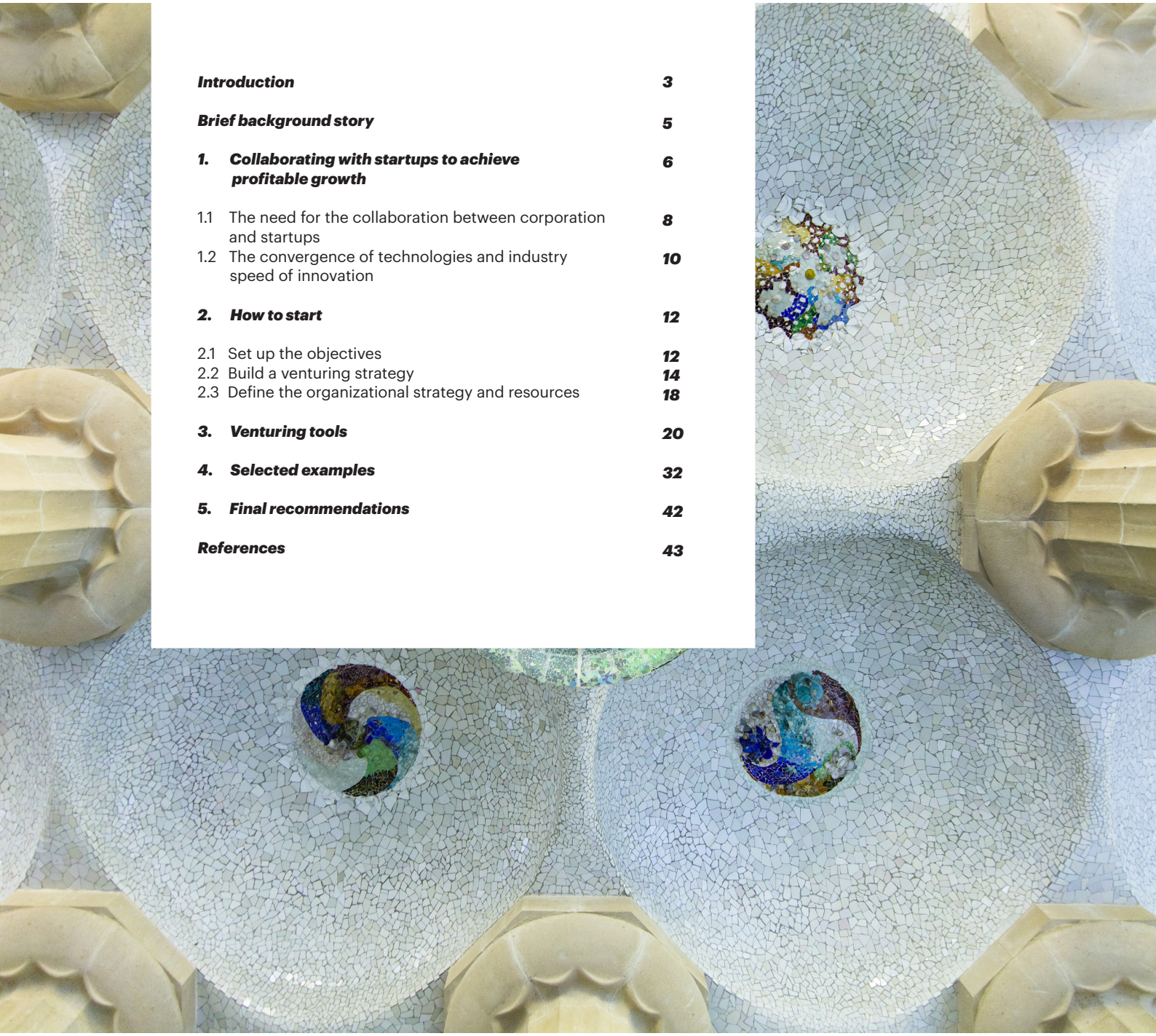
Corporate Venturing: Achieving Profitable Growth Through Startups

Whitepaper, January 2017

mVenturesBcn
Accelerating entrepreneurship & innovation

A programme of
MOBILE WORLD CAPITAL™ BARCELONA

IESE Business School
Universidad de Navarra



mVenturesBcn
Accelerating entrepreneurship & innovation

A programme of
MOBILE WORLD CAPITAL™ BARCELONA

IESE Business School
Universidad de Navarra

Introduction

Business professionals and technology experts agree that the technological revolution we are facing today is just in its infancy. After observing computing power skyrocketing, we are starting to glimpse how a convergence of factors – such as increased digital density, the amount of connected data, and the interactions that may be created – is enabling new kinds of business logic that threaten the status quo. The relative affordability of technology and the accessibility of capital are allowing small firms to provide solutions previously only available to established firms in any given industry. It is a fact that industries such as traditional media, automobiles, and banking are seeing an unbundling of solutions that blurs industry boundaries.

Established firms have confronted the threat of becoming obsolete by opening their innovation strategy to increased exchanges with the ecosystem. Trying to understand how cloud computing, big data, artificial intelligence, the Internet of Things or blockchain technology may affect how we do business today has led to a more acute need to understand how to work and collaborate with the start-ups pioneering solutions based on these technologies.

We see innovation coming from initiatives that combine the best features of corporate research and the start-up world. As academics define it, this is a hybrid model in which both start-ups and large corporations are needed to come up with new solutions for the complex problems we face in business and society at large.

This report is the first to be published by mVenturesBcn, a program of Mobile World Capital Barcelona, together with IESE Business School. Its aim is to provide a handbook on corporate venturing that can be useful for the entrepreneurial community globally. We provide a framework for understanding the problems and challenges of established companies in achieving profitable growth and how they could become more innovative by using the wide set of tools that corporate venturing offers. A list of examples from selected sectors is included later.

Although corporate venturing is only one possible route for incorporating innovation into an organization, we believe that providing the related knowledge and tools will allow companies to assess their situation and take the necessary steps to make better strategic choices. For that purpose, we will discuss how companies can use the potential of disruptive start-ups and how start-ups can grow their projects via consolidated companies. Therefore, this first report is published as a road map for all companies in all sectors that want to dive into the world of corporate venturing, both for those with no previous experience and those that have already stepped into this field.

The authors are very grateful to Gregor Gimmy (founder and head of the BMW Startup Garage), Raúl Lucas (managing director of Idneo), Marc Borrell (founder of BeMobile), Daniel Martin (business designer at XcubatoR), Pep Viladomat (founder and CEO of Heywood & Sons), Agustín Moro (business development and strategic partnerships manager at Telefónica Open Future), Xavier Servat (director of Fluidra Accelera), Ignasi Salvador (innovation director at Celsa Group), Timothy O'Connell (partner and accelerator director of H-Farm) and Carlos Cuesta Requena (Senior Project Manager at Saint-Gobain) for their contributions to this report. Every member of the working group is deeply indebted to all of them. In addition, our gratitude goes to the Bertrán Foundation Chair of Entrepreneurship at IESE Business School and to mVenturesBcn, a program of Mobile World Capital Barcelona for inspiring us to work on a project that can contribute to innovation and entrepreneurial practice. Without their effective support, we would have been unable to complete this project.

"We are moving toward a hybrid model in which innovation from the combination of features of corporate research and the start-up world provides the new solutions for the complex problems we face in business and society at large."

Brief background story

After many years in a successful international career, George faced a challenge. In early 2016, he was promoted to the new position as his firm's chief innovation officer (CINO). Previously, George held various senior international management roles in sales, channel operations and general management at a renowned U.S. multinational corporation. He also had extensive experience in marketing and building brand awareness for new product segments, as well as a very strong background in expanding and driving his company's business into new and emerging markets. As a result, he had developed professionally at an international level within the company, adding value to the firm through the incorporation of new ideas and innovations that increased the revenue streams of the brand portfolio for which he was responsible in Latin America and the Asia-Pacific region.

Company revenues in 2012 were $250 million worldwide and it was estimated that in 2017 they would reach $318 million, a compound annual growth rate (CAGR) of 4.9% over the five-year period. The CEO's brief was to achieve annual revenues of €360 million worldwide over the following three years.

Although the top management was strongly committed to and supportive of his new assignment, George felt deeply challenged. The company's vibrant automotive sector had undergone exponential change during the previous years, and new technologies, innovations and start-ups in the ecosystem were emerging. Moreover, computing power, data availability and digital density were blurring sector boundaries: start-ups working on cloud solutions, big-data analytics or the Internet of Things brought solutions to the market that could make the difference when integrated well into the firm's product. The sector was in full effervescence. This was not news. However, George was aware that the timing of bringing innovation to commercial fruition was becoming a new competitive advantage that set apart the winners. The growth proposed by the CEO was not going to be achieved by just increasing investment in internal R&D capabilities. It was true that the firm had different innovation programs, as well as a corporate venturing arm, but even so it was not enough. George understood well the phases of the innovation process, and knew that reducing risk in terms of choice, development, and implementation was crucial for success. Since his last assignment related to innovation, he had read some interesting articles on corporate venturing. It was defined as the mean through which corporations participated in the success of external innovation to help them gain insights into non-core markets and access to capabilities (Weiblen & Chesbrough, 2015).

Given his previous knowledge and understanding of regular innovation tools, George believed that this could be a promising avenue to explore.

The first thing he needed to do was frame the unit's objective in the overall context of the firm's strategy. As the brand new CINO, he was assigned the ambitious goal of increasing the long-term profitable growth of the company's product lines, using whatever tools and initiatives he believed appropriate and focusing primarily on the EMEA region.

So, George needed to understand the range of tools available and how much they cost in terms of money and time in relation to results over time. Moreover, he wanted to assess the different skills needed to use each of the tools successfully. This was important because, as he soon learned, companies had a wide range of tools available to source innovation: from challenge prizes and hackathons to incubators and accelerators, including corporate venture capital and acquisitions. The tools were very different from each other. They varied in substance and form, depending on the objectives and needs sought.

George rapidly understood that industry structure was going to be a contingency factor for finding the most efficient combination of tools. Each industry goes through different periods and, depending on the "momentum" or stage of innovation, certain tools would be more suitable. For instance, in industries where the speed of innovation was high and start-up money was readily available for funding, established firms would find that buying successful start-ups was a more efficient strategy than doing so in an industry where the business ideas still had to be tested and developed to find a working business model.

George was thrilled by the boundless opportunities that opened up before his eyes. After setting out a clear innovation strategy and examining the flourishing activity in the company's fields of interest, he explored different venturing tools to make sure that they were the right choice for his firm in terms of time and money. He wondered whether the firm was capable of using them successfully.

1. Collaborating with start-ups to achieve profitable growth

We live in extraordinary times for entrepreneurship and corporate venturing, which are on the upsurge globally. Start-ups have seen opportunities arise and the entrepreneurial ecosystem has flourished in different countries. The top priority for CEOs and executives around the globe remains how to drive growth sustainability and profitably. However, digitization is affecting industries in unforeseen ways, changing industries' economics dramatically. In this context more than ever, companies must find new paths to reinvent their business models to remain competitive if they do not want to risk being left behind. Developing and capturing innovation remains a proven catalyst for achieving profitable growth and gaining competitive advantage.

However, there is consensus that corporations have difficulty integrating new business models into their business logic. There are successful start-ups in different industries that have challenged the existing business models and ultimately they have become today's industry standards. There are many such examples in technological and telecommunications industries, with the eruption of game changers such as Skype, Facebook and WhatsApp but it has also happened in more traditional industries such as accommodation, with AirBnB transforming the industry and having a perhaps unexpected impact on guesthouses and hotels. In all these cases, change started with a minor, fringe use that has become much larger and more powerful over time, as we can see in Figure 1.

Many company leaders, after careful analysis of their environment, started to source innovation externally beyond internal R&D and M&A activities. They needed to become more permeable and interact more with what was going on around them, especially with business models and technologies that might challenge industry economics. Corporate venturing offers a collaboration framework that acts as a bridge between innovative and disruptive start-ups and established corporations.

Open Innovation

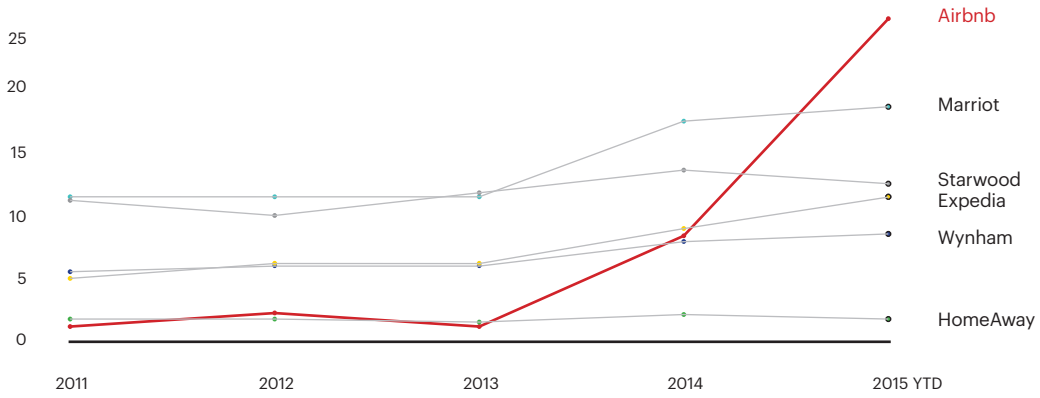
Term coined by Chesbrough, which describes "the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively."

(Chesbrough, 2006)

An earlier definition was: "Open innovation is a paradigm that assumes that firms can and should use external ideas as well as internal ideas, and internal and external paths to market, as they look to advance their technology."

