

Arthur D Little

**MATCH
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VENTURES

Collaborating for breakthrough innovation

Incubators & other models
Summary of outputs
Wednesday, 15 May 2019



Collaborating for breakthrough innovation

On 15 May 2019 at the Royal Institution in Mayfair, Arthur D. Little and Match-Maker Ventures were delighted to welcome nearly 40 guests from a range of industries to an executive briefing and workshop on collaboration models for breakthrough innovation. The main focus was on how to get the most out of corporate/start-up collaborations, including practical lessons and some newer models.

This document provides a summary of the main points presented and discussed. We would like to thank all our guests and speakers for their participation in helping to make this such a lively and fruitful event!



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Rick Eagar – Collaborating for breakthrough innovation

New approaches for ensuring successful commercialization



“Breakthrough innovation is often stifled by the power of existing brands

The Breakthrough Incubator model is an effective way to overcome the barriers companies experience in achieving new breakthrough growth ”

- Companies are starting to take a more realistic view on the role of start-up incubators – in a recent NESTA survey, the number of start-up incubators was forecast to drop 10% in 2019 vs 2018 for the sample surveyed. Anecdotal evidence suggests companies are looking more towards tailored and larger-scale collaborations to increase impact
- More focus on overcoming internal barriers in large corporates; especially risk aversion, lack of internal resources to deal with external partners, and rigid internal processes
- More focus on the downstream end of innovation cycle – Relatively easy to have good ideas, but scale-up and commercialization is often the most difficult. Barriers intensify as you get closer to commercialization: e.g finding a home for the breakthrough innovation, fears of cannibalization, “tissue rejection” by the core business, lack of attention on scale-up early on
- Different types of innovation models can be used to tackle barriers: one successful model we have used is the **‘Breakthrough Incubator’**; Set up an independent unit, working with external partners to develop, create and launch a new step-out business end-to-end, then integrate it into the core once it has been tested and de-risked.
- Benefits include speed to market, agile approach, lack of ‘brand bias’, integrated consumer/market/technical insights, anonymity towards the market and de-risking prior to transitioning into the main organization
- Key success factors for this model including keeping it isolated from existing core brands and businesses, strong top management sponsorship, clear objectives, close day-to-day contact between the incubator management and a small company supervisory team, and a comprehensive engagement programme to transition the new business back into the core

Ingeborg Gasser-Kriss – Building a greenhouse

...And what to watch out for



“The greenhouse model is not in love with failure. It’s not in love with risk. And it’s not in love with smallness

It’s built to achieve the same things: success and growth”

- Need to define (in a “razor-sharp” manner) the organizational problem you’re solving with your incubator/greenhouse – This will influence design choices for your incubator
- The principles that made your company big & successful in the past are unlikely to apply
- From: Fewer, bigger, better; To: More, faster, cheaper. - To reduce the cost of failure, and improve decision making by building many, low-cost experiments.
- Large companies still have the advantage of scale, because they can afford to start many experiments and afford to lose 90% of them
- From: Predicting success; To: Driving growth. If the cost of failure is high, more time will be spent on testing/validation which gives the illusion we can accurately predict results
- From: Competition; To: Collaboration: People think that collaboration is about being nice to people. Collaboration is about survival.
- Collaboration is mainly about admitting to yourself that you’re not good at everything, and that learning to be the best is not always the best route
- Key to understand “tissue rejection” –The more different your innovation is, the more likely it is to disrupt your core business
- Key to understand corporate rules – E.g. payment terms which can be “life and death” for a small external partner
- Key to understand correct metrics – Resist temptation to use revenue, profit, time to scale. Focus on growth metrics
- Key to think about and plan the “docking station” in advance

Sarah Martin – Corporate innovation and acceleration

Why industry makes the best partner



“Creating monolithic, siloed innovation programs doesn’t help anybody”

- Wayra connects start-ups to Telefónica (globally) and O2 (locally) with the aim of finding new sources of revenue and innovation
- Today we see a really saturated marketplace of accelerators
- The quantity of accelerators has been confusing, both to corporates and start-ups, in terms of where to seek the best support and understanding the end-goals and outcomes
- It is important that we are clear on why accelerators exist – This is very different to what it was five years ago
- For corporates the era of ‘playing start-ups’ is over
- For start-ups the access to information and mentorship has grown exponentially so they require something different
- As a result the role of the accelerator has changed focus from helping start-ups grow from early-stage to revenue-generating, to helping more developed companies with market accessibility and commercialization opportunities

Evgeny Likhoded – Start-ups and corporates

A start-up perspective



“Every large organization has thousands of problems which need solving, but there needs to be a compelling event to solve the problem”

- ClauseMatch is a regulatory technology company that works with banks, insurance companies, asset managers and regulators, as well as the energy industry
- Early-stage start-up founders are quite vulnerable because it is difficult to say ‘no’ to corporates, especially when trying to scale, grow and find first revenue
- Accelerators and innovation programs are not useful for start-ups if they don’t have a problem to solve, and a compelling reason to solve that problem
- “Start-up tourism” – Where innovation teams bring senior stakeholders and start-ups together, start-ups pitch to the stakeholders and nothing happens afterwards
- At a showcase it’s pure luck to get the person who has the mandate to solve a particular problem”
- It is much better to engage with corporates who have already identified what they need to solve and how they’re going to solve it and are looking for a solution
- However, even then most teams don’t know how to buy from a start-up
- Often, start-ups are not ready for corporates (e.g. ISO certification)

