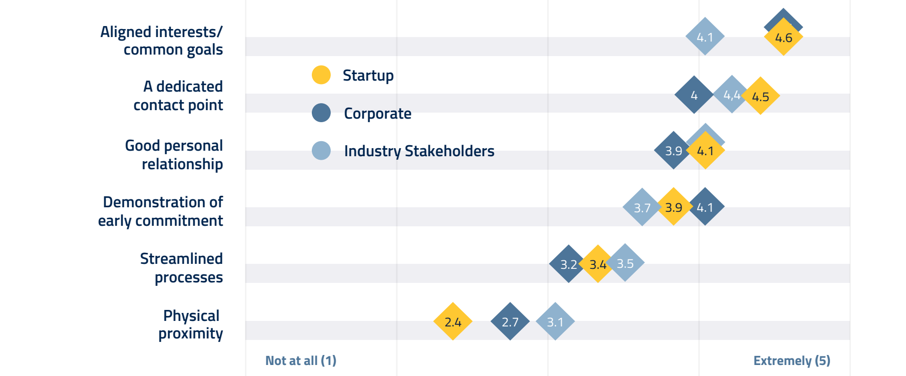


Source: Match-Maker Ventures Corp-Up survey 2016

Summing up – It pays off

Challenges are easier to overcome if you are actually aware of them! Thus, we asked what the key challenges were to achieve and sustain a successful collaboration. Aligning interests and aligning on a common goal is considered of highest importance for all stakeholders, followed by having a dedicated contact point on the corporate side. Physical proximity is considered least important.

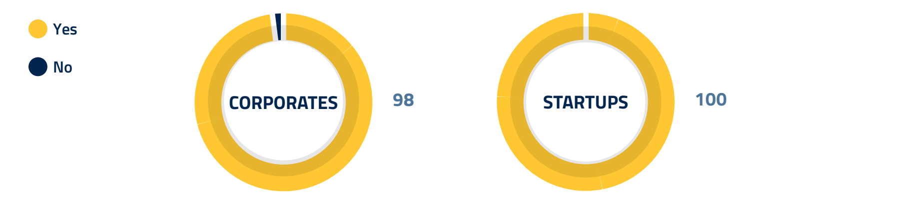
What is most important for achieving and sustaining a collaboration?



Source: Match-Maker Ventures Corp-Up survey 2016

We acknowledge the challenges, but do not believe that either side can or should accept this. As one of our colleagues once put it when speaking to the Board of a European telecom incumbent in light of the shrinking revenues due to the upspring of OTT players (Over-The-Top): "It's like playing chess, your field of action gets smaller and smaller, and it won't be a pleasant experience. The journey will be long, but eventually your king falls." Inaction will undoubtedly be punished more than action in the long-term.
On a positive note: We also asked those corporates and startups who already collaborated: "Would you collaborate again?" Almost 100% answered YES. This was confirmed by the individual interviews. There needs to be some reward in it for all the effort.

Would you collaborate again? (%)



Source: Match-Maker Ventures Corp-Up survey 2016

Excerpt

The role of third parties

Third parties are needed when two parties reached a basic understanding of needing each other, but are unable to effectively initiate. This is what we are experiencing between corporates and startups, which has led to a corresponding increase of active players operating at this intersection.

Where third parties can help:

- **Providing network access**: Network is one of the key assets both sides usually lack. Startups are trying hard to get to corporate decision makers, but to (a) identify, (b) approach, and (c) connect to the right person, it often takes too much time. Likewise, corporates are usually lacking a strong enough understanding of the startup world required to identify the right partners. Third parties have roots in both worlds and can play the connector making valuable introductions.
- **Bridging the language gap**: Startups are not corporates and vice versa. Both often fail in identifying the true business rationale for collaboration as they are unable to formulate their expectations, needs and objectives in a mutually understandable way.
- **Driving the process**: Startups lack the capability to drive the collaboration process and corporates lack the capacity to lead it. Well-connected and experienced third parties can support in managing the process, driving the parties and forcing decisions by playing the devil's advocate.

Most third parties active today focus on the sourcing of startups for corporates (applying various approaches, from a platform approach, to continuous pre-selection, to dedicated search). Consultancies like **Arthur D. Little,** coming from the corporate side, help corporates to understand the bigger picture and handle startup engagement in light of their digital transformation.
The **Telecom Council of Silicon Valley** is focused on connecting global carriers with startups in regular match-making meetings. During last year's TC3 Summit close to 1,500 private meetings were organized and startup leaders like Patrick Hennessy of FusionPipe Software Solutions said: „TC3 is the event that every startup must attend if your business plan includes selling into the Telco market."
We from **Match-Maker Ventures** are active right at the intersection. We work with startups and support their scaling-up activities as well as support corporates in understanding the tricky startup world. The dominant difference of our model lies in its comprehensiveness (from sourcing to onboarding) and its short-time focus (business impact within 12 months).

