CORPORATE INNOVATION POWERED BY STARTUPS

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FOREWORD BY MARIE WALL

As the Startup Director at the Swedish ministry of Enterprise and Innovation, I'm a true believer in the importance that innovative startup and scaleup companies play in our society. However, their importance is far greater than the job opportunities and the export possibilities created. The role that these young companies play as the drivers of the digitalization of our society, and in the digital transformation of the industry — which has traditionally been the backbone of Swedish economy — may be even more crucial for Sweden.

To stay strong in an increasingly competitive global landscape, we as a small country have to work in ways that use all of our complementary strengths, in win-win cooperations that benefit all parties, including large corporations, small innovative companies, research organizations, and the public sector.

Startup companies would benefit from access to the market know-how and structure, technology infrastructure, and leadership competence of larger corporations. Corporations would benefit from the fast, agile, and creative innovation capacity of the smaller companies.In the digital age, where innovation happens in ecosystems and the most important innovations are complex integrated systems-of-systems, we all benefit from being integrated into dense ecosystems with many different companies with complementary skills, and where information flows between organizations.

Sweden has a long tradition of trusted cooperation between the public sector, large corporations, and research organizations. We now need to find the right formula to also include the growing startup community into these cooperations.

The effects we can expect with stronger cooperation are, among other things:

- Increased innovation capacity when knowledge flows between organizations
- Increased innovation speed when established companies manage to integrate external ideas and competencies
- Increased appeal to international talent through more dense ecosystems and strong company clusters
- More startups with the capacity, structure, and competence required to scale up
- A stronger home market for increased access to customer financing for startups, which in turn strengthens their chance of getting venture capital funding to scale up

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Given the win-win potential of cooperation between corporations and startups, cooperation should be a no-brainer, but as we all know it is not that easy. There are many challenges that need to be managed. Culture clashes, legal issues, expectations, and difficulty to understand each other's reality are just some examples. In the same way that our government decided to appoint a Startup Director to facilitate communication between the startup community and the ministry, we require brave senior leaders within larger corporations who understand both worlds and who can support both sides in finding the unique win-win opportunities for each partnership.

As you will see in this book, many companies have already understood the potential of these cooperations and have made strategic decisions to integrate startups into their growth and innovation strategies. Most of these current initiatives are still in the early stages and are experiencing a learning curve. There is no single model of how to set up a cooperation between young innovative companies and corporations, so every company must take a unique approach according to their needs. There are, however, generic lessons to be learned.

I'm convinced that the book you now hold in your hand will serve as a great inspiration to everyone who wants to explore how to benefit from cooperations between larger companies and young innovative companies.

The potential for Sweden, and for all of us, is massive if we work together and manage to build an ecosystem in Sweden where our traditional industry works even more closely with the growing community of startup and scaleup companies.

Today, Sweden is ranked as one of the most innovative countries in the world. Let's continue this tradition!

Marie Wall

Startup Director, Swedish Ministry of Enterprise and Innovation

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EXECUTIVE SUMMARY

Our world is changing and it is changing fast indeed. We have all seen the rapid collapse of large corporations that seemed too strong to fail. We know we will see more cases like this in future. There is no single way to tackle this problem. However, we are convinced that there is one critical step corporates should take sooner rather than later: they should start cooperating with startups.

Corporates that want to stay strong and survive cannot afford to neglect cooperation with startups. No question about it: this cooperation is difficult. But it is feasible and it can bring immense rewards. We have seen many organizations that started to cooperate with startups but failed to embrace that effort wholeheartedly. In these cases, it is often neither set up as a key strategic initiative nor as a continuous process which is fully integrated with the rest of the company's operation. For many organizations, innovation can make all the difference between success and failure. Fruitful cooperation with startups already generates profit and growth today for some of the most successful corporations in the world, opening up new markets to them.

The need for cooperation is true for larger companies in the tech industry. It is also true for companies which most people would consider as "non-tech". These are now starting to acquire tech startups to avoid being disrupted. In the field of connected homes, for example, makers of traditional home products like door locks could easily be leapfrogged by a startup with an innovative Internet of Things (IoT) product that disrupts their business. Acquiring that startup will in most cases be much easier and less risky than learning how to build the IoT technology in-house. The numbers seem to prove it: 2016, non-tech U.S. companies made startups worth more than $125B – up from $20B in 2015, according to the New York Times [1].

In this report, we examine in depth the question of cooperation between corporates and startups in Sweden. We report on today's situation and present recommendations for making these cooperative efforts more effective and fruitful in the future.