Björn Schaettgen – Corp-Up

Driving transformation and growth by collaborating with start-ups



“Corp-up is not the only model, but what we see in successful corporates is that the corp-up model is part of the puzzle”

- Business has changed – disruption is spreading, adoption is “hyper-fast”, competition is global and start-ups are here to stay
- Businesses need to develop answers to start start-up innovation, as start-ups are ready and willing to help
- For corporates there is an appetite to work with start-ups, however expectations are not always met by reality
- To succeed, you need to do the right thing (i.e. choose the right vehicle, and ensure there is a match between the start-up objectives and corporate objectives), and do it right (i.e. good execution)
- “Corp-up” is a suitable vehicle when the focus is on business impact, when aiming for short-term horizons and when there is low risk appetite
- Corp-up refers to any form of commercial relationship between a corporate and a start-up (e.g. buyer-supplier relationship, reselling models, co-branding, joint product development)
- Equity is NOT a key focus of this form of engagement
- For corp-ups the focus is on later stage start-ups. It’s not about bringing the product to market, but rather scaling the product.

During the breakout session participants reflected on what they have learned through their own journey working with start-ups/corporates

Fixing the growth gap is more important than unit cost reduction

Only breakthrough innovation can support radical new growth

Deploying solutions without fixing “as-is” processes only creates incremental value

Reintegration is REALLY tough

Legacies like SAP paralyse corporates with innovation

Fixing the “growth gap” is more important than unit cost reduction

We need HR, Legal & Compliance functions that deal with start-ups, without breaking them!

Based on participants own experience working with start-ups/corporates a number of success factors and potential issues were identified

It works well when...

You get something working quickly

You understand technical needs as well as business needs

There is strong senior stakeholder engagement

Corporate rules are relaxed

You have convincing success stories for CFO (and yourself!)

There is clarity around purpose, timeframes & next steps

When it's difficult to tap into problems/ideas outside innovation 'function'

There are too many pilots with no clear route to take-off

Corporate decision makers expect traditional business models, forecasts, etc

It works less well when...

Corporates don't actually know what they need until they start

There are too many pilots with no clear route to take-off

Big brands have no visibility over accelerator activities (leading to tissue rejection)

Open panel discussion on innovation, EU regulation and the risk-benefit analysis of collaboration between start-ups and corporates

Question 1: What is your approach to open innovation? Is Open innovation about buying, partnering or collaborating? What is in it for the industry, for consumers and other participants

Sarah (Wayra): Buying, partnering or collaborating are not mutually exclusive. Depending on the condition, Open Innovation could verge more towards one or another. It is about finding the right partner for the company needs, as Inge pointed out in the collaboration analysis

Ingeborg (Mondelēz): OI used to be a small department. The big shift will be from open innovation as a small department to incorporating it as a fundamental part of the company fabric, a way of thinking and working.

Evgeny (ClauseMatch): There is still reluctance in bringing a start up or a new idea in the company, Open Innovation should instead become a fundamental part of the company process and way of working.

Rick (ADL): Open Innovation was traditionally about collaboration with universities and research institutes. Companies are now working with a start-ups, but the future of open innovation is about working with many more partners, looking afresh at how value could be created and then looking at your own role within the ecosystem. Don't always look at the obvious partners, innovation often happens at the boundaries with other sectors and technologies

Carlos (MatchMakers): CorpUp is showing that there is a solution to use the best of both worlds: corporates have access to customers, which startup don't have. Startups on the other hand have technology and ideas but they need access to customers. Collaboration is the solution for both.

Question 2: Is the tech sector moving back to the 20th century approach of “fewer, bigger, better”? Has the balance changed between acquisition and collaboration? How will the scaling up process work in this scenario and how will accelerators change?