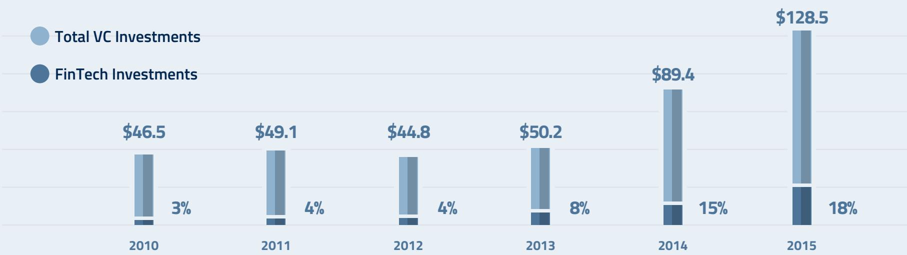
Excerpt

Financial Services revolution still ahead

What is FinTech? Financial Technology, commonly abbreviated as "FinTech", is an industry built around essentially any innovative product or service using software to provide financial services. What originally referred to back office technology now encompasses products and services disrupting areas such as payments, lending, personal finance, capital markets, insurance, and more.

Since the turn of the decade, FinTech has been on an explosive uptrend, particularly in the past three years. Global investment tripled from 2013 to 2014, reaching over USD 12bn; and doubled to USD 23bn in 2015. New technologies are only in their early stage, and many FinTech startups are receiving funding today to be able to disrupt established services tomorrow.

FinTech investment as of total startup funding (USD bn)

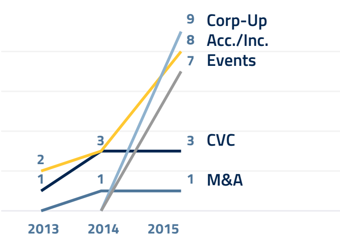


Source: CB Insights 2015, Dow Jones

Pressure on European banks increases significantly with rising investments in Europe and the FinTech boom in the US.

Meanwhile, according to Goldman Sachs, up to USD 1,566bn of the USD 7,792bn market size in the banking system is at risk, courtesy of numerous new entrants set to disrupt the traditional status quo. While North America has dominated the FinTech space (~65% of global investment), we see Europe gaining an increasingly larger share of FinTech investments. Volume increased by 120% in 2015 and unicorns such as iZettle, Adyen, Klarna, and Funding Circle have emerged over the past few years. Some banks have already been extremely active with Goldman Sachs, J.P. Morgan, Morgan Stanley, Citigroup, and other international bulge brackets continuously making headlines. With European banks beginning to wake up, we evaluated the activity of 20 major European players to document the uptick in FinTech engagement. 2015 was a record year for Europe as 16 of the 20 analyzed banks launched a new startup engagement vehicle, up from a mere 6 in the year prior. The environment has steadily shifted from combative to collaborative, and we have noticed a trend towards "enablers" rather than "disruptors". Even traditional institutions are beginning to shift their attitude towards innovation, both internally and externally. For example, Deutsche Bank has already begun to engage with FinTechs through collaboration.

Engagement initiation trends



Source: Match-Maker Ventures analysis

Deutsche Bank's startup engagement

1 Robo-Advisory	2 Digital safe	3 Banking (Account aggreagation)	4 Banking (New account)
fincite	**DSwiss**	**figo**	**webIDsolutions**
Launched Dec 2015 "Anlage Finder" goes live on Maxblue (investment platform) Targeting experienced and first-time investors Peer-to-peer comparisons and risk management next.	**Scheduled in 2016** Provides document management services Allows users to archive personal documents, invoices and passwords in their "digital safe"	**Scheduled autumn 2016** "Multi-bank-aggregation" Client can manage all their assets, liquidity and credits by using DB online and mobile banking Covering all client accounts outside DB as well	**Scheduled late 2015** Open entire new account via the internet Available and functional on the same day Legitimation and electronic signature technology by webID

Deutsche Bank's fundamental shift is reflective of the industry as a whole, as aging, lumbering institutions leverage their abundance of knowledge, connections, capital, and customer base to seriously engage with the rapid rise of innovations – working with FinTechs to build the financial industry of the future.

Case study

Seasonax – working with the information giants

Vienna-based Seasonax is yet another exciting FinTech startup that has gone to market earlier this year. It is an analytics and charting application that allows financial professionals to easily identify and evaluate seasonal patterns for any asset-class to amplify returns. The software enables users to discover and investigate these seasonal (e.g. monthly, annually or event-driven) patterns within seconds to support their investment decisions.

Given the importance and dependency on high quality real-time as well as historical data, Seasonax has opted to partner with the two leading financial information providers globally: Thomson Reuters and Bloomberg.

Both information giants have recently opened their individual App stores attracting new innovative FinTech startups to complement and enhance their premium product offering.

For Seasonax these partnerships go well beyond the data-only aspect as both corporations open their door to a market of approximately 650,000 professional users in the financial industry. As such, Thomson Reuters and Bloomberg become the predominant sales channel for the Austrian startup offering them an easy access to the targeted end-users backed by strong market credibility and high quality data.

It will be interesting to see how Seasonax' G2M model (B2B2B) will work out over the coming months as the App store concept is new to both information giants and for now just a "supplement" to their exclusive and expensive individual offerings.

04

Corporates: Get-up and Corp-Up!

- Ensure top management commitment and assign clear accountabilities
- Act fast, take decisions and allocate sufficient resources
- Involve business owners early on to ensure successful onboarding

We ranked the answers regarding „Who holds the startup responsibility?" in order of repitition:

- Business Units (incl. head of products, head of markets)
- Strategy team
- Chief Innovation Officer or Director Digital Innovation
- New business team (incl. eco-system team to partnering team)
- CEO
- CTO
- Venture arm/ investment team
- Labs
- And of course the answer "It depends…"

Making startup engagement a core element of your business and enabling your organization to profit from startups in a continuous, efficient and effective manner requires more than just the acknowledgement that startups are important.

