Collaboration between startups and mid-sized companies *Learn. Match. Partner.*
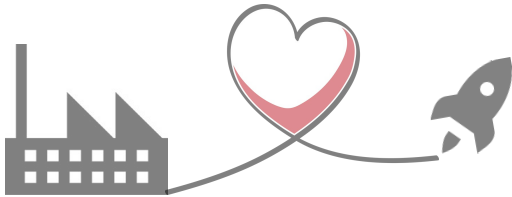
A study of the Alexander von Humboldt Institute for Internet and Society in collaboration with SPIELFELD

Prof. Dr. Martin Wrobel, Prof. Dr. Dr. Thomas Schildhauer, Dr. Karina Preiß

The <u>situation in Germany is unique</u>

"Germany as a country has a unique advantage: Germany's Mittelstand. A closer cooperation between startups, mid-sized companies and corporations seems obvious."

Florian Nöll (Bundesverband Deutsche Startups e. V.)

Deutscher Startup Monitor 2017

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STATUS QUO

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Mid-sized companies are risk-averse and rely on limited resources...

Limited resources

Staff   Funding

"A small or mid-sized company is simply lacking the resources to engage with the issue."

– *Karsten Traum (DKB)*

Risk-averse

Driven by profit, ROI
Incremental innovation

"Mid-sized companies are driven by return on investment. Giving someone a full time position to deal with startups can be hard to justify."

– *Oliver Hanisch (German Silicon Valley Innovators)*

...as well as on closed innovation strategies and they don't see the need to digitize

Closed innovation

NOpen Innovation

Not feeling the need to digitize

Why?

"Company politics tend to be very secretive in mid-sized businesses. (...) It's hard to bring this together with open concepts."
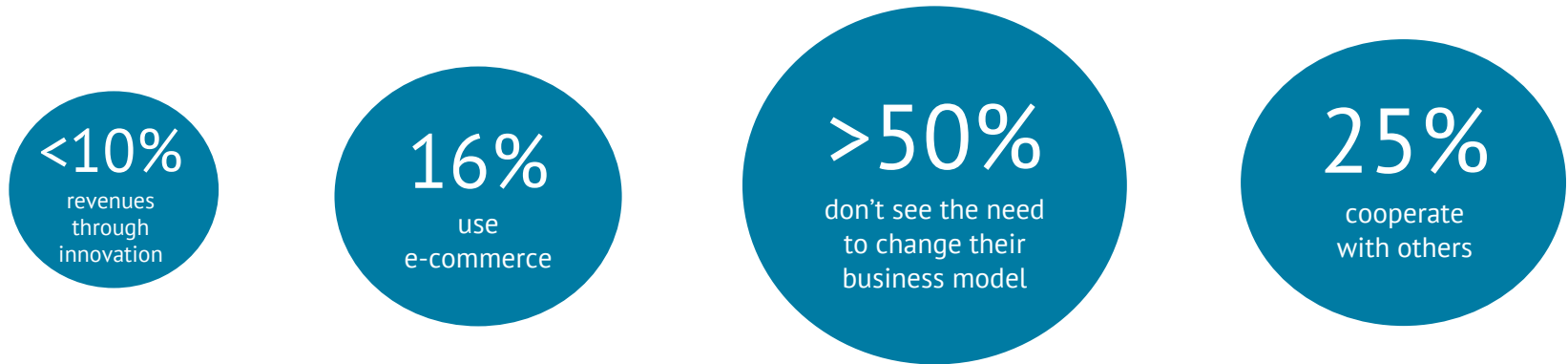
– *Stephan Köhler (Gebr. Brasseler)*

"As long as the order book is full, a mid-sized company will not be thinking about investing in digitization, finding new new business models or cooperating with startups."

– *Christina Schulz-Heidorf (BVMW)*

Even though there is an urgent <u>need for action</u>

"Out there in some garage, an entrepreneur is forging a bullet with your company's name on it. You have only one option: you have to shoot first."