(Chesbrough, 2003)

Figure 1.
AirBnB vs. Public Competitors: Valuations over time ($bn)
2011 – 2015 (as of June 2015)



AirBnB did not raise a round between 2012 and 2014 and therefore it's valuation stayed the same during this time. Valuations were taken at dates where AirBnB raised. 2013 data was taken at 6/1/2013

Source: CB Insights

1.1 The need for the collaboration between corporation and start-ups

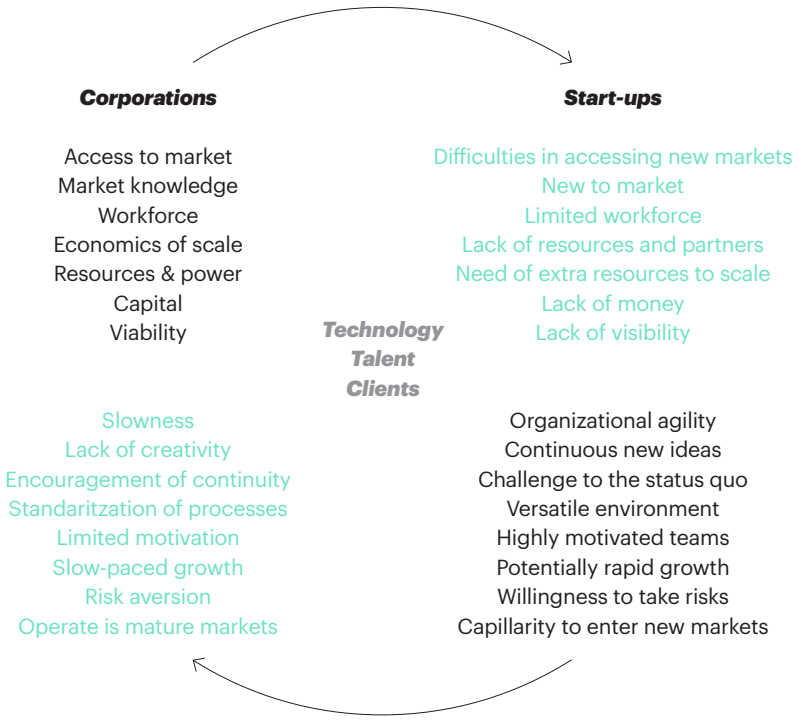
A good start-up ecosystem proves to be better at shortening the cycles of innovation, exploiting technology, enhancing existing business models, and inventing new ones more quickly and effectively than big corporations.

It is a fact demonstrated by research and practice that corporations encounter difficulties when they try to make internal disruptive innovation flourish: it is not easy steering an ocean liner. Many reasons, structural as well as cognitive and behavioral, have been given for this but it is not the objective of this study to describe them. In contrast, start-ups lead this type of innovation in almost every industry all over the world. A good start-up ecosystem proves to be better at shortening the cycles of innovation, exploiting technology, enhancing existing business models, and inventing new ones more quickly and effectively than big corporations. The **collaboration between corporations and start-ups** has become crucial. Consolidated brands and businesses have decided to collaborate with start-ups to fast-track disruptive, game-changing products and services.

While corporations tend to take more calculated risks and have a slower tempo, start-ups tend to be small teams of light-structured firms with flat hierarchies that are faster and more willing to overturn existing models if necessary to serve market needs better. These big differences are also the biggest reasons for building bridges between both sides.

Incentives for such partnerships are remarkable for both parties. Corporations can benefit from collaborating with start-ups by sourcing the latest technologies or novel business models, avoiding the inflexibility that firms commonly face when trying to do things internally. In this way, a firm will be better positioned to move ahead in the market against its competitors, facilitating profitable growth and superior performance. However, for that success, it is key to engage in a win-win partnership that benefits the other – and usually weaker – party: the start-up.

Figure 2.
Why collaborate with start-ups?



Source: Adapted from several sources

It is said that it is not the strongest of the species that survives, but the most adaptable. Land-based dinosaurs ruled the Earth for about 160 million years but they are extinct today.

'Stan', a tyrannosaurus skeleton at the Google campus in Mountain View, California.

Early-stage high-growth businesses should benefit from the support of bigger and more experienced companies that help them with valuable resources, better sales and supply chain opportunities in exchange for their creativity and ideas. This makes a big difference to start-ups as they can go to market or scale more easily. It is important to understand and satisfy their needs. Although, according to several research studies, start-ups interact with corporations mainly to develop strategic partnerships, they may have also other needs that should be satisfied: accessing markets, developing channels, landing new enterprise customers, increasing visibility or obtaining finance or contact with investors or potential acquisitions. Figure 2 summarizes how collaboration can build powerful synergies as a result of this complementarity. If the collaboration is undertaken correctly, it can have a very positive impact and minimize each party's weaknesses, improving the industry as a whole.

In this way, the collaboration turns out to be a win-win solution not only for both parties but for the industry and the entrepreneurial ecosystem. It turns out to be a driver of growth for local economies, for the economy in general and for the standard of living of customers, who benefit from advancements in products and services they consume on a daily basis, which enhances their quality of life.

Many large corporations have developed innovation strategies in which corporate venturing is embedded, in the form of corporate venture capital, incubators, accelerators or innovation labs. However, there is not a single best solution and the whole process must be undertaken carefully to achieve satisfactory results. What is important is to be aware that start-ups could be outsourced R&D for corporations where they can look for innovation, ideas and inspiration.

1.2 The convergence of technologies and industry speed of innovation

Figure 3.
Technology fields that are shifting the economy

Source: Adapted from several sources

Collaboration with start-ups may take very different forms. One of the contingent factors that shapes the phenomenon is the **innovation speed** in the industry. A general trend that is especially pressing in some industries is that inventions come about more quickly outside corporations than is possible internally. In many cases, the speed of innovation is defined and accelerated by the convergence of two or more new technological realms. The greater the convergence of technology fields in a particular industry segment, the faster the speed of innovation, with a greater eruption of new ideas and a bigger volume of investments as a consequence.

Today's digital revolution is a paramount example. Many corporations are making transitions to digital technology with the use of all the fields summarized in Figure 3. Transformations are happening in businesses and industries all over the globe. The digital transformation that the perfect storm of technology fields represents is an opportunity for corporations to take advantage of the new situation to transform and integrate themselves into today's innovation strategies through corporate venturing. This affects how we do business across industries and constitutes what some have called "third industrial revolution technologies."

The digital revolution are we living through represents an existential threat to incumbents, as much as it is an opportunity for corporations to thrive in the digital age – if they adapt. In the past, the first and second industrial revolutions happened thanks to the vigorous breakthrough of disruptions such as the steam engine and electrification, which transformed entire sectors of the economy from the 18th century onward. Today's technological impact is exponentially bigger and so are the opportunities open to established corporations if they embrace and lead their own transformation.

Moreover, academics and practitioners agree that digital density and the increased affordability of techonological solutions, as shown in Figure 4, are making possible an explosion of new answers to old challenges. According to the World Economic Forum, in 2005 there were just 500 million devices connected to the Internet but in 2016 there were 8 billion. It is estimated that there will be 1 trillion by 2030. For incumbents, adopting such solutions, especially if they come from previously unknown technology fields, may separate the winners from the losers. Examples abound. The transformations in the automotive, banking, and the media and entertainment industries are just a few.

Figure 4.
Surviving digital disruption:
The cost of key technologies has fallen rapidly

Drones
Cost per unit
2007
$100,000
2013
$700

3D printing
Cost average for equivalent functionally
2007
$40,000
2014
$100

Industrial Robots
Cost per unit
2007
$550,000
2014
$20,000

DNA Sequencing
Cost per unit
2000
$2.7bn
2007
$10m
2014
$1,000

Solar
Cost per kWh
1984
$30
2014
$0.16

Sensors (3D Lidar)
Cost per unit
2009
$30,000
2014
$80

Smartphones
Cost of model with similar specifications
2007
$499
2015
$10

Source: Adapted from several sources

Innovation speed differs by industry. Some industries have a fast pace of innovation, with a high volume of disruptive start-ups that are able to offer quality game-changing inventions. In others, the pace is slower. The speed of innovation of the automotive industry is faster than in the chemical industry but slower than in the technology industry, which is the powerhouse of innovation, where there is a large pool of innovative start-ups with which corporations can choose to collaborate. The higher the number of disruptive technologies in a given segment, the greater the probability of there being more start-ups bringing these innovations to market. This is key when deciding how to venture, as it will be easier to deploy an open innovation approach in partnership with external entrepreneurs in industries where there is a critical mass of start-ups than in industries where there is a lower concentration of start-ups.

Collaborating with entrepreneurs is not only a way to achieve innovation and competitive advantages more efficiently but, in many industries today, it is also a winning ticket for leadership in the fast-paced times in which we live.

2. How to Start

Set out the objectives → Build a venturing strategy → Define the organizational strategy & resources

2.1 Set out the objectives

Corporations must stress out what impact they want to have in the long run before interacting with start-ups. Deciding the strategic intent early on will not only help corporations to design an effective overall innovation strategy but also save time. Sometimes companies start working with a sample of start-ups before they have a clear strategy and soon the collaboration ends up being a waste of time and resources for both parties. In these cases, it is highly recommended to establish a standardized decision-making timeline that will determine whether or not collaborations proceed, to avoid losing time in months of pitches or meetings without any outcome.

In other cases, companies just look for the financial return of a quick sale. It is also common to find corporations engaged in corporate venturing merely for public relations or corporate social responsibility purposes. However, our research has shed light on the extraordinary benefits that corporate venturing can have as a long-term strategy embedded in the core of corporations that intend to be truly innovative.

The first step a company that is considering exploring corporate venturing should make is to define a long-term strategy with a **clear set of objectives**. Among the objectives, the digital transformation of the company is commonly found to be an important driver. Others include opening new pathways to better solutions, expanding into new markets, rejuvenating the culture with entrepreneurial talent and transforming the corporate image. These are just a sample of the reasons why corporations engage in collaboration but each company can have its own. Ultimately, the venturing strategy that is designed will help companies choose certain tools over others in order to achieve a better outcome with their particular goals, whatever those may be.

For readers' guidance, the authors have included in Figure 5 a list of the most important reasons why corporations have engaged in corporate venturing, according to our research.

Figure 5.
Main objectives of corporations when venturing

- ***Explore new technologies and/or business models to gain strategic insight***
- ***Renew corporate culture to foster a broad entrepreneurial mindset***
- ***Access entrepreneurial talent and energy***
- ***Use external innovation to promote an existing corporate innovation (i.e., a platform)***
- ***Marketing and public relations***
- ***Develop big brands to attract customers, partners and talent (digitization, etc.)***
- ***Solve busines problems more quickly and cost-effectively and at lower risk***
- ***Expand into future markets by accessing new capabilities, channels or emerging technologies***
- ***Leverage new and/or faster routes to market***
- ***Improve corporate social responsibility***
- ***Develop potential acquisition targets***
- ***Earn a financial return on venture investments***

Source: Adapted from several sources

2.2 Building a venturing strategy

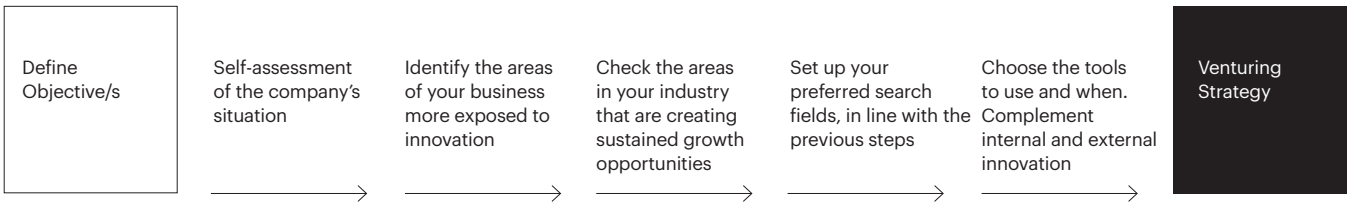
Once the goal has been clearly identified, the next step is the **creation of a venturing strategy** consistent with the objectives. Figure 6 indicates the steps.

Whether a corporation is considering launching a venturing strategy as part of its innovation efforts for the first time or whether it has launched venturing programs already in the past, it is important to analyze the recommendations for a successful outcome from corporations that have been through this experience already.

It is important to be aware beforehand of the great importance of working with a critical mass of start-ups. This knowledge can mean the difference between failing and having mediocre or brilliant results. Corporations must be able to attract a high number of start-ups to their venturing strategies to cherry-pick the best ones. This should be given priority from day 1 to give traction to the strategy. Figure 7 summarizes the most important elements to take into account during both the design and implementation of the strategy.

The first factor is that the firm's top management should buy into the idea of making collaboration with start-ups an embedded part of the company's strategy. This includes ensuring that this commitment is communicated downward effectively, creating the right organizational context, educating people about the benefits of innovation and the risks associated with sticking to the status quo, and training the people who are most directly involved. Consensus built on a common purpose will help everybody pull in the same direction. If there is still only a minority that supports it, it is interesting to start off with a small-scale pilot program focused on a topic of widespread interest, iterate and then scale up. At the same time, venturing units must be granted freedom to work independently and take their own decisions, always in accordance with their goal and overall strategy. Knowing where is the company heading to, why and how is critical. In other words, having a clear corporate innovation strategy with defined goals. The venturing strategy should be continuously evaluated, and establishing KPI's for the venturing units will allow its measurement and performance analysis, just like any other business unit with which, by the way, should be able to interact fluently. The interaction with the rest of the business units should be a result of mutual trust and support, as well as with startups, with whom there should be a follow-up after the venturing tool or program is finished. Finally, a lack of resources should not be an obstacle.