To make collaboration truly happen, a massive shift in your organization is required. We believe five overarching success factors need to be adhered to:

1. **Top management commitment**: Corporates often operate on a short-term, incentive driven basis. To prevent a startup initiative from being abandoned after the first challenges arise (and they will), top management support needs to be ensured. It is important to set multi-year objectives and promote the topic wherever you can.
2. **Clearly assigned accountability**: There needs to be clear end-to-end, from sourcing to onboarding, accountability, particularly in the beginning. Only once your organization becomes more experienced in Corp-Ups should accountability be distributed, and individual objectives for different units set.
3. **Sufficient and appropriate resources**: We refer to both human and financial resources. You need to have not only the relevant skill sets, but also sufficient time allotted to focus on this activity. We also believe that a dedicated financial budget (pre-approved, ring-fenced) is essential to ensure fast and efficient decision-making.
4. **Agility in setup and process**: Be aware of the different working cycles of startups. Where corporates count in months, startups count in days. Two approaches for managing the timing constraint are (1) dedicating resources and (2) maintaining a lean team – there is no need for 15 of your people to take part in meetings (we see this too often).
5. **Strong involvement of the business owners**: As you want to create business impact, you need to ensure that each new partnership idea has a business owner from the start. They need to be involved throughout the entire process and you will need to have a clear anchor point in the individual BUs. To increase involvement, you need to develop shared KPIs early on.

"At YTL Communications, senior executive management team is completely involved in startup collaboration. An executive sponsor will be involved in every step of the process – from sourcing to negotiation to life-cycle management. The progress of all collaborations are regularly reviewed within the senior management team." Ali Tabassi, COO at YTL Communications

"Set up a dedicated hierarchy for startup engagement because to talk to startups and understand them, you need to speak their language and have the right empowerment to communicate with other departments." Recommendation by Robert Budafoki, Telecom Executive and successful startup entrepreneur

"Corporates need to speed up to meet needs. For example if the goal is to achieve ideation to product in one week to 10 days, most corporates need one week to organize one meeting." Nick Kallas, Executive Advisor at STC

In the following sections we review how you can structure a process from initial setup to actual business impact creation. For this we will build on the following high-level process steps.

Startup engagement process

SETUP: BLUEPRINT AND SEARCH GRID

Spend time on defining your search grid. Without clarity on what you are searching for, what the minimum requirements are and which limitations apply, it will be very challenging for your team to identify the right startups.

Setup refers to getting started with your Corp-Up activities. Although the term may imply this being a one-time activity, it is a continuous process. Adhere to the following four steps:

1. **Set your objective**: We emphasized the importance of setting clear objectives before. This also holds true for your Corp-Up activities. To set the right objectives, you need to be brutally honest about your own strengths and weaknesses.
2. **Enable the organization**: Enabling the organization relates to setting the key guidelines for your Corp-Up activities: Accountability, incentive structure, resource allocation, alignment with other innovation activities and alignment with BUs should be clarified.
3. **Start running**: There is nothing more valuable than actual, real-life experiences. We are strong advocates of "Trial fast, fail fast," though it is much easier said than done. It requires a strong management team to survive the first wave and be able to benefit from your learning experiences. There will be a lot of resistance, in particular if you create some sort of special treatment for startups. A quick start will also help you in achieving visible impact quickly.
4. **Design and continuously optimize**: Design based on your experiences from "start running". Capture your learnings continuously and ensure that you have sufficiently experienced resources to design a process fitting to your organizational requirements. Oftentimes outside help will be required.

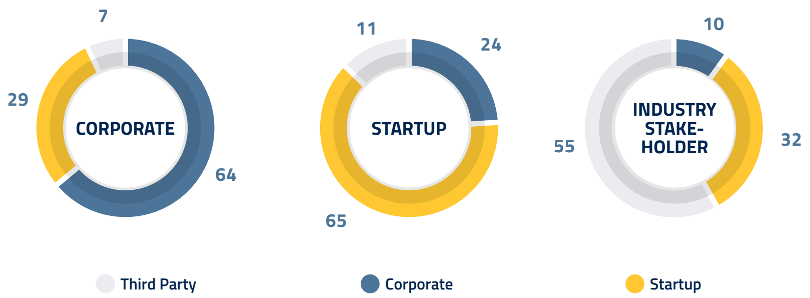
"Search grid" refers to aligning on what you are searching for. Do you follow an outside-in, inside-out or hybrid approach? What are the capabilities, the stage, and the overall characteristics of the startups you are looking for? Do any regional or geographic limitations apply? It's important to give guidance for the subsequent process steps, else you will target the world which is abundantly full of opportunities. The more guidance you provide, the easier it will become.

TARGET: CREATE A LIST OF STARTUPS WILLING TO WORK WITH YOU

Corporates are well advised to develop an entry gate for startups. 57% of surveyed startups name identifying the right contact person as the main challenge to set up a Corp-Up. Given that anyone can reach out to you via your online presence, there is no excuse for not having this clearly defined.