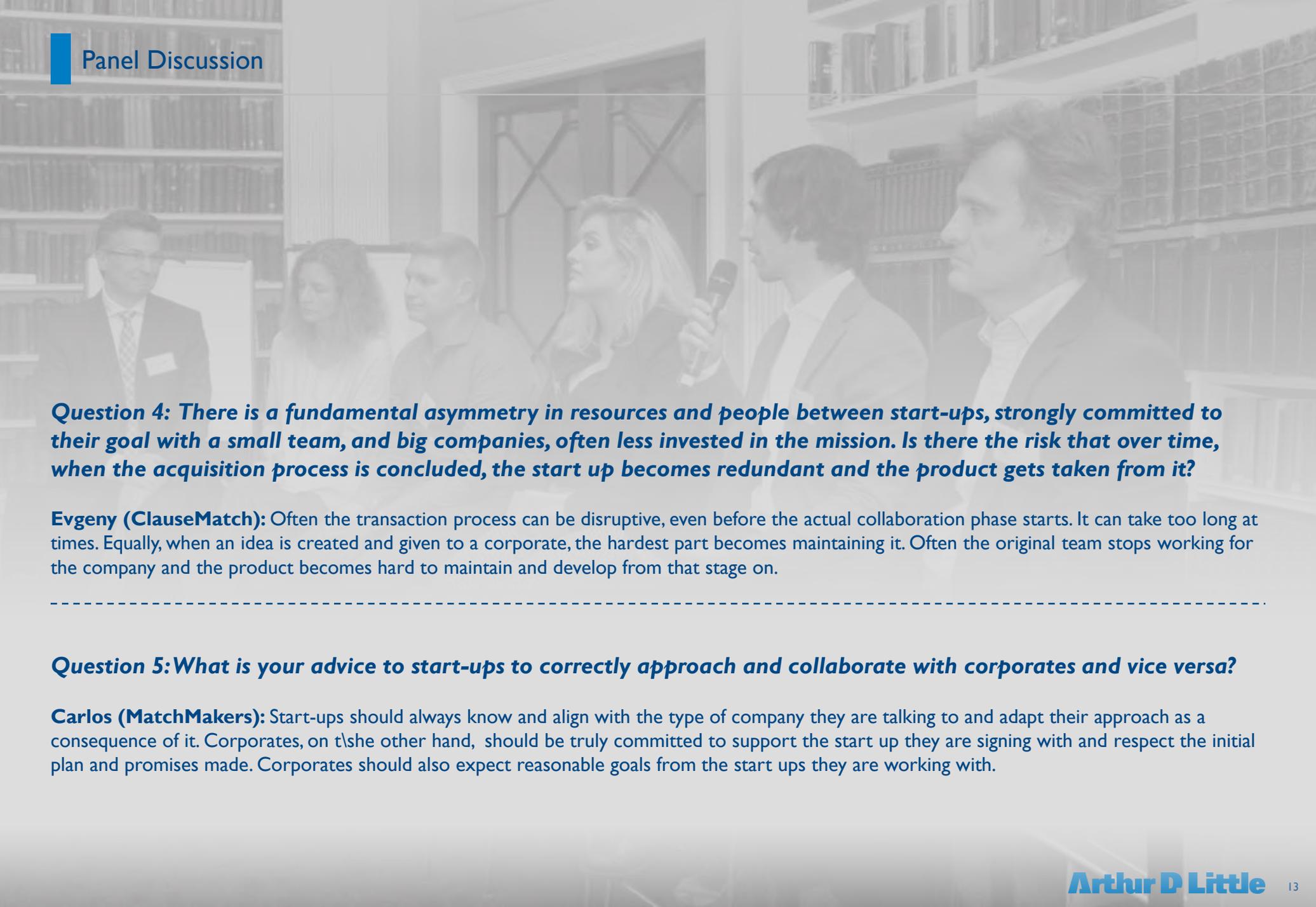
Sarah (Wayra): Accelerators have fundamentally changed from development to commercialization. Now there is an equal focus on both acquisition by large conglomerates and collaboration. It will be fundamental to make sure that start ups are improved because of the acquisition and not bogged down in bureaucracies and meetings

Ingeborg (Mondelēz): Indiscriminate acquisition is truly a problem and the market will either reward when the process is done correctly or regulate wrong acquisitions. There is a misconception about the desire to risk and willingness to fail of start ups, the true goal is always to scale and grow organically.

Question 3: How is the EU approaching and fostering the innovation sector and open innovation?

Rick (ADL): The EU is strong in scientific research but much weaker than US, Canada and Japan in commercialization: less unicorns are born in Europe than in US and China. EU needs to encourage more collaboration across countries, stimulate venture capital, ensure innovation-friendly regulation

Evgeny (ClauseMatch): The imbalance in investment efforts between US and Europe, as well as in the approach to innovation, has been seen very often in the start up environment



Question 4: *There is a fundamental asymmetry in resources and people between start-ups, strongly committed to their goal with a small team, and big companies, often less invested in the mission. Is there the risk that over time, when the acquisition process is concluded, the start up becomes redundant and the product gets taken from it?*

Evgeny (ClauseMatch): Often the transaction process can be disruptive, even before the actual collaboration phase starts. It can take too long at times. Equally, when an idea is created and given to a corporate, the hardest part becomes maintaining it. Often the original team stops working for the company and the product becomes hard to maintain and develop from that stage on.

Question 5: *What is your advice to start-ups to correctly approach and collaborate with corporates and vice versa?*

Carlos (MatchMakers): Start-ups should always know and align with the type of company they are talking to and adapt their approach as a consequence of it. Corporates, on the other hand, should be truly committed to support the start up they are signing with and respect the initial plan and promises made. Corporates should also expect reasonable goals from the start ups they are working with.

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Arthur D Little

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Our consultants have strong practical industry experience combined with excellent knowledge of key trends and dynamics. Arthur D. Little is present in the most important business centers around the world. We are proud to serve most of the Fortune 1000 companies, in addition to other leading firms and public sector organizations.

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