Figure 6.
Steps to build a venturing strategy

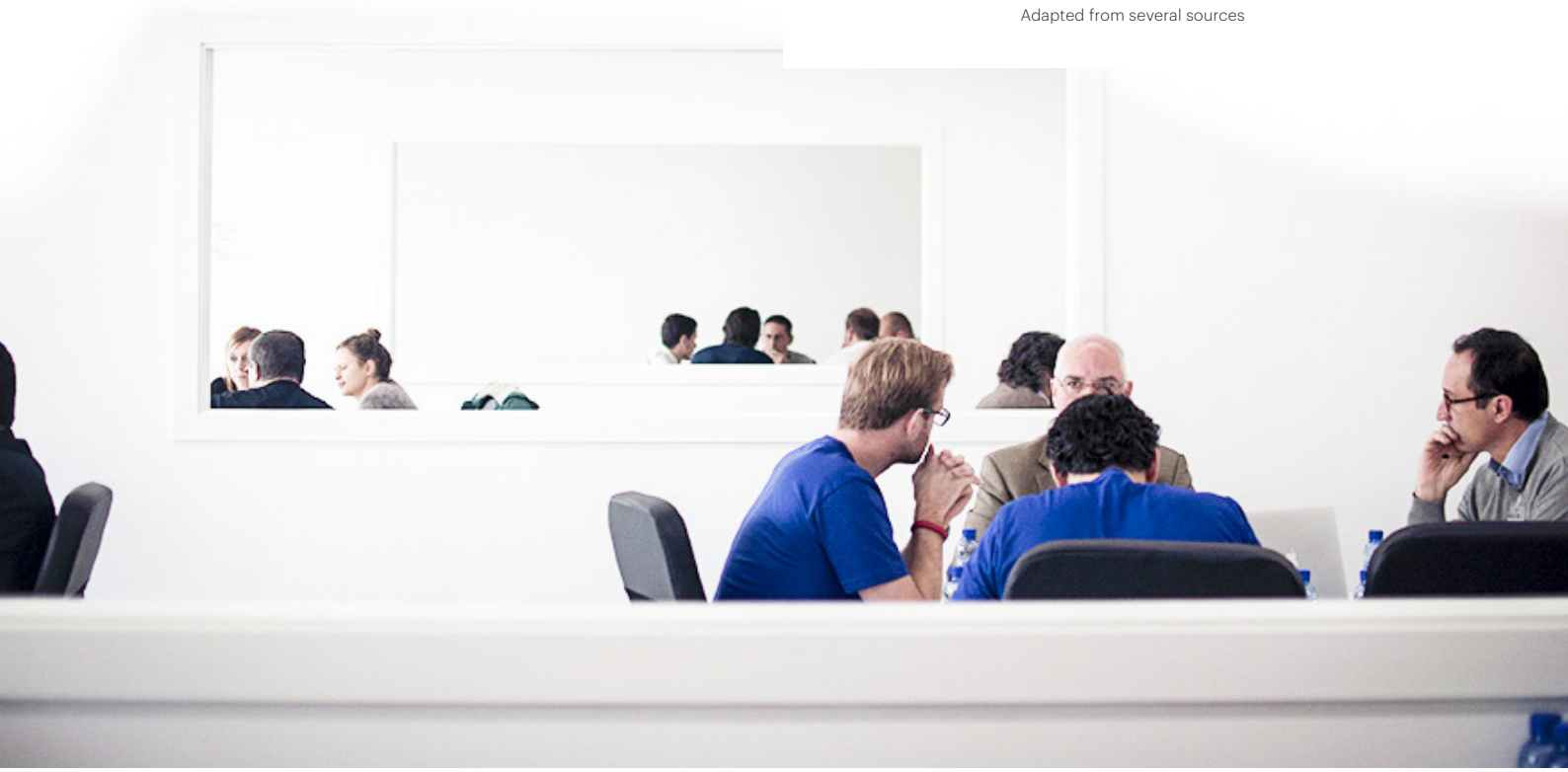


Source: IESE Business School & mVenturesBcn – Adapted from several sources

Figure 7.
Common key success factors of a venturing strategy

- ***Absolute commitment and support of the top management***
- ***A clear corporate innovation strategy with defined goals***
- ***Establishing key performance indicators to measure success, as with any other business unit***
- ***Granting autonomy to the management of the venturing program***
- ***High level of interaction with the rest of the business units***
- ***Good level of funding***
- ***Follow-up with start-ups***
- ***Continuous evaluation***

Source: IESE Business School & mVenturesBcn
Adapted from several sources

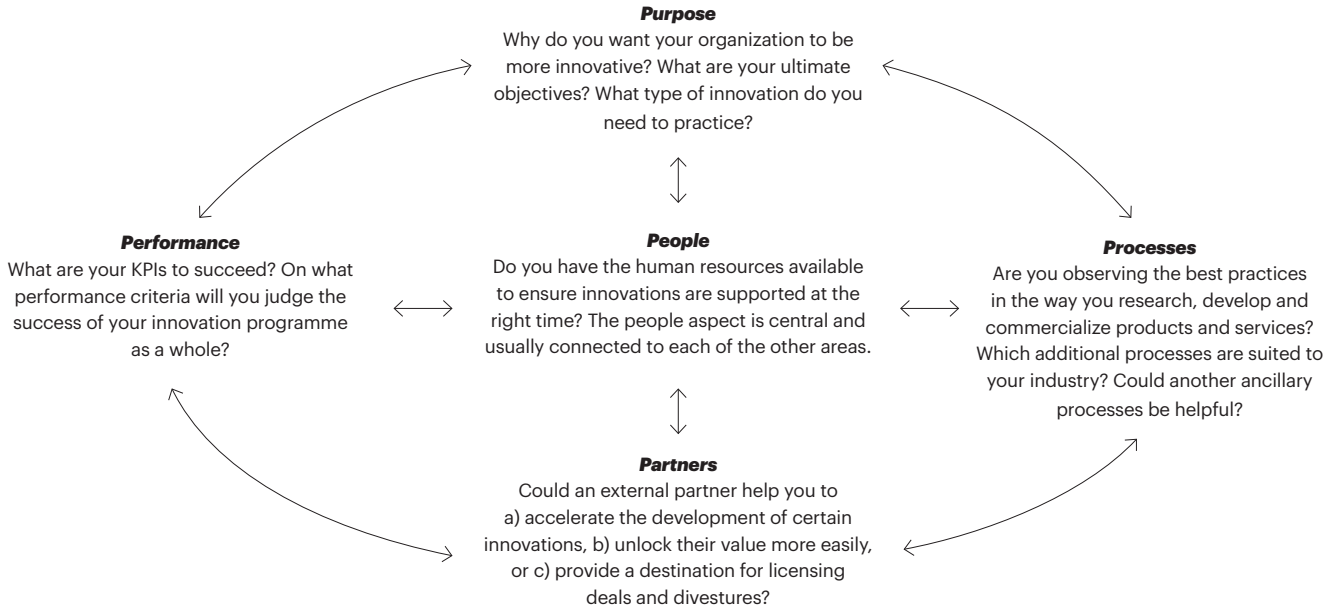


Next is considering the ingredients that we need to prepare an excellent corporate venturing dish. In this sense, Andrew Gaule's strategic framework of the **five Ps of corporate venturing** is very helpful to ensure measurable results are delivered, as we can see in Figure 8. The authors recommend focusing on the process itself rather than seeking to get a perfect picture of the end goal.

With the 5 Ps framework, companies and managers can define and recalibrate each part of a gear strategy: from defining the purpose, as mentioned earlier, to setting out simplified and aligned processes with methods and forms of governance to manage the portfolio of innovative ideas in ways that can make collaboration easier for start-ups. In turn, these steps are connected to choosing the appropriate use of partners and other external relationships, something that can be very difficult for corporations that are not used to such collaboration. Partners open the gates of the entrepreneurial ecosystem to corporations, so it is worthwhile paying special attention to them. The next step is to measure the performance, to determine the extent to which the strategy of investing in innovation and venturing is effective. The cycle then goes back to the purpose and questions whether your expected output is going to achieve what you originally thought you were setting out to do. At the center of the system we have people who are disposed to working with start-ups and embracing them, regardless of what those in other departments think. Talented human resources who connect with small businesses are necessary for the relationship between different innovation leadership roles, the required competences and the appropriate reward and recognition mechanisms. Having the right people will help answer the following questions: What is the relationship between the different people getting together to create the strategy? Do they have the skills and capabilities to run the process? Do they have a collaborative mind-set and perspective to work with external partners?

As a whole, the venturing strategy must be a gear with incentive structures that can maximize results and get start-ups rapidly through the cycle. Continuous testing of the strategy and approach that a company has adopted is necessary. Beyond a clear objective of what a company is trying to achieve internally and externally and how it plans to achieve this, there must be an unceasing comparison between the strategy, the results obtained and the environment of a corporation via screening with metrics to measure success. For example, a common way is to incorporate entrepreneurship as a key performance indicator to measure the impact of the collaboration in such a way that the people involved within the company must prove they are reaching out to the start-up community to gather new ideas or demonstrations of entrepreneurial behavior in the start-ups' teams. Although this is something very basic, it is not that easy. Corporations do not usually learn where to find interesting entrepreneurs and how to contact them, so it is important to build a clear strategy.

Figure 8.
The five Ps of venturing



Source: Adapted from Sloane (2011) and Gaule (2006)

2.3 Define the organizational strategy and resources

Another recurring doubt is where the venturing strategy or units fit best within a company's organizational structure. This varies enormously from one company to another and there is no correct answer that can apply to all companies. Just the opposite – each corporation decides on what fits best according to its own organization, culture and tradition. A research study involving 112 corporations from different sectors, conducted by Imaginatik and MassChallenge in 2016, showed that 29% of corporations chose to assign the responsibility for managing start-up interactions to the innovation function, most having been created within the previous five years. However, although corporate innovation is the function that most often manages corporate venturing activities, other companies have chosen R&D (13%), technology (12%), strategy (12%), business lines/P&Ls (12%), the executive team/board (11%), corporate development (8%), marketing (4%), corporate social responsibility (4%) and others (1%). However, according to our research, this function is moved along the structure depending on the stage of the initiative across Departments. Sometimes there is a mixture or a vaguely defined management of activities, with other departments having existing start-up relationships of their own. In Figure 9 we can see a benchmarking of organizational anchoring of venturing units from industry leaders.

Effectively, according to a firm's goals, collaboration with start-ups may nourish the innovation stages in very different ways. Different corporate venturing tools serve different objectives. As will be seen in the next chapter, for instance, a challenge prize would be ideal for a discovery phase, where we are scouting for new ideas, while an excubator that supports the necessary crafting – proof of concept – can be used before launching and scaling the new business line. Clarity on the purpose, the firm's present and future positioning, and the resources available are crucial inputs before deciding where the venturing unit fits.

Regardless of the combination of corporate venturing tools used, there is a minimum set of resources that must be used either in combination or together en masse to increase the probability of success. For instance, for businesses interested in a venture strategy based on acquiring businesses, a generous cash budget will be necessary but not to the same extent that engineer's time. The implementation of each corporate venturing mechanism needs a different combination, which the next chapter will suggest, but Figure 10 provides a basic classification to help implement the strategy.

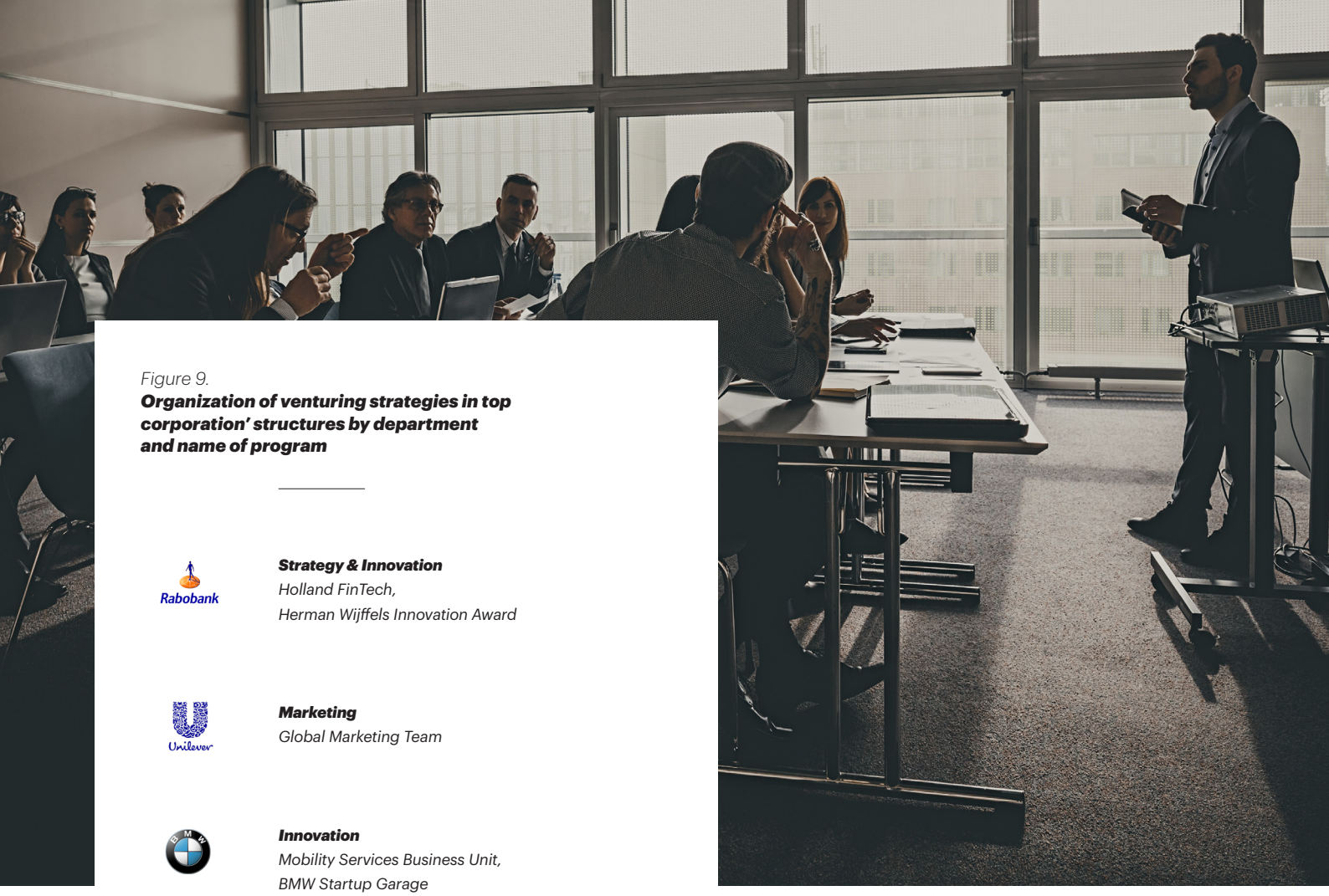


Figure 9.
Organization of venturing strategies in top corporation' structures by department and name of program

Rabobank
Strategy & Innovation
Holland FinTech,
Herman Wijffels Innovation Award

Unilever
Marketing
Global Marketing Team

Innovation
Mobility Services Business Unit,
BMW Startup Garage

accenture
Financial Services/R&D
Open Innovation Programme

Enel
Innovation
Tel Aviv Innovation Hub

DIAGEO
Marketing
Future Team

Telefónica
Strategy
Open Future

Google
Innovation
Google for Entrepreneurs Team: Startup Outreach Unit, Google Venture, Google Capital

Source: IESE Business School & mVenturesBcn
Adapted from several sources

Figure 10.
Type of resources needed

Money
Cost drivers vary by tool as a function of the degree of integration with the corporation and the locus of execution (internal or outsourced)

Talent:
To build an internal team with the specific combination of skills and capabilities. The biggest challenge is to capture the best talent

Facilities and/or products:
Technologies, services or infrastructure able to serve as a basis for collaboration

Intangible assets:
Brand reputation matters for start-up collaboration. Specific strengths include market access and customer networks