Targeting refers to monitoring your defined markets as well as sourcing startups. Monitoring can either be performed outside-in, i.e. you look for all topics which might be relevant for your line of business or inside-out, i.e. you consolidate and prioritize demands internally to search on the market. A hybrid approach combines both approaches. Sourcing relates to both actively searching the markets as well as making your corporate attractive for startups to create an inflow of startups. So far most corporates have not been able to create an actual inflow of startup business proposals (nowhere close to the numbers applying for Venture Capital).
We also asked the survey participants who usually initiated the Corp-Up. We had a good smile as all interviewed parties claim that for themselves.

By whom was the Corp-Up usually initiated? (%)



Source: Match-Maker Ventures Corp-Up survey 2016

When we approached a large European telco with one of our portfolio startups, we received the following answer: "Do you want to apply for our accelerator or do you need funding?" There was not even an attempt to discuss real business – we dropped this corporate and focused on other more advanced competitors.

Prior to targeting, you should answer the following questions:

1. **How to search**: Which channels to use? What are the most relevant sources? How to quickly validate information?
2. **How to be found**: How can startups approach you? What is the right entry gate? How do we ensure high quality of inflow (avoiding having to review hundreds of proposals)?
3. **Whom to partner with**: Whom to involve internally? Which partnerships to conclude? Which VCs, accelerators and other multipliers are of most relevance? Partner with any other corporate in a joint effort?
4. **How to handle the work**: Should you build an internal team or get help externally?

Case study

Vice President Hubertus von Roenne states that "collaboration with startups provides the corporate with a lot of fresh air, input, energy, and – importantly – a lot of fun", but likewise is "challenging to realize value".

BT: Inside-out and outside-in combined to identify best-in-class startups

BT has long acknowledged the increasing importance of startups for its core business. One of the key challenges faced is the sourcing of best-in-class startups. To overcome this hurdle, a dedicated scouting team present in multiple global innovation hubs is managing the sourcing process in close collaboration with the business units. Sourcing works from two ends:

Inside-out approach: Market units provide directions, goals and requirements to the scouting team, which then consolidates the inputs and actively searches for startups fulfilling these criteria. Throughout the selection process the market units remain closely involved minimizing time from identification to value creation.

Outside-in approach: Approximately half of the startups are being sourced based on the team's own accord. Those startups run through the "New-Idea-Process". As there is no predefined business owner, creating joint value represents a bigger challenge. To overcome, as VP von Roenne states, the Board (incl. CEO) is involved in the selection process as well as a dedicated budget is allocated upfront.

In this line, BT also acknowledged to rework its procurement process to become more efficient and agile and adhere better to the startup capabilities.
As much as BT is expecting from itself, expectations in startups are equally important – VP von Roenne has the following recommendations to startups:

1. Be clear about the problem you solve and the business benefit you offer to the end customer!
2. Try to calibrate your enthusiasm and avoid becoming frustrated – be patient!
3. Find a way to support the sales efforts!

About BT: BT is one of the world's leading communications services companies, serving the needs of customers in the UK and across 180 countries worldwide. Main activities are the provision of fixed-line services, broadband, mobile and TV products and services as well as networked IT services.

54% of corporate respondents indicated that sourcing and identifying the "right" startup is the main challenge in establishing a Corp-Up.

IDENTIFY: WHO ARE THE WINNERS?

Once you have been able to fill the funnel, you want to ensure that you (1) evaluate the startups efficiently and in a coherent manner as well as (2) select the right ones.

You should not underestimate the effort currently being created by startups approaching different units within your organization. We have experienced unbelievable stories by corporate employees suddenly becoming startup evangelists and creating tons of work. Thereby the process should adhere to corporate strengths: Creating repeatable, highly scalable and efficient processes. You also want to prevent five different committees evaluating startups dealing in the same line of business. Coherence across startup evaluations is important. Obviously you will need to reflect local market specifics, but in the digital age these are becoming less and less important.

You should likewise not underestimate the complexity in evaluating startup's capabilities as well not be surprised how often reality and startup's promise diverge. Most startup entrepreneurs spend today hours in pitching and presentation trainings. You better have somebody critically reviewing the business and technical capabilities of the startup. The evaluation grid should follow your search grid.

Startups invest a lot of time to work with you. Have the courtesy and give honest feedback, but often startups don't even receive a "No".

To give you a feeling, our search grid is based on the dimensions of team, product, market and business model. Along each dimension we are looking for traction (startups already having achieved proof-of-concept), USP (as we look for innovation) and scalability (required for our business model). The grid below provides you with some of the KPIs we are evaluating along the process.

Startup search grid

	Team	Product	Market	Business Model
Traction	Team history Individual background Complementary skills	Proof-of-Concept Prototype	Customer traction	Funding secured Clear business KPIs
USP	Industry experts	Intellectual Property Rights (IPR) and ownership New technology Clear competitive advantage	Unique value proposition addressing major pain points Strong customer demand	Disruptive High margin Competitive pricing
Scalability	Experienced founders Strong Advisory Board	Open technology Easy integration Fast onboarding	Target market size Average deal size Price sensitivity	Internationalization Customer lifetime value Customer service

Setting up the right committees is an art in itself and needs to be reviewed for each respective corporate. You will want to have it small enough to take decisions, but likewise you will need to have a good representation of the key people required for making the collaboration happen.

As we commence, each box will be expanded upon and we will look at more detailed metrics within each box. In regular senior meetings, we discuss the different startups along the stages and decide whether we want to move forward.

As a corporate, you should put in particular focus on the joint value creation potential. Make sure that you formulate this early on and involve the relevant internal stakeholders. Be aware though that often startups lack the proper understanding of how they could create value for you.