Gary Hamel in 1999

<10%
revenues through innovation

16%
use e-commerce

>50%
don't see the need to change their business model

25%
cooperate with others

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From a mid-sized company's perspective, cooperations holds a lot of <u>potential</u>

70%

can imagine cooperating with startups

95%

of companies with collaboration experience could see themselves cooperating again

Mittelstand meets Startup - Baharian und Wallisch 2017

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If you take a closer look, there are many <u>similarities</u> between startups and mid-sized companies

Customer-focused, innovative and usually attend to niche markets

Fewer differences in company size (compared to corporates), leading to quicker decision making

Companies often led by strong personalities

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KEY ELEMENTS OF THE STUDY

We pursued the following <u>research questions</u>

- How can there be more cooperations between startups and mid-sized companies?

- How can the learn, match, and partner phases be more systematic?

- What are the biggest challenges during cooperation?

- Which models of collaboration are the best fit for a project?

- What can established companies offer startups and vice versa to ensure an efficient cooperation?

| Literature research | Roundtable, workshops, questionnaire | Qualitative interviews with experts in the US | Results and recommendations for action |

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And discussed them during <u>roundtables, workshops, and interviews</u>

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Our study included the following <u>elements</u>

1

Roundtable
Roundtable meeting with
experts at HIIG

3

World Cafés
Group discussions at the
Tech Open Air

4

Workshops
Workshops for the 3
phases of collaboration
Learn, Match and Partner
at Spielfeld Digital Hub

20

Interviews
Interviews with experts
in the US

1

Survey
Survey of >30 participants of
the workshops

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COMPARISON: DIFFERENCES, GOALS, CHALLENGES AND COLLABORATION MODELS FOR PARTNERSHIPS BETWEEN STARTUPS AND MID-SIZED COMPANIES

- INSIGHTS FROM THE LITERATURE -

There are <u>significant differences</u> between established companies and startups

ESTABLISHED COMPANIES

traditional organized
caught up in their own system **practices**
top-down think and act in processes
hierarchical long-term planning structured
maintaining the status quo **no mistakes**
consistent constrained by rules
long decision making process **process-driven**
growth-minded established business models
complex KPI-driven
trust in own networks **profit-orientated**
financially strong & investment-oriented
experienced trustworthy **bureaucratic**
business expertise market & industry know-how
wide reach **well-versed** creating value
incremental continuous optimization of ideas
risk-averse high quality consciousness
customer access & good at selling
big network **brand awareness**

VS.

STARTUPS

small agile in Beta **modern**
eager to try new things few processes
reacting fast to changes
small teams **flat hierarchies**
fail-fast transparent opportunistic
break rules dynamic
result-oriented close relations between employees
under time pressure & pressure to succeed
action-oriented **lean**
growth-oriented constrained budgets
full of energy uncertain committed
thinking in prototypes **pragmatic** visionary
technology enthusiasts engaged
determined **focus on learning** pioneers
learning fast creative **disruptive**
customer-oriented **enterprising**
thinking outside the box feedback-oriented
innovative close to the customer

Each party pursues different <u>goals</u> within the partnership

ESTABLISHED COMPANIES

STARTUPS

Competitive Positioning

Development of new technologies and business models • Increasing innovation and digitization

Development and enhancement of market and industry expertise • Access to networks • Implementation of pilot projects

Sales and Marketing

Accelerating marketing and sales to create revenues • Combining complementary resources • Getting press attention

Accelerating customer growth through established company as a new customer and/or access to their customer network

Financing and Investments

Investing in or acquiring startups with a financial strategy in mind

Financial insurance through investments • Access to important resources • Sharing costs

Personnel and Organization

Positive influence on personnel, organization, and culture • Improving employer attractiveness

Support in establishing company structures

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There are many different <u>challenges</u> before and during the cooperation

ESTABLISHED COMPANIES

STARTUPS

Mutual Understanding

Overcoming organizational and cultural differences • Established companies do not know how startups work

Overcoming organizational and cultural differences • Startups do not know how established companies work

Selection and Approaching

Identifying and choosing the right startups • Marketing own services to startups

Choosing the right partner company and finding a point of contact • Showing own advantage to established companies