Source: IESE Business School & mVenturesBcn
Adapted from several sources

3. Venturing Tools

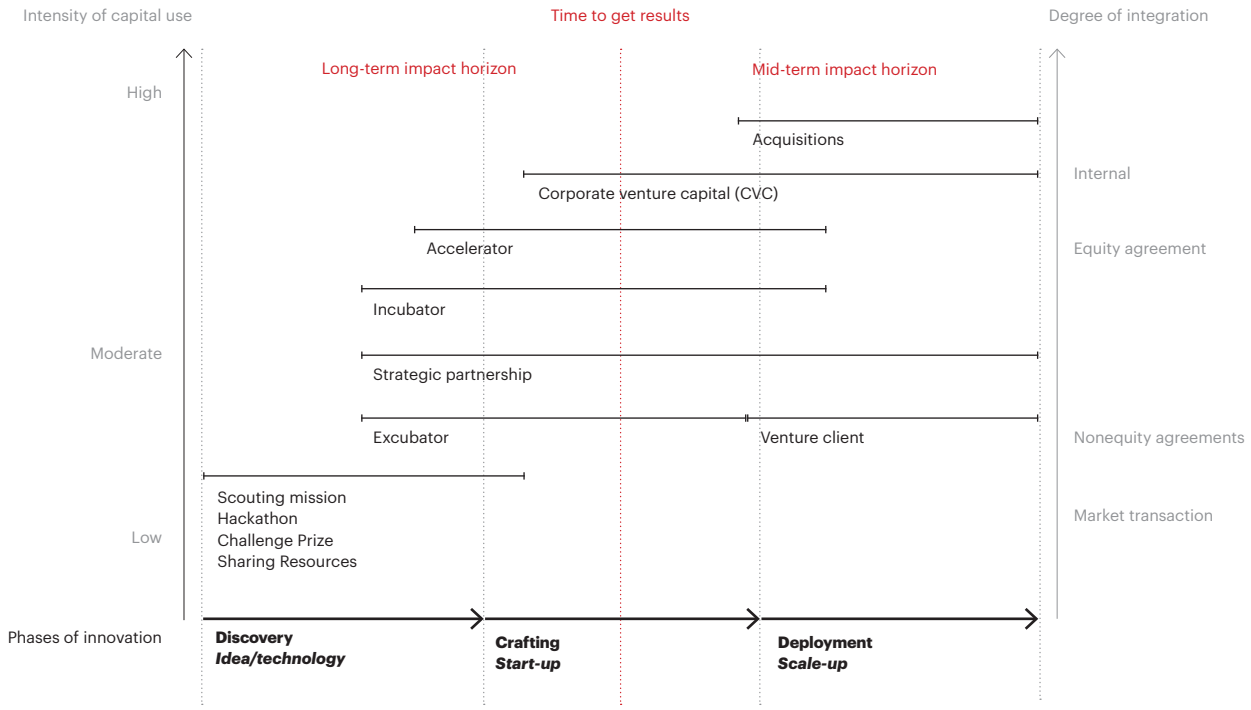
Sharing Resources
Challenge Prize
Hackathon
Scouting Mission
Corporate Accelerator
Corporate Incubator
Strategic Partnership
Venture Client
Excubator
Corporate Venture Capital
Aquisition Program

Once a firm has decided to pursue a venturing strategy with a clear goal, in the authors' experience, it faces difficulties identifying the appropriate start-ups with which to collaborate. Traditionally, knowledge pools such as universities and technology centers have been presented as the places to go for innovation. Although this still holds true, especially for the ideation phase of innovation, a better understanding of the entrepreneurial process has pushed the development of intermediate mechanisms that better support the development of innovative ideas from technology to business opportunities. Moreover, the affordability of technology in terms of cost, the increased number of skilled people – both those with a mastery of technology and those with entrepreneurial skills – and the speed at which new ideas are spread have resulted in a geographic dispersal of the talent pool from which to source disruptive solutions that might serve corporate needs.

As a result of this diversity and geographic effervescence, new ways of engaging with start-ups have emerged. Besides internal resources, such as a firm's connections with the start-up ecosystem, its own internal venturing program and many other factors, companies can also leverage with external resources through partnerships with other organizations such as accelerators, venture builders, other corporations or even public institutions with a joint program. It can be an interesting entry method to the world of corporate venturing for firms that lack knowledge of start-ups or experience in dealing with them. Joining existing corporate venturing units or dedicated external organizations that have expertise in the field can save a company time and resources compared to doing things on its own. The programs available have expanded rapidly in the past few years as the interaction between corporations and start-ups has intensified like never before as they have become more aware of the powerful incentives.

Today corporate venturing offers a wide range of tools for corporations to come up with disruptive innovations and adapt to the different needs oftheir innovation strategies: accelerators, incubators, excubators, corporate venture capital, start-up acquisitions, hackathons, scouting missions, strategic partnerships, venturing clients, among others. Each one follows a diverse route to achieve different objectives – from purely direct or indirect financial investments to strategic alliances or support to develop products or services with or without equity investment, including tools such as challenge prizes. We know the question is not whether to capture innovation but how. The programs that the authors explore in the following pages include traditional tools as well as the latest cutting-edge tools. The new tools have devised with the same goal as their predecessors but they have taken center stage in some corporations' innovation strategy because of their ambitious approach or features.

Figure 11.
Classification of venturing tools by cost of capital, time frame to obtain results, degree of intergration and phase of innovation



Source: IESE Business School & mVenturesBcn

Figure 11 summarizes a selection of relevant venturing tools classified by the expected time to affect firm or unit results, the intensity of capital use, the most likely stage in the innovation phase that the tool will be used, and the degree of integration into the established corporation. The classification is a stylized approach to present a complex reality. Corporations may mix tools according to their goals. Moreover, each tool may show clear variations in how it is implemented. Nevertheless, there is value in defining and describing the most common form for each tool. We set out the tools following the innovation phases – from discovery to deployment.

Discovery is the innovation phase in which a corporation starts its innovation process. This is the typical function of the R&D department. However, for the reasons mentioned above – the challenge of mastering all the new technologies available that offer solutions or radical improvements to our products, the speed to market, the dispersion of talent, etc. – corporations look outside to incorporate innovation. Mechanisms in this phase serve as a radar both for required solutions and unexpected opportunities. Collaborations at this stage are less capital-intensive compared with the other phases and are removed from the firm's structure. In general, they do not report immediate results to the firm – benefits come in the form of solutions to a technical challenge or they open avenues for new business lines.

Sharing Resources

This is the simplest form of collaboration between corporations and start-ups. For the start-up it means cheap or free access to corporate tools, product and services and, in general, organizational knowledge. The main objective for the corporation is get closer to the ecosystem to learn from and monitor its evolution to foster an entrepreneurial culture but a corporation can also benefit from potential future clients, corporate branding and a tool to attract talent. For the start-up, collaboration reduces the liability of newness, thus reducing costs and accessing knowledge, allowing the start-up to network with other similar start-ups and increase its visibility. This way of working is very common among digital businesses, for instance in the fintech area.

The relationship may be organized through a technological platform or in other, more traditional ways. The skills required to implement such tools are few, the most important being people and networking skills in addition to anything that can contribute to building a collaborative environment of cooperation with mutual trust and communication. Selected **key success factors** are defining a strategy with a clear outcome in order to benefit from the provision of free tools, structuring appropriate channels for processing useful information for the corporation that may come from the start-up ecosystem, and ensuring that those resources meet the entrepreneurs' needs.

The cost varies according to the company but normally it is not high as these are resources that a firm normally has already, sometimes on a large scale.

A popular way of sharing resources is organizing coworking spaces. This consists of providing flexible spaces in an office environment tailored toward very dynamic start-ups, which they can use for free or rent to access desks, meeting spaces, the Internet, and facilities in general. Companies may be interested in this tool as a wide open window to the entrepreneurial ecosystem, to screen interesting start-ups before using other tools such as corporate venture capital (CVC), partnerships or acquisitions. For start-ups, this is a very convenient and flexible option as start-ups are constantly growing or shrinking and this option allows them to network with other, similar start ups.

The results from these collaborations are not usually short-term. There are immediate returns in terms of business relationships but it may take years before there is an impact on the core business. Such collaborations function more like a radar.

Challenge Prize

A challenge prize is an open competition that focuses attention on a specific issue and gives innovators an incentive to provide new solutions based on new ideas and technology trends to foster internal learning. It is a good starting point for sourcing unexpected approaches to the firm's chosen challenge. By incorporating ideas and innovations (from both inside and outside), the corporation fosters internal learning and a shift to a more entrepreneurial culture, stimulating a creative and problem-solving mind-set. It is also used for corporate branding and to help retain and attract talent.

For start-ups there is a clear benefit to taking part in these contests. Winning a prize can give them access to new markets, financing opportunities and visibility. Moreover, if the challenge comes from a well-known brand, the start-up will benefit from being linked to that brand's desirable reputation.

The **key success factors** include targeting the right potential participants when announcing the contest and offering them incentives in line with their interests; setting clear requirements for participation, procedures and objectives; involving people within the organization or external experts, preferably those with experience in innovation who are capable of filtering ideas; exposing employees to the whole process of fostering an entrepreneurial mind-set.

The cost of launching a challenge prize is relatively low and this may become a recurring way of scanning the market for solutions.

A prevalent temptation is to use this tool as a marketing device with no real connection with the engineering or business development teams. Used in this way, it may serve a short-term branding purpose but it distorts future interactions with start ups.

These tools are part of the initial discovery phase of innovation to catch ideas or technology. They require low capital and are integrated into the corporation through market transactions.

Hackathon

A hackathon is a focused, intense workshop in which software developers collaborate, either individually or in teams, to find technological solutions to a corporate innovation challenge within a restricted time. The aim is to solve a specific technical problem or produce a particular piece of code in a short period of time, such as creating apps for a particular platform in a couple of days. It serves the purpose of distilling visionary concepts down to actionable solutions, stimulates a creative and problem-solving mind-set within corporations, so increasing corporate branding and attracting talent.

Although the participants tend to be technology specialists such as designers and developers, in some cases start-ups have born after taking part in these events. In these cases, from start-ups' perspective, participating in a hackathon gives them access to new markets, financing opportunities and visibility.

The capabilities needed to organize a good hackathon are the attraction of the brand (good brands easily attract good talent), the development budget (good programmers and developers are attracted by firms that can potentially devote enough resources in the future), networking capabilities, and an innovation and collaboration environment. Participants should have technological expertise, market research and analytical skills, with keen attention to the trends and business activity in each sector.

A hackathon is a relatively low-budget project to cover media expenses (projector, banner, filmmaker), furniture and power cords, food and drink, prizes, and rent of the event space.

The most important **key success factors** include setting clear expectations, providing clear guidelines to participants ahead of time, and exposing the appropriate employees to the process of fostering an entrepreneurial mind-set. Participants can also be offer a more substantial and longer-term engagement than just a two or three-day event. There should be a collaborative environment of functional working teams, with investment in effective group-building sessions if necessary.

Scouting Mission

This consists of professionals from a given industry in which a company is interested being appointed to conduct meetings with start-ups, inventors or university researchers to seek out interesting innovations that align with the company's strategy. Corporations gain insight to interesting sectors and industries, monitor leading innovations, and collect information for strategic decisions.

There are two main types: scouting missions for technology focused on finding new inventions, and scouting mission for business, specializing in finding new business opportunities. Scouts are typically placed in high concentrations of start-up activity and venture investment regardless of the location of the corporate headquarters (such as Silicon Valley, the Boston area, Israel, London, or Barcelona).

For the start-ups in the ecosystem, connecting with scouts means potential financing and business deals with corporations.

Scouts require certain skills, especially expertise in the technology and/or industry of interest to the corporation (finance, health, etc.). Also needed are market research and analytical skills, with keen attention to the trends and business activity in each sector, expertise in business and finance management as well as negotiating skills, due diligence, intercultural skills, the ability to adapt, and people skills.

A scouting mission for interesting technologies will affect a firm's results much later than scouting for interesting businesses in the form of start-ups. In both cases, though, the impact horizon is not immediate. It requires the assimilation or integration of the new technology or business into the firm's core processes. Its **key success factors** can depend on choosing the right industries and locations, having the talent capable of monitoring them, and gathering relevant information.

We now introduce the crafting and deployment phases of innovation. Crafting consists of developing and aligning a business model, and crafting the organization that could exploit the innovation. Some of the tools involved may also be useful in the ideation phase but are more relevant for their contribution to this phase. Corporations that are looking for collaboration at this stage may see faster results on average, given that they are working with organizations that already have a business model, a prototype or even a well-developed working business.

Corporate Accelerator

A corporate accelerator is a program that provides intensive short or medium-term support to cohorts of start-ups via mentoring, education, physical working space, and company-specific resources that can include investing money, normally in exchange for a variable share of equity. Accelerators offer highly structured programs to speed up the business development process during a restricted period, typically of three to nine months. The high point is a demo day during which the start-ups pitch to a room of venture capitalists in order to raise money. This model has been replicated scores of times around the world. Start-up incubators are cropping up in international business hubs and in small U.S. towns, in verticals ranging from digital health to Bitcoin.

They typically have an open application process, a focus on the interactions of start-ups formed of small teams rather than individual founders, and they share the same space and program. Accelerators help with the growth of start-ups, which learn, test and iterate their business models rapidly with mentors and peers, to culminate in investment, market entry or scale. Like an incubator, an accelerator acts as a powerful radar that helps foster a change in culture and internal learning at corporations at the same time. Accelerators quickly become acquainted with a broad variety of new business ideas in their search fields while getting the maximum impact from the tool both internally and externally thanks to the engagement of employees as mentors. Corporate accelerators take normally much lower equity from start-ups than incubators do, with percentages that can vary from 5% to 20% of equity as investment. There are also numerous models with different formulas: equity-free models, those run with other corporate partners, wholly external models, etc. As in the case of incubators, some accelerators are not necessarily run by corporations but can be run by a group of companies or a consortium of public and private institutions. In the authors' experience, models also evolve over time.

The skills necessary are very like those of an incubator, such as mentorship skills with sound business knowledge and experience in the same fields as well as the ability to deal with start-ups. It is preferable to hire people with experience in start-ups and who are entrepreneurs themselves. Accelerators are more focused on enabling the rapid screening of a large number of start-ups so there is greater pressure in terms of timing, which leads to the need for a more effective and efficient use of resources.

The **key success factors** are the same as those of incubators. It is important to involve start-ups and consider their needs instead of orienting the accelerator toward the growth of a given corporation only. If the start-ups succeed, so too will the corporations. Accelerators are relatively easy to launch but they require significant investment in ecosystem development and brand development to attract a good number of start-ups so the best can be cherry-picked.

According to previous research, the business-unit impact time is estimated to be from seven to 10 years, on average.

Corporate accelerator and incubator can be used broadly in any phase of innovation, from discovery to deployment. They require a moderate amount of capital and are normally integrated into the corporation through equity agreements.

Corporate Incubator

This is a set of mentoring, value-added services such as centralized legal or marketing support and working spaces provided to entrepreneurs to build viable ideas and business models ready to go to market, in exchange for a share of equity. The objectives are to provide a viable path to market for promising innovations, to commercialize these and, in some cases, to obtain financial returns.

Incubators help entrepreneurs from an early stage with the start of their business, building first prototypes, calibrating business models, establishing a legal structure and identifying target clients to raise seed funding. Incubators mentor entrepreneurs early on through the development of significant interactions at both corporate and business unit level.