Lastly, enable decision-making. You will want to have committees established who are empowered to take decisions. Going forth and back creates work, costs time and leads to frustration on both sides.

ONBOARD: COMMERCIAL AND TECHNICAL

If you are considering onboarding only now, it is already too late! Gather your onboarding requirements early on and have them constantly in mind.

Onboarding refers to **closing the collaboration agreement, implementing the startup technically and onboarding with your commercial teams** in case the startup works as a B2B4C/B model. Clearly, the earlier you think about onboarding (commercially and technically), the better. Unfortunately technical teams and commercial teams often only get involved once a decision is made and execution/ implementation is kicking off. This will not only lead to (often justified) delays, but also fosters a "not invented here" mentality.

"It is very important to have a good project management in place – one person should be responsible for the collaboration end-to-end in order to ensure that objectives are accomplished." Rainer Fuchsluger, Former Head of Sales at Thomson Reuters and Founder of 8 Peaks

To quicken onboarding, **decision cycles** have the single biggest impact. In addition you should work hard to simplify your procurement processes. We understand that this is a big task, but quick wins can often already be achieved by:

- Developing a modular, startup-focused framework applicable to different corporate-startup situations. Subsequently you can work with legal experts to develop standard contracts for these situations.
- Assign an internal champion for dealing with startups who is involved in all startup contracts.

Technical teams should always think beyond pilot. A pilot by itself is of no business value for either side. It comes down to what happens afterwards.

Not a quick win but worth pursuing, is the application of different procurement rules depending on the size of the actual deal in addition to simplifying the RfI/ RfP process. Don't underestimate the challenge you put on startups if you apply your existing procedures to them.

Technical onboarding most often represents a huge challenge, as IT seems to be a constant bottleneck suffering from chronically lack of resources. You are well advised to not enter into re-prioritization discussions, as you will most likely loose. The key is involvement, dedicated resources or ring-fenced budget and the openness to involve external support and KPIs.

If the startup works in a B2B4B/C model, we highly recommend to (a) involve the respective product managers as well as (b) involve the sales teams early on. In particular the sales effort represents a major challenge for any corporate. We have heard numerous times: "Yes, but our sales force is incapable of selling this." This is in particular true in industries like telecoms, financial services or utilities. If you want to survive, you essentially have three options: (1) Involve, (2) Train or (3) Exchange.

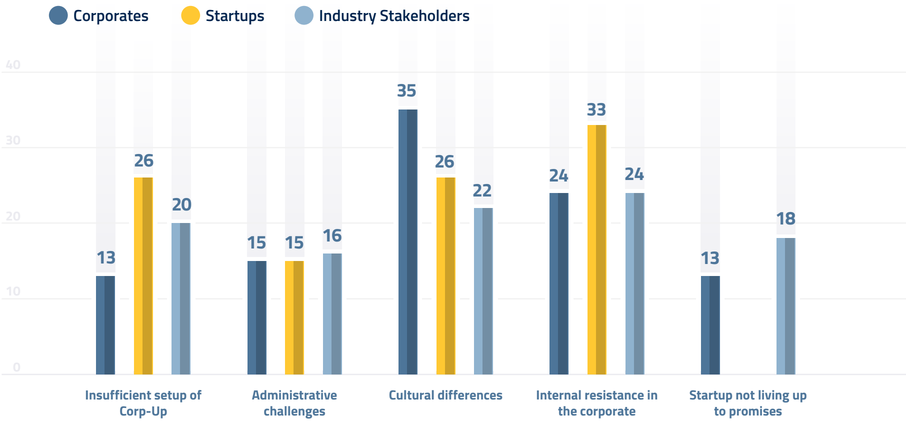
26% of startups agree that "internal resistance to work with a startup" is the single biggest challenge after initiating a Corp-Up. Similarly, 35% of corporates rank cultural differences as the key challenge.

Startups appear to deliver on their promises. Only 13% of corporates agree that the "startup not living up to promises" is a key challenge.

MANAGE: PROSPER AND GROW

The final step is just as important as all previous ones: Ensuring that the promised value is being realized. Corporates perceive cultural differences as the single biggest obstacle for a successful collaboration. Startups widely agree, but feel that the internal resistance at corporates is an even bigger inhibitor of realizing joint value creation potential.

What is the main challenge after initiating a Corp-Up? (%)



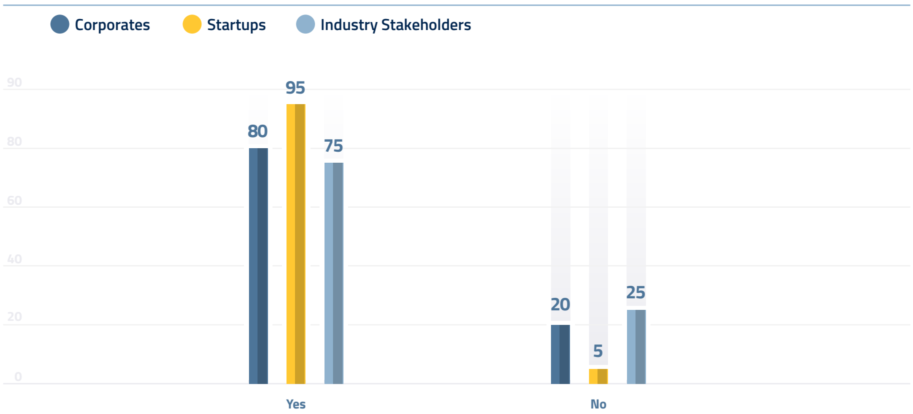
Source: Match-Maker Ventures Corp-Up survey 2016