We start with sharing our findings about the healthy innovation climate in Sweden and how this compares favorably to other countries. We are convinced that Sweden is ideally positioned to take advantage of this type of cooperation and that it can gain a strategic competitive edge by taking advantage of its flourishing startup community.

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Sweden's startups have a higher survival rate than startups in other countries and there are more unicorns in Sweden compared to most other regions, but this does not mean we should get complacent. Swedish startups could indeed contribute even more to the economy. There is a huge opportunity if we can help them grow and scale to their full potential via cooperation with our large corporations.

We explore the rich startup ecosystem of Sweden and look at how corporates view startups. There is a major difference in the way corporates in Sweden and corporates in Silicon Valley view startups. In Silicon Valley entrepreneurs are often perceived as a potential golden ticket to market growth and innovation while in Sweden they are often viewed with some skepticism.

We also take a look at the evolution of the "gig economy" and examine how this new mega trend could become a driving force that encourages more and more people to shift from traditional employment, through contract work to taking that final leap and become entrepreneurs. This movement, we find, could both increase the number of new startups and cultivate the "fail fast" philosophy, which has been critical to Silicon Valley's many successes.

Successful cooperation between a corporate and a startup is by no means easy to accomplish, but the reward for everyone involved can be vital for the success of both parties. It is time to start courting and get engaged. We can see that there are many initiatives to make this happen, but many of these initiatives are at a very early stage.

To understand exactly how corporates should approach this opportunity we examined what corporates should be doing to attract potential startup partners and looked in-depth into the six most common models used for this type of cooperation. These are: Open Innovation, Startup Platforms, Go-To-Market Reseller, Engaged Customer, Corporate Venturing and Corporate Incubator/Accelerator. We explain how each model works and present practical examples, including the viewpoints of the corporates and the startups.

Based on research and interviews with representatives from corporates in and outside Sweden, startups, investors, incubators, accelerators as well as governmental agencies, we identify in this report challenges faced by companies and present a variety of best practices for successful cooperation.

There is no silver bullet, each organization has its own goals and challenges, and will therefore need to find a cooperation model that suits them. Our hope is that this report can inspire corporates and startups to fruitful and mutually-valuable cooperation.

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INNOVATION CLIMATE IN SWEDEN

Sweden has long been famous for its innovations. With its ten million inhabitants, Sweden is the birthplace of many of the world's most innovative products, including Alfa Laval's centrifugal separator and the ubiquitous Tetra Pak milk-carton packaging technology. Innovation has, in fact, always been an essential strategy for Swedish companies since the dawn of industrialization. The small domestic market forced Swedish businesses to become competitive on a global market. In turn this required innovative products that can compete internationally.

In the digital age, the pace of innovation in Sweden shows no sign of slowing down. The Swedish innovation climate has indeed inspired numerous digital tech startups, including an extraordinary number of well-known unicorns such as Skype, King, Klarna, Mojang and Spotify.

IN COMPARISON WITH THE REST OF THE WORLD

Sweden is consistently ranked among the most innovative countries in the world, being in the top three of the Boston Consulting Group's global ranking since 2012, according to their April 2016 report *"Corporate Ventures in Sweden"* [2]. In Bloomberg's 2015 Innovation Index [3], another ranking based on multiple metrics, Sweden ranks number seven and the European Innovation Scoreboard places Sweden second, just after Switzerland. In the broader Weforum Global Competitiveness Report 2015-2016 [4], which factors in contributory values such as education and labor regulations, Sweden is ranked ninth. The Weforum ranking rates Sweden highly in the efficiency and transparency of institutions, education, ICT use and a high-level of technology adoption, but this is offset slightly by labor regulations and tax.

Sweden's position as an innovation-friendly country is not due to any single factor. According to the May 2016 report "Chasing the tale of the Unicorn" by Albin Skog et al at the Stockholm School of Economics [5], the fertility of the Swedish ecosystem has less to do with the fact that the country stands out in one particular area, than with the convergence of a number of factors. These factors include, as Skog et al point out "…an enabling business climate fueled by the highly connected informal and formal social networks among entrepreneurs, experienced business people, politicians and university researchers."

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Access to IT-infrastructure at all levels in society has also proved to be a foundation for success. Both the popularity of home PCs in the 1990s and the widespread availability of broadband have turned out to be essential enablers for innovation.