Corporate incubators are those embedded internally in a corporation's organizational structure. They can source both internal and external ideas. In addition, some corporations decide to run the incubator internally but others have it outsourced. There are also external incubators that are not corporate incubators. Instead, they are integrated and run by public institutions or by other private companies. Some companies choose to cooperate with existing external incubators rather than launching their own, especially to use them as a radar to detect interesting ideas for a cheaper price.

A corporate incubator differs from an accelerator at the start-up development stage: incubators bring in entrepreneurs who frequently have only ideas and lack an existing business, while an accelerator works with start-ups that are technically ready to enter the market, scale or attract investors. Most incubator programs last between 12 months and 36 months maximum. Corporations can use an incubator for several purposes. They can use it as a radar to detect interesting partners with which to work. An incubator can also be used as a culture catalyst, a powerful tool to foster internal change and learning, typically combined with the engagement of employees as mentors to obtain the maximum impact of both tools (internal and external). Corporate incubators usually ask for a significant part of a start-up's equity, normally around 10% to 25%.

People involved in this tool must have the ability to deal with start-ups, the capacity to understand and satisfy their needs, trust when working with their culture, and mentorship skills with sound knowledge of important aspects of any business such as accounting, finance and marketing. Professionals with experience of financing who have access to bank loans, load funds and guarantee programs are needed. Other aspects that an incubator needs to provide support in the launch and development of a business are networking activities, market research, higher education resources, connections to strategic partners, relations with angel investors or venture capital, comprehensive business training programs, advisory boards andmentors, management team identification, technology commercialization assistance, regulatory compliance help and intellectual property management.

Start-ups benefit from office space, hardware and business skills training, access to professional networks, management support and potential funding support. Corporations benefit from wider growth options and investment opportunities, enhanced employee recruitment and retention, and a cheaper, outsourced R&D function.

The cost of running an incubator can be high, especially if a company has to build a working space and hire talent with the necessary skills. Some corporations leverage their existing resources to launch such a program. There are also public institutions that run incubators and with which corporations can work, as well as other corporations with shared objectives. According to previous studies, the business-unit impact time is estimated to be from seven to 10 years, on average.

The **key success factors** include compression of the innovation cycle, balance between structure and flexibility, the provision of relevant training, the simplification of procedures, ensuring a collaborative environment, and having the right talent (especially internal and external mentors who are champions able to play a dual role). Other key factors are the careful selection of start-ups based on long-term objectives, commitment from the top management, as well as corporate alignment with the innovation strategy to make the incubator part of the company's ecosystem.

Strategic Partnership

Alliances between corporations and start-ups to specify, develop and pilot innovative solutions together can take many forms: from joint research and the codevelopment of products and services to procurement that can tackle a business problem or commercial-ready innovations for new or larger markets. Corporations and start-ups can benefit from extended market potential and competitive advantages as they can build interesting synergies. Previous research shows that an entrepreneurial alliance can serve as a way to discover new opportunities or exploit existing opportunities. It is the most generic way of defining collaboration between corporations and start-ups and it serves as a framework for the tools described in the following sections.

Figure 12 shows different forms that strategic partnerships can take as a function of firms' degree of commitment, and the integration into the firm's organization.

Although we later explain in detail some of these types of collaboration, this variety of forms indicates how different skills are necessary to succeed in sourcing innovation using strategic alliances. Nevertheless, previous research identifies some common critical abilities for facilitating interaction and mutual cooperation. To avoid the strategic, organizational, operational and human challenges involved in making alliances, there are several **key success factors** to take into account. For instance, having a collaborative mind-set and culture, a clear brief from the corporate, a clear pilot budget, knowledge of intellectual property, and a clear time frame within the company to decide whether to terminate the partnership or progress beyond the pilot. It is important to negotiate in advance the rights to business opportunities created in the course of the partnership as well as the splitting of profits and expenses. A dedicated and talented team, including a champion with decision-making power who can bridge the gap between companies, is a basic requirement for a fruitful relationship.

The time frame of a strategic partnership depends on the cycle of the product or service. It is parallel to the different forms, so may sit on a spectrum from a short-term or transactional engagement to a long-term committed relationship. The same holds for the business-unit impact time and the cost involved. These also depend on the partnership, which can be short-term or more long-term.

Venture Client

A venture client is a specific type of strategic partnership and a highly integrated tool that corporations can use to purchase the first unit of a start-up's product, service or technology when the start-up is not yet mature enough to become a client. In this way, corporations can "lock" the collaboration at an early stage. Corporations help start-ups grow by giving them their first backing and granting them supplier status, a supplier number, a purchase order and revenue. Start-ups invoice the host company for their technology, products and services but the corporation does not invest in the start-ups and takes no part of their equity. Venture clients normally involve start-ups that graduated from accelerators to focus on validating their prototypes, helping them learn about a specific industry and connecting them with decision makers for business development. There are also cases where companies provide the infrastructure of an accelerator to control the whole process.

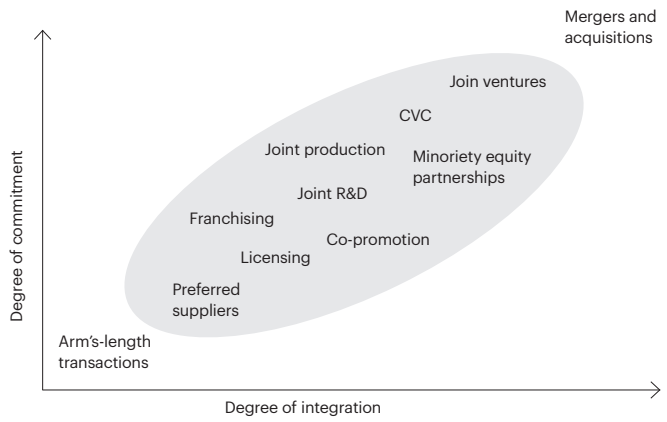
Venture clients are typically run by the corporation with the help of skilled specialists. For instance, in the case of the BMW Startup Garage, the program is run by a start-up connected with BMW. (See the discussion of best practice in the next chapter.) In contrast with venture capital, venture clients purchase the first unit of a start-up's product, service or technology, but not its equity.

Unlike accelerators, there are no shared spaces for the relationship with entrepreneurs, for example. Following a very lean start-up approach, they develop their projects at home and visit the company only to carry out the order with engineers and innovation managers. Start-ups work directly with corporate's engineers and managers on real innovation projects during a variable period of time of at least three months.

These specialists help the start-ups adapt to needs of the company, which provides its mentoring skills. Normally, the specialists are the bridge between the two organizations so they are expected to be entrepreneurial and to have technical knowledge of key business areas. Venture client managers argue that they are the natural next step in the evolution of venturing tools as they can offer acceleration, together with a client that will support the business from day one. This is the main difference compared to other venturing tools: venture clients are not investors but clients. They work with start-ups to become clients and that is the reward. After all, start-ups need good clients to survive and grow. In order to attract the best applicants, venture clients do not normally take control of any intellectual property or equity, and start-ups are not limited by exclusivity agreements.

The **key success factors** here are very similar to those incubators and accelerators although with a slight but important difference: start-ups deal with their main customer through the program, so they must be able to offer satisfying products or services. Corporations must also be aware of their partner's needs and solve them. Ultimately, if they succeed, the corporation will as well.

Figure 12.
Strategic partnerships



Source: Reurer, Ariño, and Olk (2011), Figure 1.3: Alliances as Hybrid Organizations, p. 10.

Excubator

One of the most recent tools, excubators aim to fast-track the growth of start-ups through a combination of the best of several tools (mainly incubators and accelerators). In practice, an excubator functions as an external venture builder for a corporation. Excubators are run by a venture builder specialist to fill a given gap. Excubators emerge to solve the difficulties that corporations have in launching their own initiatives: doing so in a separate organization means the concept can be proven without the danger of it being killed by the corporation's processes before it can be shown to be viable. This tool is geared more toward filling gaps identified by the corporation than serving as a radar for unexpected opportunities. It is able to provide tailor-made solutions for corporations' problems, with an ability to develop rapidly and deliver a minimal viable concept or, even better, a minimal marketable concept.

This model differs from incubators or accelerators in important respects. For instance, the time schedule and application process are not restricted: excubators can work with early-stage companies for years until they come up with a solution to the problem in question. Another difference lies in the monetization: an excubator's extensive, customized support frequently includes a "do-it-for-me" approach, which differs from the more hands-off approach of incubators (at the expense of a bigger ownership stake or the surrender of more intellectual property rights). An excubator, in contrast to other similar programs, is more focused on finding a proof of concept rather than building a product alone. The focus relies on building products and services that had not necessarily been anticipated through proof of concept.

Excubators can obtain funding in two ways:

- From corporations: established companies pay the program expenses and an additional retribution for the team in charge of the excubator in exchange for their services.
- From start-ups: in this case, start-ups are charged in cash or a combination of cash and equity .

This is a tailor-made program designed to scale ideas, without regard to a limited period of time or having to be declared eligible in a selection process. The start-up receives holistic help to nourish it under one roof: mentorship, advice, access to experts (in marketing, lawyers, consultants, designers, developers, and financiers), a professional network, potential funding support and valuable resources such as fully equipped work spaces, similar to what an incubator or accelerator would do. However, excubators have a long-term approach that puts the stress on obtaining a successful output.

From the point of view of the venture builder's necessary skills, whether the venture is to be built from scratch or is to accelerate a chosen start-up, entrepreneurial skills are necessary to succeed: assessing the best solution for the client's challenge, building the right team, structuring the right business model, proving the concept and ensuring it is viable.

From the corporation's point of view, it is crucial to work closely with the venture builder, to have integration capabilities to benefiting from the new business line as soon as possible and to respect their schedules and culture. Corporate executives should avoid imposing corporations' schedules and procedures during the process.

The corporation should expect to get a concept proved valid in between three months and one year, if tailor-made. Integrating the result into the core business will be faster than with other tools because it was born of a real gap that the firm wanted to fill.

Key success factors include close cooperation based on trust and communication between the corporation and the start-up, having a quality network to scout for the best solutions, and taking precautions to handle intellectual property issues related to codeveloped innovations.

Corporate Venture Capital

One of the first and most common tools that corporations use is direct equity investment to target start-ups of strategic interest beyond a purely financial return. This allows for fast-track access to cutting-edge innovations, strengthened research and new marketing and distribution channels. A corporation can run financially backed venturing arms in different ways: internally, as a subsidiary, or by contributing to corporate-backed investment funds jointly supported by other private or public investors. A corporate venture capital (CVC) unit has fulfilled three main needs in the past. The first of these is the ability to respond more quickly to changing circumstances. While internal research laboratories can be time-consuming to build up – particularly the identification and recruitment of the right people – corporate venture programs can often quickly identify suitable firms in a promising area. The effectiveness of this objective pales nowadays when compared with other tools that are much more cost-effective. The second key benefit is the ability to leverage outside funds. This aspect is particularly important when there is considerable technological uncertainty. A final advantage is the ability to quickly change course. In established corporations, management will find it difficult to abandon internal projects. The arm's-length relationship between the corporation and the ventures it backed has a real advantage.

Start-ups benefit from financial resources and close collaboration with an experienced and consolidated corporation as an equal partner, which often implies invaluable mentorship and counseling. In turn, corporations get involved with high-growth companies with great profit potential and this allows them to diversify their portfolio with advanced products, services or technologies.

Normally, CVC units are run by corporate executives who have the same necessary skills and talent as venture capitalists: people skills, charisma, salesmanship, empathy, informed judgment, the ability to minimize cognitive biases, high risk tolerance, an excellent investing track record, investment and deal-making experience, entrepreneurial experience, operational experience of start-ups, great networks of potential customers and other investors, and the ability to see opportunity where others do not. Getting this world-class talent on board is a great challenge if the incentives are not well aligned. In the venture capital world, partners get a substantial carried interest in the deal (around 20%), which makes it very attractive to work for those firms. If the corporation is not willing to match incentives, the likelihood of high-performance CVC is dramatically reduced.

Regarding to the **key success factors**, CVC is, as with the rest of the tools, very much linked to the design and implementation of a broad venturing strategy, as explained previously in this report. In CVC it is especially important to adopt a strong innovation strategy (including an integration strategy if this is decided) with clear long-term objectives, avoiding short-term direct financial returns. The corporate venturing process can be broken down into the following stages: deal generation, due diligence, portfolio management and exit management. The design of the individual levels of value creation should be geared to the strategic objectives of the venture capital fund. The deep involvement of divisions in the investment process also helps, particularly during the due diligence phase. Rigorous due diligence should be exercised to minimize the risk. It is also important to dispose of investments that do not meet expectations or fulfill the established criteria and thus to focus on potential winners. Other important factors include having extremely flat structures and short decision-making processes, planning the manner in which exits should take place before investing in a company, and calibrating time and speed according to the market.

CVC is a long-term tool. According to The Boston Consulting Group (Brigl et al., 2014), there is a five to seven-year cycle, plus the integration period.

To give an example (taken from Franzke, 2001): "Bainlab, the business builder of Bain & Company, has developed a two-stage process of portfolio analysis especially for CV funds. In a first step, the investments are entered in an evaluation matrix featuring value-creation potential and ease of implementation as its criteria. By combining the two dimensions each portfolio company can be classified into one of four categories: 'stars,' 'high potentials,' 'quick hits' and 'watch out.' The second step is to investigate for the portfolio companies in each investment category whether they constitute a strategic fit with the corporate divisions or business segments. The purpose of this analysis is to divest oneself of less successful investments as early as possible, while supporting clearly discernible and potential portfolio stars with all available funds and management resources."

CVC and acquisitions are normally used at the last innovation phase, deployment, to scale-up. They are highly intense in the use of capital.

Aquisition Program

This involves the purchase of start-ups by corporations in order to access their commercial-ready products, complementary technology, or capabilities that solve specific business problems or to enter new markets. Something of particular importance is the acquisition strategy known as acqui-hiring – the practice of acquiring a company to access its talent, rather than its technology or other assets. This practice has become common among digital businesses, where there is an intense talent crunch and coding skills are highly transferrable.

The time frame of the tool is relatively short after a follow-up period but, compared to other tools, the integration can last much longer. Other tools that work with start-ups from their inception can ensure faster and more successful integration if the entire focus is on the acquisition itself. However, many factors account for the business-unit impact time: the size of the deal, the pace of the acquisition process, the acquiring company's internal processes, the deal's financial structure, among others.

According to previous research and practice, some the most important **key success factors** include defining the strategy to be followed early on and sticking to it but starting small if necessary; investing in joint upfront planning and execution; building an enterprise-level commitment to the project from both sides, for which setting common goals can be very effective; building an atmosphere of trust and fostering communication; searching for common ground and setting common goals with start-ups; planning the end, with a written contract containing detailed conditions to help minimize conflict; and allowing selection and pilot programs with a number of start-ups to select potential targets for acquisition.