"Even if the collaboration is working, in the end the business impact is often too small. 'Too big to die, too small to live'." Olaf Lausen, Chief of Staff & Director Business Development at Telekom Romania

Lastly to make sure the Corp-Up can live up to its potential, initial expectations should be realistic on both sides. You need to be aware that there most likely won't be one startup creating an equivalent of 10% of your existing revenues within 2 years. Businesses take time to prosper and be successful, hence you need not only to identify the right ones, but also focus on a sufficiently large number of Corp-Ups to create a visible impact on your top- and bottom-line.

To conclude this chapter on a positive note: 80% of corporates and 95% of startups surveyed were able to overcome the identified challenges. So, it can be done!

Were you/ are you usually able to overcome those challenges? (%)



Source: Match-Maker Ventures Corp-Up survey 2016

05

Startups: It's on you too!

- → Know when the opportunity arises and grasp it
- → Enable decisions by validating the joint value creation potential
- → Remain flexible, maintain pressure, but know when to pull the plug

69% of startups rank the strategic importance of corporate collaboration as very or extremely high. FinTech startups rank this highest at 91%, followed by telecommunications (88%). Lowest are media and professional services, each at 50%.

Overall, 69% see corporate collaboration as of "very" or "extremely" high strategic importance. In order to reap the benefits, we strongly believe that startups need to shift focus from obtaining capital to creating tangible business impact.

How strategically important is collaborating with a corporate for your startup? (%)

Source: Match-Maker Ventures Corp-Up survey 2016

Thomas Kicker, VP Group Business Development and Partnering in the US at Deutsche Telekom recommends the following to startups:

"Understand what you want! What is it that you want to get out-of the corporate collaboration?

Try to understand your stakeholders! Who are the stakeholders, the decision makers, what is their objective, their incentive and their political environment?

Acknowledge the differences. Any corporate has different decision cycles, so adjust your planning accordingly!"

To make that transition happen and succeed in your next collaboration we believe the following six success factors should be adhered to:

1. **Know when you are ready**: Requirements of corporates are very high. You need to have a subtle product and shift your focus from simply offering capabilities to being able to deliver a product or service.
2. **Be prepared:** Form a hypothesis of the joint value creation potential early-on and continuously validate that hypothesis. Try to better understand the corporate from all perspectives and constantly challenge if that hypothesis holds true or if you should abandon the opportunity.
3. **Be patient and persistent**: Corporates will never have the turn-around times like startups. Projects take time, and rightfully so, as there is often much at stake. Ideally, corporate execution will accelerate over time, but for now you must plan for delays and changes.
4. **Ensure your independence**: If you are tied to only one engagement, you will naturally become dependent. Even if you bond well with your corporate partner, their boss may overrule and take an executive decision with potential negative implications for you or the partnership at large. In many instances it makes sense to screen their competitors upfront and start engaging once you realize that things are not progressing with your preferred partner. Definitely draft alternative courses of action early-on and be prepared.

5. **Life-cycle-management – Keep on fighting**: B2B works very differently from B2C. B2B is geared for large size deals and long-term relationships. B2B organizations invest heavily in their account management teams, reflecting the importance of the personal relationship.
6. **Know when to pull the plug**: The most demanding competence, but potentially the most important one. Your day is limited to 24 hours – and B2B sales will consume much of it. Ensure your time is wisely allocated – be selective and kill opportunities with limited potential early.

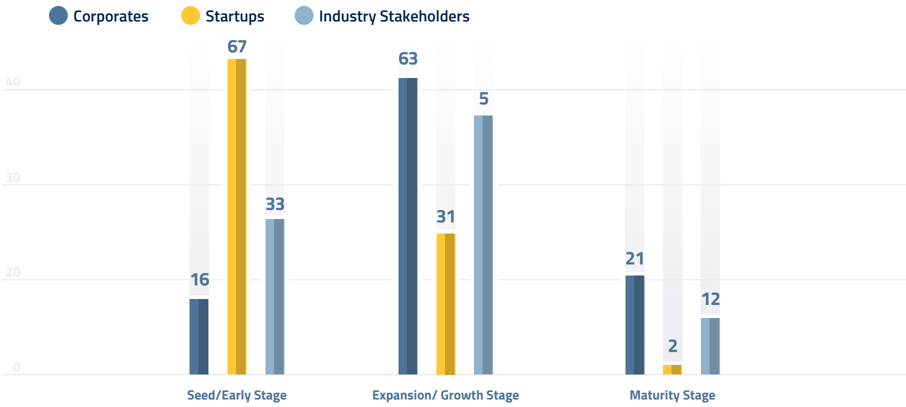
KNOW WHEN YOU ARE READY

Only market feedback can tell you if you are ready to pitch at the corporate table. Choose wisely what to be secretive about.