Professor Eugene Kandel, CEO at Startup Nation Central in Israel, said "You can only innovate what you can imagine." His point is that innovation cannot come out of thin air. It is the eco-system and the access to new technology and knowledge that inspires innovation.

Thanks to this culture of innovation and IT infrastructure, Sweden today hosts one of the most successful startup hubs in the world. In the SparkLabs *"Global technology Trends 2016"* report of 5 November 2016 [7] Stockholm is ranked number two worldwide, just behind Silicon Valley and ahead of Tel Aviv.

While Sweden has been very successful in fostering innovations in both larger corporations and new startups, there is no room for complacency. Today the essential challenge is growth: addressing how to transition the new startups into scale-ups. According to the Boston Consulting Group, less than 9% of the alumni companies raised within Swedish incubators in the period 2007-2013 had a turnover of above 5MSEK.

Overcoming these obstacles is critical not just for startups but also for the entire economy. In the Boston Consulting Group's "*Nordic Agenda 2017*", Lars Faeste et al [10] note that "After more than a half century of economic success, Nordic countries are confronting the reality that they must make changes. An equally big challenge for the Nordics is ensuring that a steady stream of fast-growing companies continues to emerge from the private sector."

Studying these reports, it is clear that one way to address these obstacles is for innovative corporates with their resources, customers and know-how to cooperate more closely with fast-moving startups, with their ideas and agility. This might sound obvious but it requires major changes in mindset, processes and culture from both sides.

Cooperation between corporates and startups benefits both sides. In the Harvard Business Review in February 2016 Eddie Yoon and Steve Hughes write in "*Big Companies Should Collaborate with Startups*" [11] that "startups and established companies would both improve their success rates if they cooperated instead of competed. Startups excel at giving birth to successful proof of concepts; larger companies are much better at successfully scaling proof of concepts."

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"Sweden has a number of large companies with tremendous market presence and universally recognized brands. These companies would do well to carefully develop close relationships with certain startups as acquirers, distributors or technology partners. In fact, the learning that large companies receive from top-notch startups could mean the difference between survival and growth on the one hand, and failure and loss of market positioning on the other."

STEVE CIENSINSKI, PRESIDENT OF SRI INTERNATIONAL

CORPORATE INVESTMENTS IN STARTUPS

Historically, Swedish corporates have not been that active in cooperating with or investing in disruptive early-stage startups. Swedish startups have instead been acquired by corporates from outside of Sweden. Skype, Polar Rose, Donya Labs, Arcam and C3, for example, were all acquired by US companies. These could instead have been bought by Swedish companies, supporting disruptive change and creating new revenue streams.

Almost half of all startup acquisitions in Sweden are by U.S. corporates. If traditional Swedish corporates are to continue and prosper they need to master this approach to innovation, acquiring relevant local startups before they are taken by others – and often in too early stage of their development.

"The best possible exit route for a startup in general is to do an IPO. We think that it is very valuable for them to cooperate at an early stage with corporates, but one of the problems with European startups is that they are often sold too early, and do not create the large new companies that Europe so desperately need."

STAFFAN HELGESSON, GENERAL PARTNER OF CREANDUM

Absorbing talent and know-how from the startup eco-system in this way must be a strategic part of the innovation process. It cannot be just managed as a standalone investment driven by financial results. Today, startups could be viewed as the R&D projects of our society. We need to

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create the condition so that both corporate Sweden benefits from all the ideas and knowledge that are generated by the startup world, while at the same time let the startups in Sweden excel with the power of our corporates.

In Sweden three times more is invested in business-to-consumer (B2C) than in business-to-business (B2B) and in B2B Sweden invests less than both Finland and Denmark.

Startups need competence, capital and customers. Today Swedish startups go to Silicon Valley to find customers that are willing to try their products and services, and invest in their company. Corporates in Sweden very rarely invest in startup products and services. As a result, many startups feel that it is not worth their time trying to sell on their home market. What if we could change this? What if we could create a customer climate that is beneficial to our Swedish startups and also attracts international startups to come to Sweden to find clients instead? To foster this climate the corporates need to open up more and let startups understand what they need.

In Silicon Valley, the world's leading startup hub today, acquisitions are an integral part of the innovation process of corporates. Acquiring a startup is a standard alternative to in-house development for obtaining new technologies, products or processes. Many large corporates already understand this approach and that is why they consider it important to have worldwide business intelligence so that they can select the technology and talent they need wherever it is.