Start-ups benefit from monetary rewards, increased liquidity, reputational advantage and, frequently, professional development opportunities for their employees. Corporations benefit at the same time from the acquisition of talent, skills, knowledge, business intelligence and technology by accessing assets with promising new development. They also gain diversification, increase their market share or build economies of scale. Reducing competition or organic growth are other examples of positive results for corporations that engage in acquisitions.

Summary of venturing tools

Exhibit: Types of Corporate Engagement with Startups and Features

		Sharing Resources	Challenge Prize	Hackathon	Scouting Mission	Excubator
Objectives		Get closer to the ecosystem to monitor its evolution.	Obtain new solutions based on novel technology trends.	Find technological solutions to a corporate challenge.	Gain insight to leading innovations.	Venture builder to get to MVP outside the regular structure.
Benefits to startup		Access to cheaper or for free corporate resources. Increases visibility and networking with other similar startups.	Access to new segments, markets and finacing opportunities. Improves visibility and public relations.	Access to new segments, markets and financing opportunities. Improves visibility and public relations.	Eases the contact with corporations, creating potential finacing and business deals opportunities.	Access to facilities, expertise and technical support of experts including skilled mentorship and coaching. Eases access to funding.
Benefits to corporation		Improve corporate branding, helpful for talent retention and attraction. Visibility.	Adoption of outside ideas. Improve corporate branding. Visibility.	Solving a specific technical problem or producing a particular piece of code in a short period of time. Visibility.	Provision of insights and valuable information from leading innovation hubs in the world.	Ability to develop tailor-made prototypes of products for problems.
Resources allocation	**Skills necessary**	Building a collaborative enviroment of mutual trust and communication.	People and team managment skills with ability to filter ideas.	People and team management skills with ability to filter ideas.	Industry expertise, market research and analytical skills.	Industry expertise, analytical skills, ability to manage the process of bringing an idea to a MVP.
	Cost	low	low	low	low	high
	Equity involement	rare	rare	rare	rare	typically
	Time horizon of involvement	short term	short term	short term	short term	long term
Intergration with core business		low	low	low	low	high
Implementation	**Organizational anchoring**	Intergrated into existing facilities	Time limited event	Time limited event	Separate venture capital arm, board level	Separate excubator unit
	Key success factors	Clarity about revenue model, ensuring that the resources meet the requirementents and needs of entrepreneurs.	Promotion of complete contest requirements and procedures, give the right incentives, and involving innovation experts to filter ideas.	Set clear expectations. Foster a collaborative environment of functional working teams, investing in group building sessions if necessary. Offer participant's engagement.	Target preferred industries and locations and establish a list. Send experts with an objective and a deadline.	Close cooperation, quality network for scouting solutions, get to quality MVP and MPP in the shortest time. Take precautions to handle IP issues of co-developed innovations.

Source: IESE Business School & mVenturesBcn

Strategic Partnership	Venture Client	Corporate Incubator	Corporate Accelerator	Corporate Venturing Capital	Aquisitions
Specify, develop and pilot innovative solutions with an existing company.	Offer a client relationship to insource external innovation.	Provide viability to promising innovation and its commercialization.	Support start-ups with a structered program.	Fast-track access to innovations, strengthening of internal research or accessing new distribution channels.	Access commercial-ready products, complementary technology, and capabilities.
Increasing market potential and building synergies.	Getting revenue streams from consolidated company in form of orders as a supplier.	Access to facilities, expertise and technical support of experts including skilled mentorship and coaching. Funding opportunities.	Access to facilities, expertise and technical support of experts including skilled mentorship and coaching. Funding opportunities.	Access to financial resources, know-how, mentorship and counseling of experienced corporations.	Monetary rewards, increased liquidity, reputational advantage and, frequently, professional development opportunities for its employees.
Gain of competitive advantages and synergies.	Fast-track access to startups with a ready-to-buy MVP, allowing to gain competitive advantages for a cheaper price than other tools.	Wider growth options and investment opportunities. Cheaper, outsourced R&D function, and enhanced employee retention and recruitment.		Increased diversification. Access to advanced products, services or technologies.	Corporate development buying talent, skills, knowledge, business intelligence or technology.
Ability to build relationships, trust and effective negotiation skills.	Ability to deal with the needs of entrepreneurs. Professionals with experience in entrepreneurial financing instruments. Industry expertise, business talent, connections to strategic partners, access to mentors, management and board members, regulatory compliance help and intellectual property management skills.			Excellent investing track record, deal-making experience, operational experience in startups, great networks of customers and investors.	Networking skills, informed judgment, due diligence experience and financial expertise.
medium	low	high	medium	very high	very high
rare	no	typically	rare	always	always
long term	long term	long term	long term	long term	long term
high	high	medium	medium	low	low
Board level	Separate venture client unit	Separate incubation unit, R&D	Separate accelerator unit, R&D	Separate venture capital arm, board level	Separate venture capital arm, board level

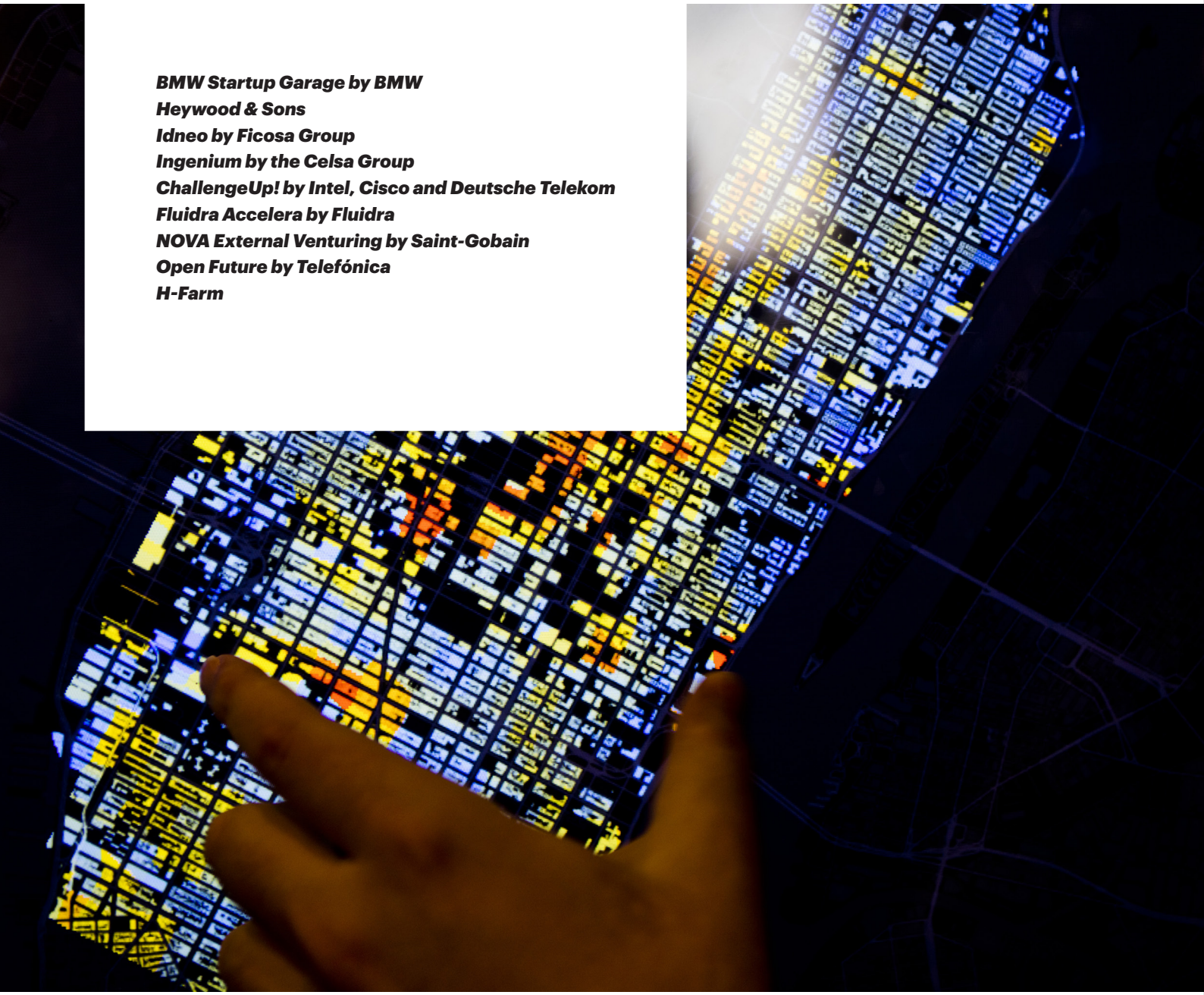
A dedicated and talented team, including a champion. Early identification of complementary capabilities with the startup, with a piloting budget and an agreed time-frame. Negotiation of the rights, profits and expenses to emergent business opportunities beforehand. Simplified procedures (shorter payment terms, etc).

Select the best startups. Compress the innovation cycle, provide relevant training and establish standard simplified procedures. Offer quality services that allow scaling and growth (talent, education, facilities, networking).

Design the right incentives for the investment manager. Clear investment strategy (independent or parent-bound). Establish extremely flat structures and short decision-making processes.

4. Selected examples

BMW Startup Garage by BMW
Heywood & Sons
Idneo by Ficosa Group
Ingenium by the Celsa Group
ChallengeUp! by Intel, Cisco and Deutsche Telekom
Fluidra Accelera by Fluidra
NOVA External Venturing by Saint-Gobain
Open Future by Telefónica
H-Farm



The following are short practical cases with examples of the cutting-edge deployment of venturing tools for others to follow. Although the selected firms have wider innovation strategies, the authors have chosen only one specific practice to shed light on particular tools.

Strategic Partnership:
Venture Client

BMW Startup Garage by BMW

BMW Startup GARAGE

A venturing program launched in April 2015 as a fast track for startups into the automotive industry. As a Venture Client, the BMW Group becomes a client of a startup at an early stage when its product, service or technology is not yet mature. It allows startups to validate their solution, learn about the automotive industry and network with key decision makers to ultimately establish a long term partnership with BMW. The program offers a no-strings attached, co-innovation partnership, as well as access to a network of top automotive engineers and managers.

In 2014, BMW asked serial entrepreneur Gregor Gimmy - with longstanding experience in Silicon Valley, who had been recruited by BMW to implement new innovation competencies - saw an opportunity to leverage the innovation potential of tech startups. After exploring existing collaboration models, such as corporate startup accelerators, Gimmy came up with a game-changing idea he called "venture client."

In order to attract top, early stage startups to BMW, they would target startups that graduated from the best accelerators, to become the startup's first, early adopter client. Hence, as a venture client, BMW could now work with approx. 600 accelerators worldwide instead of competing with them. The setup of a venture client unit could be done fast. Instead of going through a lengthy process of building and recruiting new competencies required to become a leading accelerator, BMW would be able to focus on an existing team and core competencies such as its ability to assess the strategic relevance of a potential supplier and to integrate its technology. They would start offering startups that graduated from accelerators the chance to become a BMW supplier.

The main benefit is that BMW has quick and highly efficient access to top startups from all over the globe, as it can offer startups what they need the most to succeed: clients! In addition, it must not compete against other accelerators or venture capital firms. The venture client program also turned out to be less cost intensive than an equity based venturing program as it does not come with high infrastructure, personnel as well as legal and financial cost.

In words of Gregor Gimmy, Founder and Head of BMW Startup Garage: "We see the Venture Client model as a highly efficient and effective way to integrate early stage startups with a corporation like the BMW Group. We give startups what they need the most (a purchase order) and get what we need the most (fast access to top technologies). In addition, when a corporation buys the technology of startups there is a strong impact for the overall eco-system. Less startups will fail, due to early revenue from corporates. This will generate more successful exits, which again will attract more venture capital. This results in more startups, which means more and faster innovations for corporations, more qualified jobs, etc."

Today BMW is working with twice the amount of startups as initially planned.

Features

- ***The BMW Startup Garage targets startups that are market leaders and have world class technologies that are highly relevant for BMW.***
- ***Selected startups conduct a four month, no strings attached, program to validate its innovation in a POC project directly with the business unit responsible for the innovation. In addition, the program includes modules to network and to teach startups relevant processes of the automotive industry (NPD, manufacturing, QA, etc.).***
- ***Startups become suppliers of BMW from day one. They are issued a supplier number -the passport to work with BMW- and receive a purchase order. The PO covers the cost associated with the 4 program modules. It does not finance product or IP development and there is no equity investment.***
- ***To qualify, startups must have graduated from an accelerator program or raised professional venture capital before, with a working prototype or pilot of a product or service ready to conduct a POC, e.g. in a real vehicle.***

What works for BMW

- ***Startups join the program with a working prototype and established IP. They do not engage a startup to develop or generate ideas. Startups are not used as contract engineering or innovation service providers.***
- ***No exclusivity agreement is required from startups during the program. This would scare away the world's best startups. It also takes too much time and cost to negotiate exclusivity, which may not even be necessary. There is no contract, there is only a confidentiality agreement. Startups are not allowed to communicate for marketing purposes that BMW is their client.***
- ***Focus is only on the strategic goal instead of financial goal, allowing them to attract the best, most demanded startups at an early stage. Top early stage startups generally do not want corporates as shareholders to retain flexibility. Knowing that, BMW offers a startup to buy their technology, products or services - not their equity.***
- ***The startup not only gets a client but also revenue. This increases valuation and eases access to more venture funding.***
- ***The program is very agile, as the startup selection does not require Board and there is a client-supplier relationship. No cultural integration is required but both do learn a lot about each other.***

Excubator

Heywood & Sons

A self-defined "corporate company builder" based in Barcelona, Heywood & Sons partners with corporations to develop and launch new services, products and businesses. The creation process handles all stages required to validate a business model, from ideation of products and services to prototypes ready to go to market or scale. They apply a "lean method," centered on fast-validated learning, shortening time to market and the provision of investment required to test, develop and implement new ideas.

Entrepreneurs are typically labeled as "risk-takers," but Heywood & Sons sees them as "active risk managers," experts in managing risk in environments of uncertainty that require making decisions with scarce information. With their method, they reduce significantly this risk, liaising between the corporation and the start-up.
Through their offices in Barcelona, London and Singapore, Heywood & Sons is constantly monitoring trends within the entrepreneurial ecosystem with Scouting for Business, and they meet with corporations regularly to understand their needs and challenges in able to offer them solutions.

In the words of Pep Viladomat, cofounder and CEO of Heywood & Sons: "It's a new and efficient way to launch and validate new products and services, not by researching but by building a venture and interacting with paying customers. We operate often under the radar, trying things at a certain speed. It's faster for us to build and launch a business than the time it takes you to get approval from your Board or confirmation from your Compliance Department. With our team you can build, launch and repeat several times and get revenue streams within weeks."