"Before you start you need a well tested plan. Our experience is that time spent on this helps you understand your stakeholders and deliver a better pitch." Neil Mathieson, Business Development at Union Financial Technologies

Time is your most valuable asset, so ensure that you are spending it carefully. Unfortunately startups often approach corporates too early, before they are actually ready and capable to effectively work with them. This becomes obvious when you compare the stages, when startups and corporates approached each other for a Corp-Up. Startups most often go after a corporate already in their seed/ early stage (67%) vs. corporates who focus on the expansion/ growth stage (63%). Also, most industry stakeholders lean towards the expansion/ growth stage.

At which stage was the startup when the collaboration started? (%)



Source: Match-Maker Ventures Corp-Up survey 2016

The truth lies in the middle and is one of the reasons for this report. As a startup you need to gather a good market understanding, be able to form a hypothesis of your corporate pitch and offer a solution/ product supporting the hypothesis. With this you are ready to pitch. It is critical to understand that you do need to gather valuable market feedback as early as possible, but this is fundamentally different from actually pitching your product/ solution.

The numbers likewise underscore the challenge for many corporates in engaging with startups. Corporates prefer to engage more in the later stage as this offers them more organizational structure, processes and resources. Eventually though corporates need to move towards being able to work with earlier-stage startups, too, as there is a lot to gain in accelerating time-to-market.

Case study

AdScanner learning it the hard way

AdScanner is a cloud-based advertising analytics platform, providing real-time data insights on TV-advertising. The solution is based on a proprietary algorithm allowing automatic detection of TV commercials and linkage to actual audience shares and other media activities.
The startup's strongpoints are its unique IP and in-depth technical knowledge. However, due to the "technical" lead the product did not address the actual pain points of intended customers, resulting in good feedback on the product, but low demand.
It required a major shift by the management team to switch gears and collaborate closely with major IPTV-players to ensure that product capabilities meet actual market demand. Furthermore, the „organization" had to adopt and understand corporate customer decision and sales process with different stakeholders.

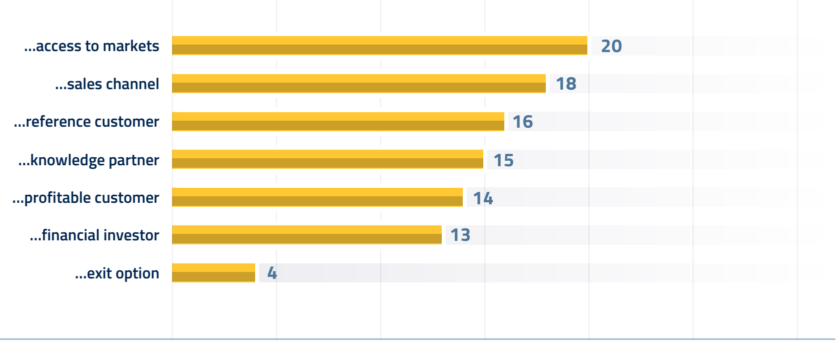
"Don't take the first one. Invest enough time to find the "right" one." Michael Horvath, business angel, co-founder and CFO at all i need

BE PREPARED

Preparation is of critical importance. Just consider the time you invest into research before you accept a new job or make a big purchase. Still, most startups hardly invest any time before they approach a corporate. We have experienced instances where the startup barely understood the line of business the corporate was active in.
Adhere to the following steps before and during your sales efforts:

1. **Identify and prioritize your targets**: Do your homework. Do desk research. Speak to people. Other startups are a great know-how pool. Fellow startups are usually able to provide insights with regards to how corporates deal with startups and are often able to introduce you to the right people within the organization.
2. **Form your collaboration hypothesis**: Your collaboration hypothesis should create value for yourself as well as for the corporate. If you can't formulate a hypothesis, you better go back to step 1! Be specific of what you want to get out of it as this will drive all of the subsequent work. In many instances it makes sense to start by focusing on an identified corporate problem before tackling top-level issues. Opening the door for the first time is always the hardest. Once you are in, try to expand by building your own network within the corporate.

What were your objectives for the collaboration? Corporate as... (%)



Source: Match-Maker Ventures Corp-Up survey 2016

"The personal level is extremely important – if you get endorsed by the right person, the first meeting with the corporate is already different, you meet at eye level." Andreas Schneeberger, CEO of Neccton

3. **Estimate resources required vs. benefits expected**: You should continuously rank your opportunities based on required resources vs. expected benefits. If you have not yet engaged with corporates, try to better understand the corporate requirements, particularly with regard to service levels and customer support.
4. **Identify your entry point**: Network, network, network – a personal entry-point is so much more valuable. Leverage online networks to identify relevant entry points. We usually pursue a top-down and bottom-up approach. Top-down helps to open doors initially and create a push when required. Bottom-up support is needed to actually move forward within the organization.
5. **Sketch a model of collaboration**: If corporates like your proposition, they will likely ask you how you can work together. You may already have proven models, but if not, ensure you have a proposal prepared.

BE PATIENT & PERSISTENT

Decision cycles have been stressed extensively in this report. Persistency – not to the same extent. As corporates are towers with a multitude of entries, hang in there and try to approach from different angles. There are always several ways in and most likely you won't identify the most promising one right from the beginning.
You might also experience that corporate employees say no or claim that they already have a solution – working the same way or even better than yours! You need to understand that often corporate employees have invested a lot of time and resources trying to address the same pain point you are addressing. In these circumstances you need to be creative: Go for a different entry or try to find an approach under which the corporate employee has an opportunity to shine as well.