Goals, Trust and Commitment

Ensuring common vision and goals

Creating trust, engagement and commitment

Further Challenges

Overcoming internal challenges • Management of internal risks and expectations • Change in personnel and responsibilities

Losing pace • Imposition of rules by the established company • Losing strategic flexibility • Conflicts within the founding team

And, of course, several <u>models of collaboration</u>

Short-term activities
Events • Conferences
• Meetups • Hackathons • Workshops
• Trainings • Competitions •
Innovation Awards •
Innovation Camps • Startup Pitches
• Startup Weekends • Startup Safari
• Silicon Valley Trips • Speed Dating

Shared infrastructure
Shared Offices
• Coworking Spaces
• Innovation Labs

Internal innovation
Spin-Offs
• Coworking Spaces
• Innovation Labs

Investments and acquisitions
Seed Funding • Corporate Venture
Capital • Acqui-Hiring •
Acquisitions • Mergers

Intensity of partnership • Complexity • Costs • Risk

Programs and services
Support in establishing company structures •
Mentoring und Services• Free Software
• Startup Programs and Platforms
• Scouting and Matching Support

Incubators
Accelerators • Incubators
• Company Builders

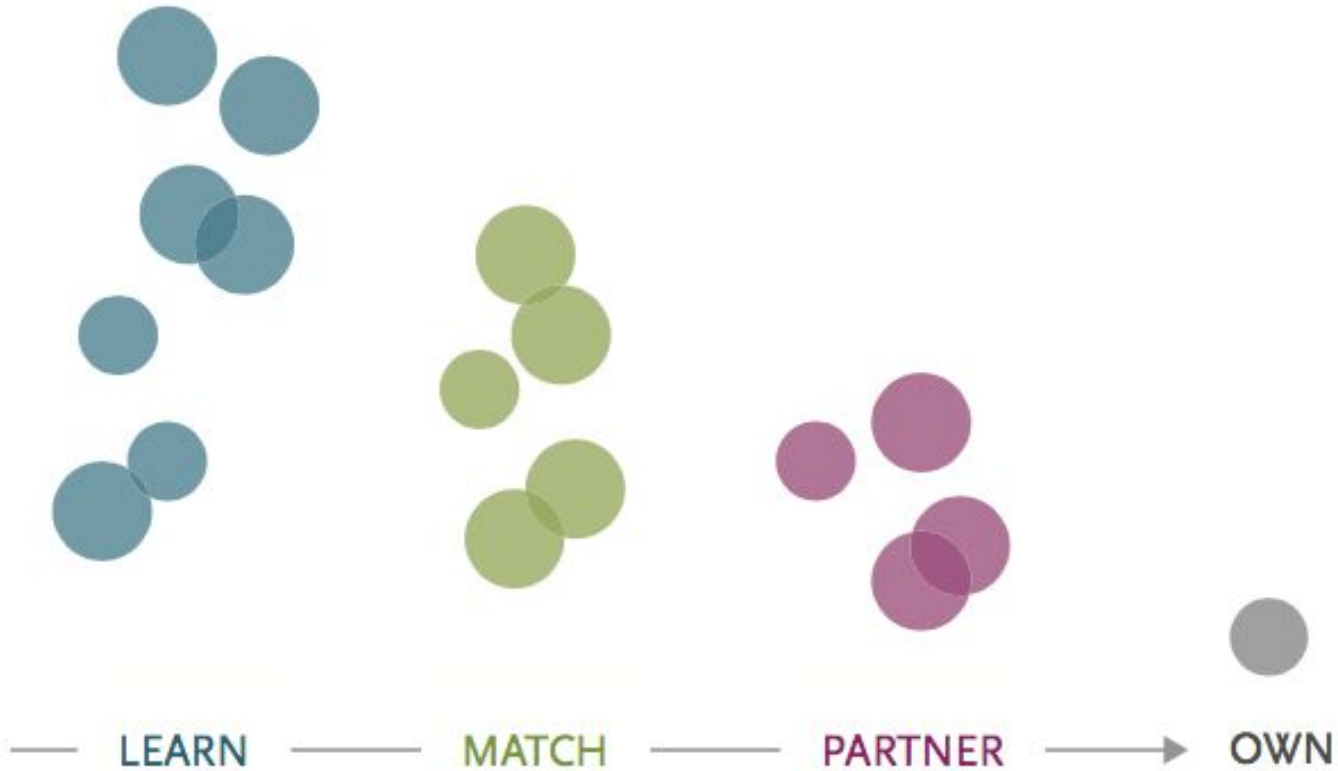**Partnerships**
Customer/Supplier Relationships •
Co-Innovationen • Licensing •
Co-Creation • Co-Marketing •
Strategic Alliances • Joint Ventures