Features

- ***Speed: delivery of ventures with revenue streams in a time frame of three to nine months.***
- ***"Lean start-up" methodology with validation of business models based on four core principles: a) a well-defined hypothesis; b) viability of the business idea, seeking profitability from day one; c) the business must be possible; d) market acceptance, making customers buy.***
- ***Costs start from €300,000, less than what it would take a corporation to build it.***

What works for Heywood & Sons

- ***Being a team of seasoned entrepreneurs themselves, they can offer successful company building because they speak the same language as entrepreneurs. The whole process is conducted externally from big corporation to prevent "intoxication" from corporate's different timing, processes and culture.***
- ***A "design thinking" approach. It is a hub of diverse, talented professionals that bring together knowledge in different fields: entrepreneurs, consultants, developers, investors, designers, data scientists and creative minds.***
- ***The methodology applied.***
- ***A focus on building MVP and MMP (minimal viable product, minimal marketable product) and obtaining revenue streams early on.***
- ***All-in-one package: the resources, focus and/or capital that their partners require are offered under the same roof.***

Accelerator & CVC

Idneo
by Ficosa Group

Idneo was established in 2011 as an engineering unit via a joint venture between the automobile sector company Ficosa and the construction and infrastructure engineering company Comsa Emte. Idneo was created from the years of experience of both companies and the know-how in electronics of Panasonic, owner of 49% of Ficosa shares, with two objectives: internally, to accelerate the vertical integration in electronic and new ideas into its product lines and diversify to other sectors beyond the automobile, and externally, to provide a technological platform to foster the creation and development of new businesses. Idneo bases its differentiation on the integration of different disciplines such as electronics, software, precision mechanisms and industrial design, which allows it to provide engineering solutions to a broad spectrum of customers, and on its ability to bring the product to manufacturing through Ficosa Electronics.

On the one hand, their strategic expansion into other sectors of high growth, such as health, lies in their willingness to increase their competitiveness, to achieve differential capacities through technological innovation. On the other hand, Idneo has expanded internationally with the opening of new offices in Spain, Germany and the United States.

Features

- ***Management of the entire product cycle from conception and design, prototyping and homologation to the transition of the manufacturing process.***
- ***They provide support in capital, sales, and engineering services through the expertise and know-how of a team of 159 engineers from different specializations.***
- ***They combine capital venture with an accelerator with start-ups, providing all the support they need in exchange for an investment in their equity.***
- ***The facilities are located within Ficosa headquarters in Viladecans (Barcelona), with advanced R&D technology and product approval.***
- ***Specialized in the development of technological products such as video systems for sectors including mobility (electric vehicles and transportation), industrial and consumer electronics, renewable energy, security and defense, and health (medical equipment).***
- ***In 2016, Idneo had €25 million in revenues worldwide: €2.5 million from Asia, €3 million from the NAFTA market, and €19.5 million from Europe. In 2017 they expect revenues to increase by roughly €2 million due to their activity with start-ups, and again by up to 77% in 2019 thanks to their focus on the medical industry by way of medical equipment.***

What works for Idneo

- ***Technical support and mentorship in project management skills, business validation and escalation, etc.***
- ***Alignment of expectations.***
- ***Clear definition of priorities and roles.***
- ***Mutual respect, especially from the corporation for the start-up's culture, timing and processes.***
- ***Trust and communication.***
- ***Having a first client willing to pay, no matter how much.***
- ***Careful selection of candidates according to these principles.***

Accelerator

Ingenium by the Celsa Group

Ingenium is an accelerator program embedded in the open innovation strategy of the Celsa Group, one of the top-four European steel-making groups. Its aim is to find new ideas not only from inside the company but particularly from start-ups outside the company. The program focuses on the challenge of digital transformation, seeking to receive creative ideas that incorporate the main disruptions in the market, such as big data, artificial intelligence and IoT. The goal is to lead the transformation of the steel industry with innovations able to tackle energy storage, traceability in the supply chain, 3D printing, smart steel and the recycling of byproducts.

The selected start-ups attend a two-day "demo day" in which they get to know firsthand Celsa's facilities, its people and the main challenges the group is facing. Later on, entrepreneurs are given the chance to develop a "pilot" of their product or service during a limited period with professionals from the Celsa Group.

Features

- ***An accelerator program for selected start-ups that are solving challenges related to digital transformation.***
- ***The application is open to all start-ups that wish to participate and that fit the requirements.***
- ***Includes a demo day and a six to eight-month program offering mentorships and professional networking with valuable contacts.***
- ***After this period, if entrepreneurs are successful and depending on the interest of both parties, Celsa offers a financing option through investment for equity and opportunity to scale as a strategic partner of the group.***

What works for Ingenium

- ***Defining their needs from the start, announcing clearly what they are looking for.***
- ***Setting clear evaluation criteria for applicants: team, solution, cost, degree of innovation, degree of maturity, impact on the P&L in case of success, fast implementation (under 12 months), replicability, and its application outside the Celsa Group.***
- ***Mentorship offered by senior managers of the group, which helps entrepreneurs build their pilot and at the same time helps Celsa become more entrepreneurial-friendly.***
- ***The support offered directly to the entrepreneurs increases exponentially the possibilities of scaling within the multinational and other corporations in the industry, if the solution proves effective.***

Incubator & Accelerator

ChallengeUp! by Intel, Cisco and Deutsche Telekom

Announced in March 2015 at the Mobile World Congress in Barcelona, ChallengeUp! is an international hybrid incubator and accelerator program with a focus on promising IoT start-ups in the EMEA region. The three technology industry giants joined forces to bring together their knowledge, experience, HR, technology and infrastructure.

ChallengeUp! takes advantage of the resources, experience and know-how of the start-up initiatives of the three companies – Cisco Entrepreneurs in Residence (Cisco EIR), Intel Business Challenge Europe, and hub:raum, powered by Deutsche Telekom – to build new start-ups.

The program is aimed at helping innovative IoT start-ups make it to market faster through joint projects, mentoring, high-value networking and corporate assets and resources. The goal is to accelerate transformation-supporting, innovative entrepreneurs to turn their ideas into commercial successes able to provide value to the industry and its customers. For the 2015 program, 300 start-ups from 40 EMEAR countries applied. Only 12 were selected.

Features

- ***Designed for early-stage start-ups creating solutions in the following areas: Internet of Things (IoT) and the Internet of Everything (IoE), connected/smart solutions (smart home, smart city, smart energy, connected cars, wearables, Industry 4.0), information security, big data, analytics, connectivity and cloud computing.***
- ***The program offers mentoring by business and technology experts to accelerate product development, opportunities for high-value networking with executives, and go-to-market support leveraging the resources of the backing partners.***
- ***Application open to all start-ups that fit the requirements and wish to participate in the competitive selection process.***
- ***The program lasts for a total of seven months, with a core four-month acceleration period taking place in several European locations: Krakow (Poland), Berlin (Germany) and Vienna (Austria).***
- ***Start-ups participate for free, with no equity investment required, and keep full ownership of their intellectual property (including trademarks, patents and copyrights upon joining the program). In addition, the organization covers certain travel and accommodation costs incurred during the program.***
- ***Start-ups that prove their worth during the program are eligible for potential coinvestment from all three main backers and corporate venture funds in their network.***

What works for ChallengeUp!

- ***Helping start-ups define a strong go-to-market strategy and a path to sustained commercialization of their projects.***
- ***A network of international experts from industry leaders who are technology-savvy and have decades of business know-how.***
- ***Providing understanding and respect to start-ups by offering the support they need to go to market under appealing conditions.***

Accelerator

Fluidra Accelera by Fluidra

In 2014, Fluidra – a public Spanish multinational group dedicated to the development of applications for the sustainable use of water – launched Fluidra Accelera. As one of the few industrial accelerators, it focuses on technology and water. Its goal is twofold: first, to complement its internal innovation by seeking out entrepreneurs that can leverage the existing R&D projects of the group and, second, to obtain a financial yield.

As one of their defining value propositions, Fluidra Accelera highlights the importance of reducing the risk burden carried by entrepreneurs. Fluidra professionals with years of experience in manufacturing, marketing and sales mentor the selected projects and help them raise the capital they need to go to market or scale. The whole process is reviewed carefully by three internal bodies depending on the stage of the program: initially, the Board of Directors supervises and assists; in the second half of the program, the viability plan team helps the start-ups prepare to go to market and succeed; and, finally, a follow-up council stays in touch with the start-up after the acceleration period. The accelerator works with 10 start-ups at a time, with three new ones being accepted each year.

According to Xavier Salvat, director of Fluidra Accelera: "In our two years of existence, we have been very impressed by the incredible quantity and quality of interesting and viable ideas that exist out there. The first year we promoted the accelerator heavily, but currently we are receiving a lot of applications without even looking for them proactively. We launched this program as part of a bigger innovation strategy to see where it could take us and the results have been much better than expected. In my opinion, it is crystal clear today that corporations have to go outside to innovate."

Features

- ***Application open to all start-ups with ideas, products or services related to the sustainable use of water.***
- ***They work with start-ups at different stages: from entrepreneurs that submit only an idea, to companies with years on the market.***
- ***The acceleration period lasts from four to 12 months, depending on the start-up.***
- ***The program offers mentoring by business and technology experts to accelerate product development, providing opportunities for high-value networking with executives and go-to-market support leveraging the resources of thebacking partners.***
- ***Fluidra typically takes a minority stake in the companies with an option to expand it or sell it in the future.***

What works for Fluidra

- ***Reducing as much as possible the uncertainty that entrepreneurs face (thanks to the consolidated position of Fluidra).***
- ***Talented and experienced employees that offer their know-how and experience to the entrepreneurs.***
- ***The support offered throughout the process and beyond. They make sure to invest not only money but also time and effort into their smaller partners.***

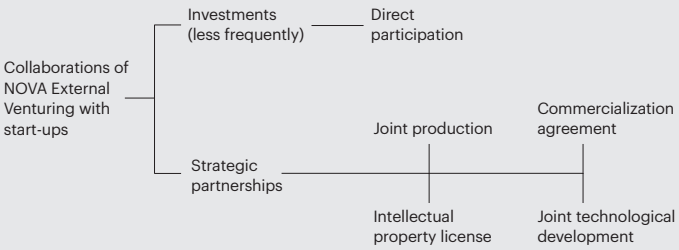
Incubator & Accelerator

NOVA External Venturing by Saint-Gobain

Founded by King Louis XV of France in 1665, Saint-Gobain is today a world leader in the habitat and construction markets. It had sales of €39.6 billion and cash flow of €2.56 billion in 2015. For many years, Saint-Gobain had observed advances occurring outside the company. In 1927, when it was working on the tempering process used in glazing, Saint-Gobain acquired a share in the company behind Triplex glass. The chemist Édouard Benedictus is said to have discovered laminated safety glass in 1903 after accidentally breaking a flask containing a celluloid solution. Saint-Gobain provided him with the resources he needed to develop the idea. The process was refined into technology that has continued to improve over the years and is now used widely in the automotive and building industries.

With such an outstanding history of profitable growth through innovation, Saint-Gobain looked to establish a catalyst that could boost innovation partnerships. In 2006, the NOVA External Venturing unit was launched as an open innovation approach dedicated to developing strategic partnerships between the group and start-ups all over the world. Its mission is to combine projects from innovative start-ups with the industrial and commercial assets of Saint-Gobain, so as to increase the partners' innovative capacities, thus serving as a unique interface for start-ups and helping to create and develop links with all the group's activities.

The priority areas of the program are: building materials and easy-to-install solutions, clean technologies, systems and solutions that integrate natural or artificial light into buildings and automobiles, construction services and innovative technologies. Since 2006, "more than 65 partnerships" have been signed worldwide, more than half of which followed a Saint-Gobain employee's recommendation.



Sources: Archive data and company documents

Features

- ***The program has identified three main phases, on which it focuses: idea development, industrial validation, and the sales launch.***
- ***The program is structured around two venturing tools: the NOVA Innovation Competition, to detect talent and new ideas, and the sponsorship of incubators through which the corporation helps the ideas go to market, such as Greentown Labs near Boston, Massachusetts.***
- ***Under the NOVA umbrella, there are other initiatives such as the Saint-Gobain University Network, a set of partnerships with some of the most prestigious universities and laboratories, and the Techno-Marketing Team, which evaluates growth areas and creates business opportunities by linking markets and technologies.***
- ***NOVA's structure has three layers: 1) the core team, a group of 10 people, is the entry point. This team uses various sources to decide which start-ups are likely to interest the company. 2) NOVA's extended team examines proposed projects from the viewpoint of their development potential. And 3) the NOVA Board, the management committee comprising top managers from the businesses and R&D, analyzes the most advanced projects.***

What works for NOVA External Venturing

- ***Clear definition of long-term objectives: this has helped Saint-Gobain search for new companies that can help it execute its strategy and mission.***
- ***Granting mutually beneficial agreements: in this way, both parties grow together as members of a bigger ecosystem.***
- ***Heavy involvement of the businesses and group senior managers.***
- ***Structure of the program.***
- ***An intrapreneurship culture where not only are internal ideas encouraged and supported (there is an incubator program for employees) but employees are given total freedom to manage their part of the business as if it were their own. This is extraordinarily helpful when it comes to integrating the business into the external ecosystem.***

Holistic approach

Open Future by Telefónica

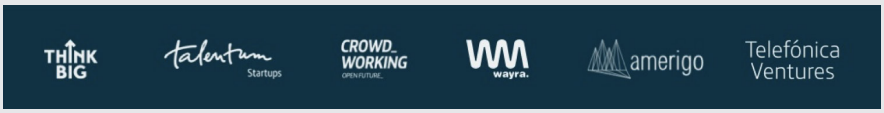
The Spanish telecommunications giant Telefónica has a wide, multilayered approach to corporate venturing based on open innovation, constant transformation and development. This is a result of its strategy to become a digital telco (telecommunications company). The company collaborates with start-ups on an international scale via its Open Future division, the program in which all its initiatives are included.

There are competitions for young entrepreneurs (Think Big and Talentum Startups) and sectoral and geographical acceleration programs deployed with public and private partners in joint spaces called Crowdworking. The acceleration program Wayra offers space in 11 facilities around the world, while the Amérigo fund network consists of six venture capital (VC) funds that have invested in 60 start-ups to date. Telefónica Ventures is a corporate VC fund that invests in companies that are a good fit with the company's activities in the United States, Europe and Israel. Most of these initiatives are run jointly with partners, both private and public, such as governments, universities and other incubators and corporations.