Case study

Tessares and Proximus off to a good start

The collaboration between telecommunication startup Tessares, focused on combining available access networks to provide a unique internet experience, and Proximus, the largest Belgian telco, begun with an investment. However, the corporate's contribution went well beyond financial support, taking the form of a close technology collaboration to build a solution meeting the requirements from network operators around the world. Tessares Co-Founder and CEO Denis Periquet emphasizes that „Proximus helped us to create value that is meaningful for the market". Furthermore, the large telco gives a lot of credibility to the startup – all the way up to supporting the startup in negotiations with potential customers.
The technological collaboration will eventually transform into a supplier-buyer relationship for a product that has been co-developed with the customer to ensure it fits the customer's requirements 100%.

ENSURE YOUR INDEPENDENCE

Malcolm Ross: "Think "bacon and eggs" – chicken is interested, pig is committed. The corporates are doing their job (interested) but are not committed – for the startup they are 150% committed, and if it fails, they have insufficient resources to try again."

By nature the power game between startups and corporate leans heavily towards corporates. The implication for startups is to be particularly cautious about their role as you can easily be swept away.
When engaging you want to **ensure corporate commitment early** as there is too much of a risk that you are talking to someone who actually does not have any decision power. Also be careful when committing to pilots. Too often nothing will happen afterwards and the pain and effort will remain on your side. Be rigid and demand clear KPIs – in case they are reached, certain minimum commitments from the corporate side should apply.
Likewise ensure that you **don't give away too many decision rights** without receiving something substantial in return. Everything should be KPI-based. For example, you have not yet gained anything if the CEO ensures you access to their sales channels – insist on actual sales KPIs being defined and met. The same goes for exclusivity. Often corporates simply want exclusivity (independent of the relevance) – so make sure there is a clear rationale and that you get something in return.
During the negotiation you want to **balance your information flow** carefully. You want to trigger corporate interest, but likewise want to avoid giving everything for free.
Also be **aware of the procurement departments**. They are still often detached from the business units and you will find yourself reintroducing yourself. Our experiences are that procurement often asks for a discount even after you already agreed with the business side on pricing. Consider this when defining your pricing strategy.
Lastly **corporates are not individuals**. You might have been able to build a lot of trust with one employee, but you must have a proper contract in place clearly articulating the joint understanding – make sure this happens and that your key points are part of it.

LIFE-CYCLE-MANAGEMENT: KEEP ON FIGHTING

There is a good reason for having **Key Account Managers** in B2B sales. B2B contracts are larger, last longer and therefore it often pays off to assign a dedicated Key Account Manager. Startups usually don't have the luxury of free resources, so you need to handle this job in addition to your day job to develop a relationships allowing your collaboration to prosper. Don't underestimate the value of having an inside-person, but it will require a lot of your time and effort. Trust is not built overnight, and this is the reason why great key account managers are rare.

KNOW WHEN TO PULL THE PLUG

„Corporates are too slow, which can be devastating for startups, because the most valuable resource they have is time – if startups dedicate too much time to potential partners, they risk failure." Jovan Paunovic, CEO of VisMedic

It's hard to acknowledge, but often it's better to break off than to draw out the frustration. Normally you will sense if an opportunity won't move forward. If you keep on hearing "We will come back to you." or "We will discuss this with our boss." or "We need to better understand how we can fit this in." you are on the wrong track. Push your corporate counterparts for a decision as time is of essence to both of you.

Other indications are if you keep on meeting the same people over and over without making any real progress or if you feel genuine interest but don't get any commitment from the corporate. Pause such a relationship – inform your corporate counterpart and point out the conditions under which you would want to move forward. Be friendly, but assertive.

Likewise, be honest to yourself and don't feel obliged to say "yes, we can do this" to any corporate request when you actually can't. It's better to say no upfront than investing the time and effort required for an uncertain outcome.

But let's stay positive. We strongly believe the more you adhere to steps 1-5, the lower the likelihood of needing to pull the plug.

Outlook: Interesting times ahead

As we look ahead, the ability to collaborate will become more mission critical for any player. Coming from the "age of disruption," we believe we are entering the "age of collaboration" with this being the decisive factor in future growth.

The capability to collaborate effectively will become even more relevant for startups and corporates. Corporates represent startups' gate to scale and to becoming a global company. Corporates can source urgently needed innovation to drive their internal transformation to a digital company and to provide a true value add to their customers while being able to leverage existing assets.

Competition is tough and only the best startups and corporates will survive. Startups are used to the competition and their DNA is geared for growth. Corporates need to fight harder and we are convinced that these corporates become winners by presenting their capabilities in such a manner to startups that they can be leveraged. Corporates need to drive internal change to create an environment open to innovation, as cultural differences and internal resistance still remain the key challenges for effective collaboration. This is vital as we believe that the tables will turn – at least for the best-in-class startups – meaning that startups will have the power to select corporates to partner with based on their onboarding capabilities.

The winners on the startup side will be those with smooth integration into corporates' legacy infrastructure, and those who can generate sales on a stand-alone basis only needing data or brand power of the corporate.

We believe that the coming 24 months will be decisive as the results of increased Corp-Up activities are expected and will be critically reviewed. Our outlook remains positive for future developments in collaboration, particularly due to three reasons: Firstly, there are simply more founders knowing how to play the corporate game. Secondly, there is an entire industry emerging focused on facilitating successful collaboration. Lastly, corporates simply don't have another choice – either they are in or out!

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