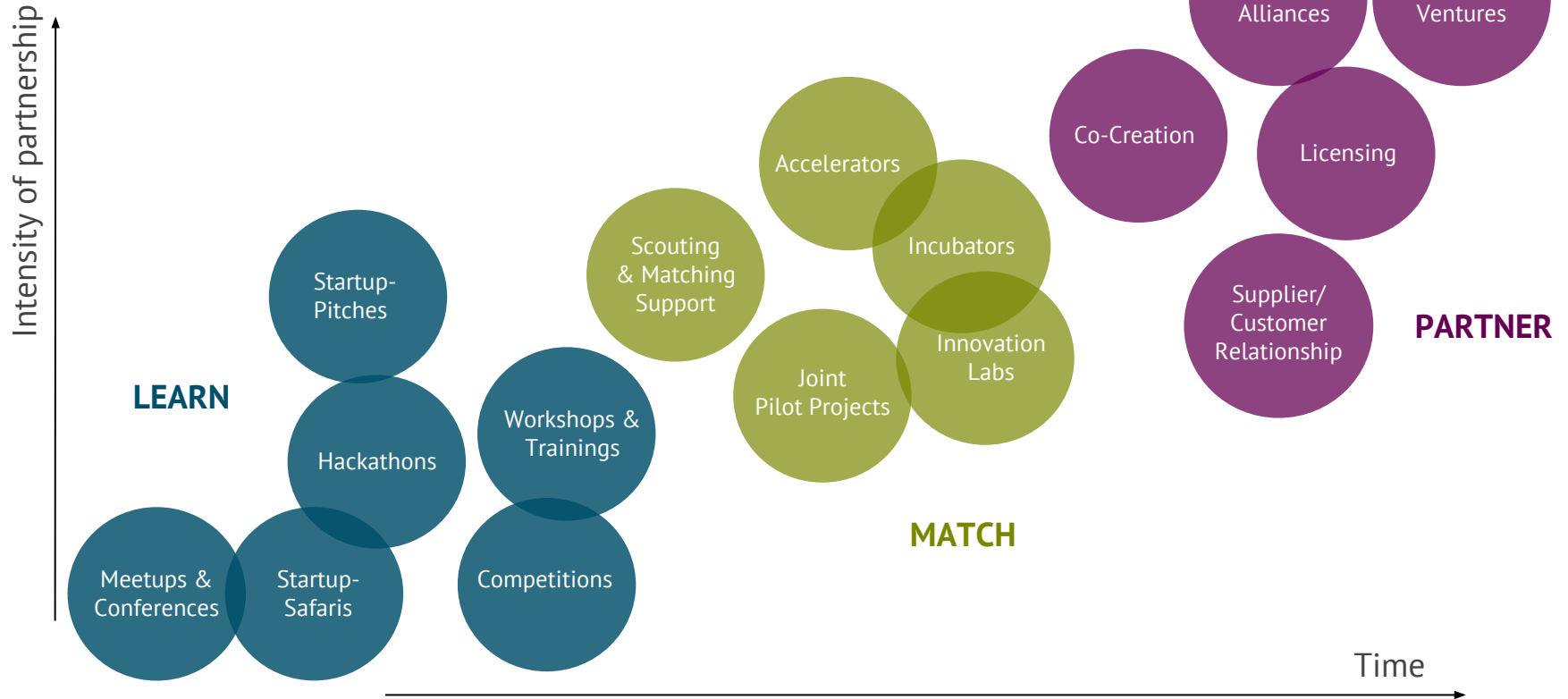Alexander von Humboldt Institut für Internet und Gesellschaft