Telefónica first established Wayra in 2011 to accelerate start-ups from a multitude of fields, normally linked with digital transformation such as the Internet of Things (IoT) or Fintech. Then Amérigo was launched to fund these start-ups. It realized later the potential there was in building an ecosystem of venturing tools that would work as a detection network of talent and start-ups from the very early stages in order to maximize opportunities. The rationale behind the Open Future program lies in boosting the volume of innovations that can be analyzed and filtered and then end up funded by Wayra, in order to decrease dramatically the margin of error and the waste of resources while having a bigger impact worldwide. The company helps the start-ups in its portfolio to grow is to provide them with commercial opportunities, giving them access to sell their products and services to Telefónica's subsidiaries or large customers.

As of December 2016, Telefónica's Open Future was in 17 countries, had invested in more than 600 companies with combined sales of more than €565 million, a customer base of 20 million users worldwide and more than 9,000 employees

Open Future by Telefónica



Catchment of ideas and talent → *Consolidation of projects* → *Accelerator of start-ups* → *Provision of financing* → **Investment in future technologies that are core-business**

Benefits for Telefónica

Outcome 1
Benefiting the culture of Telefónica. Working with innovative start-ups keeps Telefónica constantly innovative and drives lean ways of working.

Outcome 2
Spinning out innovation, solving business problems and delivering the most advanced services and products to Telefónica clients. This lowers the cost of failure and leads to lower R&D costs overall.

Outcome 3
Entering markets in which Telefónica is not yet established and exploring new revenue streams.

Outcome 4
Repositioning Telefónica's corporate brand, especially toward young people

Features

- ***Think Big and Talentum are programs aimed at young people to promote the use of digital and new technologies as a lever for development while discovering and boosting talent.***
- ***Crowdworking are of physical spaces to work collaboratively. Many of them are specialized in industries (energy, tourism, retail, etc.).***
- ***Wayra offers free working space, seed investment (€40,000), and a 10-month acceleration program valued at €60,000 (which includes mentoring services, introductions to partners, internationalization opportunities, a presence at events, and visibility or engagement with Telefónica business units) in exchange for equity of 7% to 10%. There are now 14 Wayra academies all over the world.***
- ***Amérigo, the set of venture capital funds that complements Wayra, has an estimated €300 million of available capital to invest in projects in the process of expansion.***
- ***Telefónica Ventures, the company's venture capital arm, invests in existing companies whose digital technologies will be important for the business in the future.***

What works for Open Future

- ***Total support from top management.***
- ***Continuous screening, analysis and enhancement of each initiative and finding ways to leverage each one separately as well as all the initiatives as a whole to create a powerful network that covers the entire entrepreneurial ecosystem and all the stages.***
- ***Establishing key performance indicators within the program: this has allowed each initiative to be perceived as another business unit of the group that was obtaining measurable results.***

Accelerator

H-Farm

H-Farm is a digital platform set up in 2005 near Venice, Italy, to help young entrepreneurs launch new initiatives and to support the digitization of companies. It aims to interact with traditional companies and start-ups to take advantage of the vast opportunities of digitization and open innovation.

H-Farm leverages three divisions with strong synergies and interconnections – the accelerator, industry and education – as a result of a broad view of social, business and digital transformation. It organizes the ING Challenge – in which it scouts for young talent by offering a two-day training and mentorship workshop as a prize – and other events such as hackathons. The cornerstone of its model is business acceleration through its three solutions: venture scouting (research into and analysis of innovative ventures operating in identified markets or segments), the corporate accelerator (built for a single company looking for innovative start-ups in target markets or segments) and the industry accelerator (for facilitating the connection between start-ups and enterprises within a specific industry).

The H-Farm industry accelerator division provides corporations with the tools to introduce innovation into their models and processes. The division has launched the fashion and retail, Internet of Things (IoT) and food accelerators already and it plans to implement new ones soon.

The IoT accelerator was launched in December 2016 with Deutsche Bank as a sponsor and industry leaders as partners to scout for and invest in IoT start-ups. Out of 150 applications received from 30 countries, only five start-ups already in the market made it into the last program. The five participants' objective was to scale up, and they benefitted from the support of experienced industry leaders such as IBM and Enel, which took part in the program as partners providing expertise and know-how.

During the H-Farm acceleration programs, start-ups are asked to excel in every phase of the process, from the concept to the customer relationship management (CRM) strategy to user experience optimization, delivering effective advertising campaigns to the different user segments using data-driven marketing and a customer profiling approach. After the program, the start-ups had the chance to access Deutsche Bank's network of clients and potential investors. In the last IoT accelerator program, the ideas selected included augmented-reality solutions for industrial facilities, smartphone-controlled locks and applications that help farmers minimize water waste.

Since 2005, H-Farm has worked with 86 start-ups, in which €24 million has been invested.

Features

- ***Participants are start-ups that are already in the market but wish to scale up.***
- ***An integrated model of business acceleration with corporations as sponsors and partners.***
- ***H-Farm invests usually a 5-10% equity stake in both pre-seed and seed levels in the startups participating in the programs, depending on the stage of the company. In the case of post-program investments, they typically remain under a total of 20% to leave room for VC and institutional investors.***
- ***The corporate acceleration programs last for nine months and have three stages: 1) definition: analysis of the corporate objectives and the sector in which to invest; 2) call for ideas: using international channels to recruit the best start-ups; 3) acceleration program: the selected start-ups spend four months on the H Farm campus, where they benefit from services and resources offered by strategic and logistics consultancy, mentorship and tutoring and can also attend meetings and events organized directly by industrial companies.***

What works for H-Farm

- ***Narrowing the targeting of participants: this has allowed H-Farm to reduce the number of applicants significantly while increasing their quality. The number went from an average of 400 or so poorly aligned applicants per program to around 150 well-aligned applicants. The overall quality of the results increased.***
- ***A creative, fully equipped environment: the interaction of 550 young people in the same space facilitates in an extraordinary way the exchange of knowledge and ideas, enhancing the participants' development and networking opportunities.***
- ***Working closely with corporations to plan and implement programs tailor-made for their needs has increased exponentially the successful penetration rate of external innovations into corporations.***
- ***The development of an integrated and innovative ecosystem.***

5. Final Recommedations

In today's fast-changing industries, collaborating with start-ups has become not only an option for corporations to adapt to disruptions and lead the market through partnership for innovation but, in many cases, it is the only path to compete efficiently. Disruption has come to stay in many industries all over the world, and corporations that do not take steps to respond to the situation risk being left behind.

As explained earlier in this report, collaboration is necessary. We have shown how it is important to understand an industry's speed of innovation and the confluence of disruptive technologies that are transforming each industry in order to draw up – or review – an innovation strategy that takes account of venturing, using any of the available tools.

However, when it comes to the ultimate goal of achieving profitable growth through the implementation of an innovation strategy that uses venturing tools, there are challenges. The relationship between start-ups and consolidated corporations is complex and challenging. These are two profoundly different types of organizations, with different processes, schedules and cultures that can be as incompatible and toxic as they can be complementary. Distrust can emerge between these two independent systems, either because each plays by different rules or has different fears – the fear of absorption that small companies have, or the lack of reliability that established firms fear in the start-up.

Solutions can vary depending on the strategy and tools chosen and the company's situation. For instance, given start-ups' need for quick cash flows and liquidity, a corporation can offer shorter payment terms or it can simplify contracts and agreements to create the right atmosphere of collaboration in which high standards are demanded of start-ups but in return for certain consideration. Remembering that time-consuming decision-making processes can make collaboration more difficult ma help to break down processes so important matters can be resolved and information can be made transparent. Otherwise, start-ups will look for other partners that they feel offer more constructive collaboration.

One last remark: some programs have been practiced for decades, such as venture capital, while other, cutting-edge ways to venture are emerging to have a more efficient and valuable impact on the entrepreneurial ecosystem.

Research by The Boston Consulting Group (Brigl et al., 2016) has shown, though, that there is a contagion effect in the way established corporations in an industry address collaboration with start-ups. For instance, the researchers found that industries such as telecommunications and technology had traditionally opted to use accelerators and incubators because these were venturing programs that provided a better fit for a broad variety of new business ideas in their search field. In contrast, in industries with a scarcity of innovation, CVC tended to be the most common way to interact. It must also be taken into account that, in some industries, certain tools have been used in a sustained way over the years or decades and what have become traditional tools have been continued to be used in those particular industries. This is the case of technology corporations that use CVC frequently to buy in attractive start-ups.

It is necessary to be wary of this phenomenon. Inertia and path dependency can also affect innovation strategies. Established firms must reevaluate their current strategies to take into account the eruption of new technologies, specifically the effects of digitization.

This new reality in which we are living relies on corporations that are willing to be flexible and humble and are able to collaborate with start-ups to overcome all possible challenges, and it relies on start-ups that learn quickly, join forces, and understand how far they can go by partnering with corporations.

References

Bannerjee, Siddharth, Simona Bielli, and Christopher Haley, *Scaling Together: Overcoming Barriers in Corporate-Startup Collaboration*, London: Nesta, the Startup Europe Partnership, and the Scale-up Institute, 2016.

Berthon, Bruno, Jitendra A. Kavathekar, Laurence Morvan, Francis Hintermann, and Madhu Vazirani, "Harnessing the Power of Entrepreneurs to Open Innovation," Accenture, 2015.

Bielesch, Falk, Michael Brigl, Dinesh Khanna, Alexander Roos, and Florian Schmieg, "Corporate Venture Capital: Avoid the Risk, Miss the Rewards," The Boston Consulting Group, 2012.

Brigl, Michael, Max Hong, Alexander Roos, Florian Schmieg, and Wu Xinyi, "Corporate Venturing Shifts Gears: How the Largest Companies Apply a Broad Set of Tools to Speed Innovation," The Boston Consulting Group, 2016.

Brigl, Michael, Alexander Roos, Florian Schmieg, and Drake Watten, "Incubators, Accelerators, Venturing, and More: How Leading Companies Search for Their Next Big Thing," The Boston Consulting Group, 2014.

Brown, Vivian, Jeffrey S. Hammond, Christopher Mines, and Rowan Curran, *Energize Your Developers With a Hackathon: What Enterprise Dev Leaders Need To Know About Hackathons*, Forrester, 2013.

Burgers, J. Henri, "Managing Corporate Venturing: Multilevel Studies on Project Autonomy, Integration, Knowledge Relatedness, and Phases in the New Business Development Process," Erasmus Research Institute of Management, Rotterdam School of Management, Erasmus University, 2008.

CB Insights, *The 2015 Global Corporate Venture Capital Year in Review*, New York: CB Insights, March 2016.

Chesbrough, Henry W., *Open Innovation: The New Imperative for Creating and Profiting From Technology*, Boston, MA: Harvard Business School Press, 2003.

Chesbrough, Henry W., "Open Innovation: A New Paradigm for Understanding Industrial Innovation." In *Open Innovation: Researching a New Paradigm*, edited by Henry W. Chesbrough, Win Vanhaverbeke, and Joel West, Oxford: Oxford University Press, 2006.

Clarysse, Bart, Mike Wright, and Jonas van Hove, *A Look Inside Accelerators: Building Businesses*, London: Nesta, 2015.

Dauderstädt, Phillippe, "Success Factors in Strategic Corporate Venturing," doctoral dissertation, Technischen Universität Berlin (Technical University of Berlin), 2013.

De Rond, Mark, "Why Less Is More in Teams," Harvard Business Review, August 6, 2012.

Franzke, Ekkehard, "Four Keys to Corporate Venturing Success," *European Venture Capital Journal*, June 1, 2001, available on the webpage www.bain.com/publications/articles/four-keys-to-corporate-venturing-success.aspx.

Gaule, Andrew, *Open Innovation in Action: How to Be Strategic in the Search for New Sources of Value*, London: H-I Network, 2006.

Imaginatik and MassChallenge, *The State of Corporate/Startup Collaboration 2016*, joint research study, 2016.

Kandybin, Alexander, "Which Innovation Efforts Will Pay?", *MIT Sloan Management Review*, 51(1): 53 60, 2009.

Kohler, Thomas, "Corporate Accelerators: Building Bridges Between Corporations and Startups," *Business Horizons*, 59(3): 347 357, 2016.

Lerner, Josh, "Corporate Venturing," *Harvard Business Review*, October 2013.

Leten, Bart, and Walter Van Dyck, "Corporate Venturing: Strategies and Success Factors," *Review of Business and Economic Literature*, 57(4): 242 256, 2012.

Lewis, Toby (ed.), *The Corporate Venture Executives Shaping the Future of the Industry: Powerlist 100*, Woking, England: Global Corporate Venturing, December 2013.

Lewis, Toby (ed.), *The World of Corporate Venturing 2016: The Definitive Guide To The Industry*, Woking, England: Global Corporate Venturing, 2016.

Lindgreen, Edo Roos, Daniël Horn, Ghislaine Bowier, and Mart Beune, *On the Road to Corporate-Startup Collaboration: New Horizons 2015*, KPMG, 2015.

Love, Charmian, Julia Rebholz, and Amanda Feldman, *The Practitioner's Guide – Steps to Corporate Investment, Innovation and Collaboration: A Practical Guide to Creating Positive Outcomes*, Corporate Impact X, Inter-American Development Bank, Big Society Capital, Centrica, and Global Corporate Venturing, 2016.

Mawson, James, "Corporate Venturing in the UK," London: The Royal Society for the Encouragement of Arts, Manufacturers and Commerce, 2012.

Mocker, Valerie, Simona Bielli, and Christopher Haley, *Winning Together: A Guide to Successful Corporate-Startup Collaboration*, London: Nesta, Founders Intelligence, and the Startup Europe Partnership, 2015.

OECD, *Measuring Innovation: A New Perspective*, Paris: OECD, 2010.

Reuer, Jeffrey J., Africa Ariño, and Paul M. Olk, *Entrepreneurial Alliances*, Boston, MA: Pearson, 2011.

Shah, Anand, *Surviving Digital Disruption*, Digital Transformation of Industries Reports, Cologny, Switzerland: World Economic Forum, 2016.

Sloane, Paul (ed.), *A Guide to Open Innovation and Crowdsourcing: Advice From Leading Experts*, London: Kogan Page, 2011.

Von Tobel, Alexa, "How a Culture Survives When a Start-up Merges With an Incumbent," McKinsey & Company, 2016.

Weiblen, Tobias, and Henry W. Chesbrough, "Engaging with Startups to Enhance Corporate Innovation," *California Management Review*, 57(2): 66 90, 2015.

Yoon, Eddie, and Steve Hughes, "Big Companies Should Collaborate With Startups," *Harvard Business Review*, February 25, 2016.

Corporate Venturing: Achieving Profitable Growth Through Startups

mVenturesBcn
Accelerating entrepreneurship & innovation

A programme of

MOBILE WORLD CAPITAL™ BARCELONA

IESE Business School
Universidad de Navarra