FRAMING: *LEARN. MATCH. PARTNER.*

How to establish successful partnerships: *Learn. Match. Partner.*

LEARN —— MATCH —— PARTNER ——▸ OWN

Collaboration types can be matched with the phases

Intensity of partnership →

Time →

LEARN
- Meetups & Conferences
- Startup-Safaris
- Hackathons
- Startup-Pitches
- Competitions
- Workshops & Trainings

MATCH
- Scouting & Matching Support
- Accelerators
- Incubators
- Joint Pilot Projects
- Innovation Labs

PARTNER
- Co-Creation
- Licensing
- Strategic Alliances
- Joint Ventures
- Supplier/ Customer Relationship
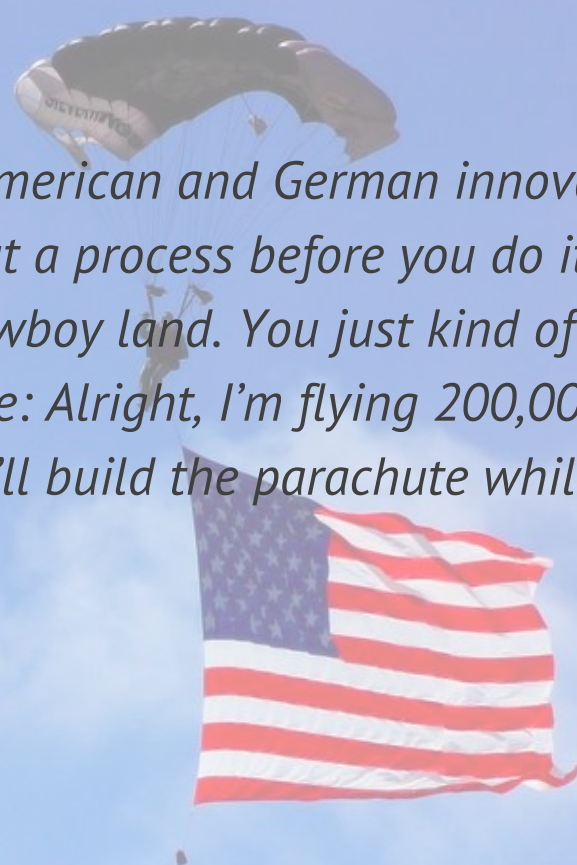
GERMANY VERSUS UNITED STATES: THE INTERNATIONAL PERSPECTIVE.

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We came back with the following <u>observations</u> from the USA

☐ The mutual understanding between startups and established companies is highly developed.

☐ Cultural characteristics such as pragmatism, the willingness to take risk and a positive culture around failure make the facilitation of cooperations easy.

☐ Topic-specific activities, the variety of networks and events such as meetups, conferences and other events facilitate partnerships.

☐ Many intermediaries support the match making. Examples are venture capitalists, top-ranking universities, accelerator programs etc.

☐ The tendency to test is deeply grounded in the American mindset. Pilot project usually serve as the beginning of long term cooperations.

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"The difference between American and German innovation would be, in Germany you will actually put a process before you do it and act systematic. While here in the U.S. it's cowboy land. You just kind of figure it out. I think entrepreneurship is here like: Alright, I'm flying 200,000 feet, I'm going to jump off the plane and I'll build the parachute while I come down."

- *Anonymous*

RESULTS: FUNDAMENTALS, GUIDELINES AND RECOMMENDATIONS FOR ACTIONS FOR MID-SIZED COMPANIES AND STARTUPS

Companies and startups should pay attention to these <u>fundamentals</u>

Depending on the industry, partnerships have different function and meaning.

Mutual trust is the foundation for long term cooperation.

Personal relationships are crucial for success.

Business partnerships require a win-win strategy.

Cooperations are unique and hard to standardize.

These <u>guidelines</u> can make collaboration a success

A collaborative mindset and mutual trust are crucial.

It's okay to make mistakes, as they are an important part of the learning process.

Empathy, change of perspectives, and communication on a level playing field increase mutual understanding and trust.

Shared goals and visions connect the parties.

Honest, transparent, and open communication and professional management of expectations.

Reacting to changes in the cooperation with flexibility and an open mind.

All parties must continuously contribute to make the work a success.

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Recommendations for action –> Mid-sized companies

- [ ] Put the right people in the relevant positions, create the right structures and obtain support from the top management.

- [ ] Setting goals first, choosing the right form of collaboration second.

- [ ] Be present, visible, and attractive for startups.

- [ ] Lower barriers and commit early.

- [ ] Start with resource-efficient, pragmatic projects.

- [ ] Focus on early successes but don't expect them. Fail early and learn from it. Continuity pays off.

- [ ] Get external support from intermediaries and cooperate with other mid-sized companies.

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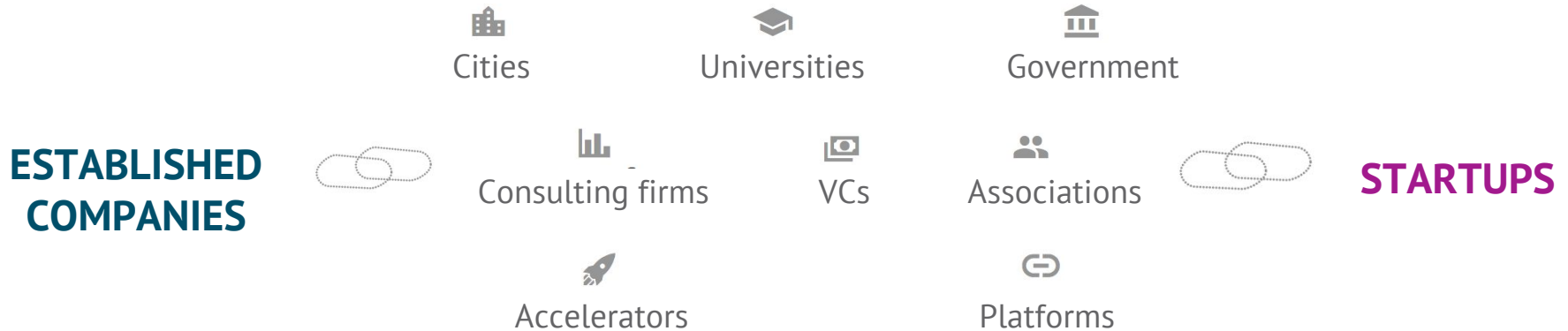
Recommendations for action –> Startups

☐ Be where mid-sized companies are and treat their experience with respect.

☐ Know what role mid-sized companies should take in realizing goals. Be an attractive partner.

☐ Follow concrete goals, prioritize and focus on fast results.

☐ Find an internal champion with authority, expertise and the power to make decisions.

☐ Minimize risk, maximize potential and create trust through references, so mid-sized companies can see the advantage of cooperation.

☐ Be transparent, don't promise too much and communicate your expectations.

☐ Keep several options open and don't depend on only a few mid-sized companies.

POTENTIALS FOR MORE COLLABORATIONS BETWEEN STARTUPS AND MID-SIZED COMPANIES

Intermediaries play an important role and have the capability
to foster collaborations between startups and established companies

Cities   Universities   Government

**ESTABLISHED
COMPANIES**   Consulting firms   VCs   Associations   **STARTUPS**

Accelerators   Platforms

Intermediaries that bridge the gap.

Common themes make it easier for partners to approach each other and understand the other side's perspective during the Learn and Match phases

ESTABLISHED
COMPANIES
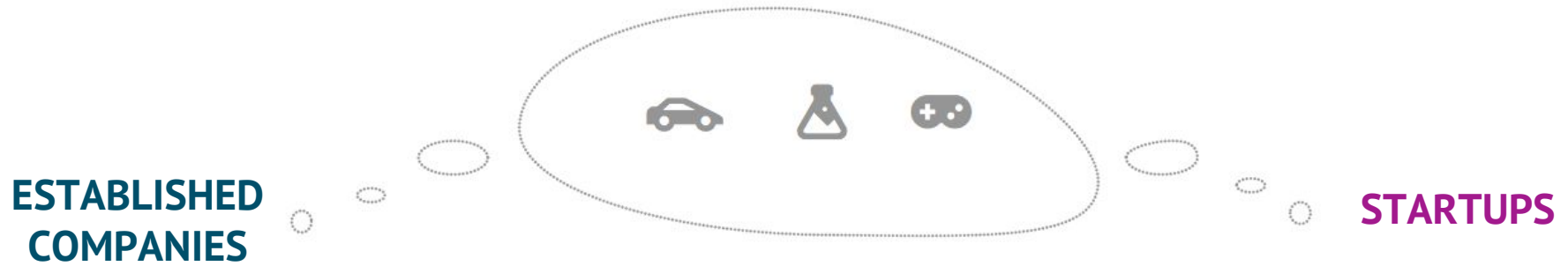
STARTUPS

Common themes that connect.

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Joint initiatives by several mid-sized companies can save costs, facilitate mutual learning and are overall more attractive to startups as well

ESTABLISHED COMPANIES
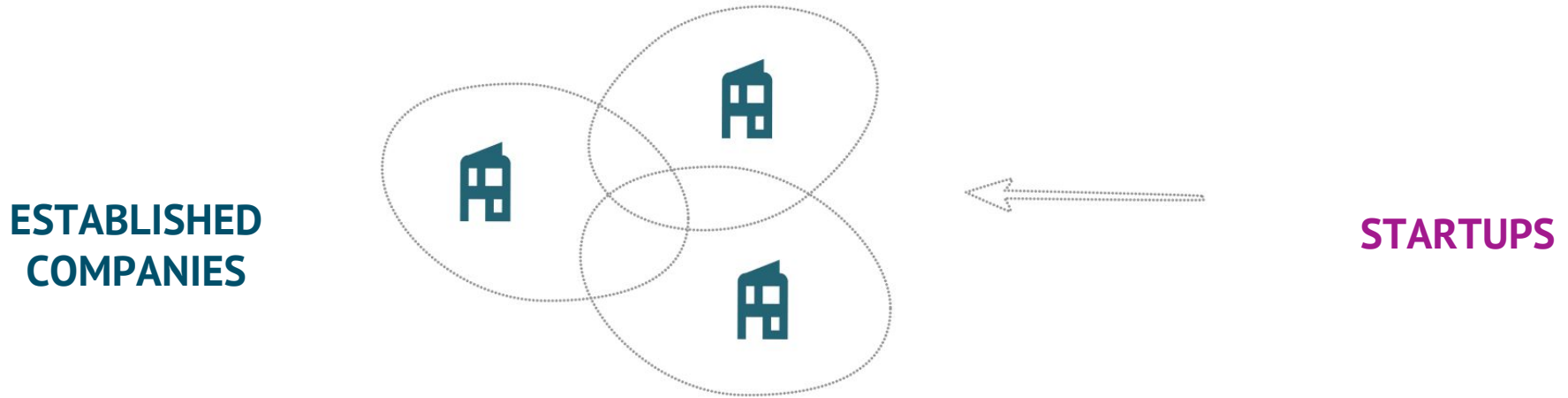
STARTUPS

Joint initiatives that unite.

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In summary:

Startups and mid-sized companies: It's time to collaborate.
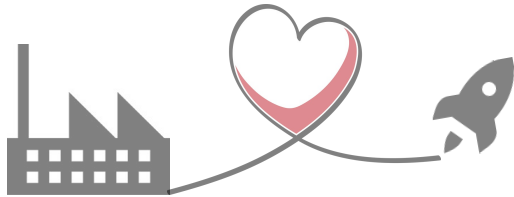
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Thanks to more than 70 participating experts

Including:

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www.hiig.de

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EXTRAS: RESULTS OF OUR WRITTEN QUESTIONNAIRE

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Expert questionnaire: Relevance and successes

Strongly disagree   Strongly agree

"The issue of collaboration between startups and established companies is highly relevant for my startup/company."

"The importance of the issue of collaboration between startups and established companies will increase within the next years."

"I consider the previous collaboration of my startup/company with established companies/startups a success. "

n=14
n=16

n=15
n=16

n=15
n=16

ESTABLISHED COMPANIES   **STARTUPS**
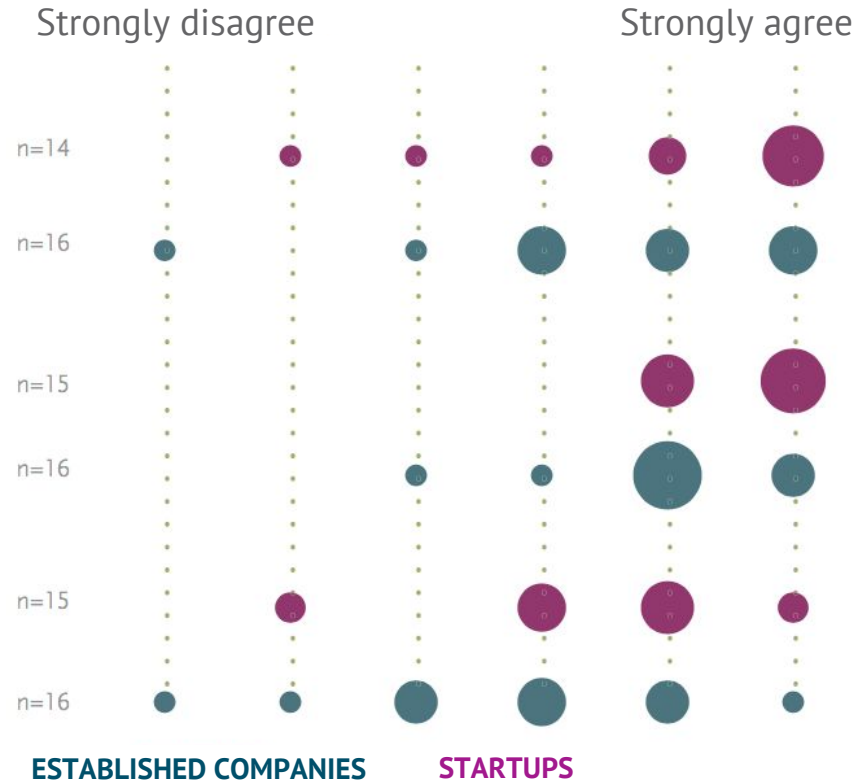
Expert questionnaire: Main goals and challenges of cooperations

Developing new business models

Getting access to new technologies

Increasing innovative activities and digitization

Promoting cultural change

Main goals

Growth and scalability

Obtaining the first reference customers

Getting access to the established company's customer and sales networks

ESTABLISHED COMPANY

STARTUPS

Internal management of expectations

Overcoming cultural and organizational differences

Most important challenges

Finding the right contact person

Imposition of corporate rules

Losing pace

The biggest challenges lie in the Match and Partner phases.

Expert questionnaire: Future potential of collaborations

Innovation Labs

Early and Late Stage Funding

Customer/Supplier Relationship

Acquisitions

According to all experts, different forms of collaboration will gain importance in the future, in particular customer/supplier relationships. The same applies to innovation labs, early and late stage funding and acquisitions.

Expert questionnaire: Failure of partnerships

"Has a cooperation failed before?"

STARTUPS

Yes 👤👤👤👤👤👤👤👤👤👤👤👤👤👤 No

Reasons: Unclear goals and different expectations • cultural differences • financial difficulties • change in personnel • resistance of the works council

ESTABLISHED COMPANIES

Yes 👤👤👤👤👤👤👤👤👤👤👤👤👤👤 No

Reasons: Handling goals and expectations the wrong way • cultural difference • no reliability within the cooperation

→ Roughly two thirds of corporations failed according to the experts asked