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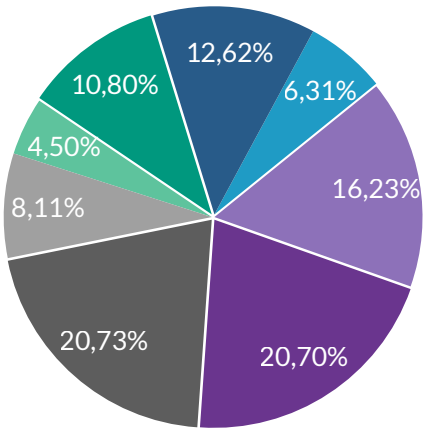
THE POWER OF STARTUPS

How should the corporates work with innovation? A completely new mindset is needed. We need leaders who can stand up for brave innovation processes, but this is rare in corporate Sweden. We are now in a disruptive phase and corporates need to embrace change. Corporates that understand how to cooperate with startups and that know how to get the best startups interested in cooperation will be the winners.

THE MOST IMPORTANT REASONS TO WORK WITH STARTUPS

- Continuous improvements of our products and/or services
- Branding
- Adding new innovative products to the existing portfolio
- Adding new ideas to our business development
- Early indication of disruptive technology
- Increased revenue
- Remain an attractive employer
- Become more agile and lean as an organisation



Answers from questionnaire

We need to raise awareness of how to work with startups as an innovation driver. Awareness is now growing as many corporates are creating their own incubators and accelerators. However, we need to understand that Sweden has a fantastic source of value which needs to be exploited before competition does. There is an international consensus that Sweden has one of the best startup clusters in the world and international companies are learning about this opportunity. The ball is in the air and Sweden is well positioned to smash that ball decisively if startups and corporates can find ways to work effectively together.

We do not believe that there can be a perfect type of cooperation, each situation requires a different approach based on goals and situation, but we feel more certain than ever that we need to get started. We therefore encourage all players to get started, but with a strategy. U.S. corporates view startups as part of their innovation process. They view them as a source of talent and technology and not as ready businesses. European corporates in general still perform more traditional merger and acquisition activities where they purchase not only the product and the people but also the customer relationships. They are thus aiming at more mature startups. This means that our best Swedish startups are acquired much earlier by big U.S. corporates – long before Swedish corporates have even identified them and the opportunity that they bring.

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The exit-driven economy could be valuable for society as a whole since successful startup founders will earn money, which can be used to build new startups and thus generate even more new value. What if we can both generate this exit value in the startup community and in corporates through acquisitions by Swedish Corporates? This could be the best of outcomes, generating value for everyone and reallocating resources between startups and corporates, or even between startups.

TOP TAKE AWAYS FROM THIS CHAPTER

1. Sweden offers a favorable climate for innovative businesses, building on a long tradition of innovation and supportive environment.
2. Sweden's climate of innovation has also led to the creation of one of the world's most successful startup communities, with many successful exits and numerous unicorns.
3. In Silicon Valley, the trendsetter in startups, the acquisition of startups by corporates is an integral part of the way they do business.
4. Companies outside Sweden are more active in startup acquisition. As a result many Swedish startups are acquired by foreign investors at an early stage, before Swedish corporates have even identified them.
5. We are convinced that an approach to boosting the return from innovation in Sweden is to further encourage cooperation between corporates and startups, combining the scaling expertise and muscles of established companies with the creativity and agility of the startup community.

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MEGA TRENDS THAT IMPACT INNOVATION

Talk about trends that impact innovation and most people think about the technology trends that fuel innovative new businesses, like digitalization and access to digital data over the Internet. Over the last few years we have seen a shift towards the digitalization of practically everything. Music is no longer bought on CDs but comes through streaming services like Spotify; movies are no longer rented on discs at the local video store but come through video streaming services like Netflix; bank services are no longer provided at a bank but come through secure sites and apps on your laptop, smartphone and tablet.

In addition to pervasive digitalization, key enabling technologies like the IoT, artificial intelligence (AI), cloud computing, big data and blockchain-based solutions have emerged. Together these technology trends are disrupting our world in a way that has not been seen since the industrial revolution.

But it is not just the technology that is changing. There are also social trends that can lead to equally profound changes in the way we organize our lives. One of the most important of these social mega trends, one that will impact how we relate to organizations, is called the gig economy.

In this new model, the traditional "steady job", where you work for years or even an entire career in one organization is being replaced increasingly by people hired for a single project. This trend is moving faster than anyone could have expected. Already in the US, a third of the working population is hired for a specific work project rather than being recruited with an open-ended contract. According to a number of reports, including Intuit 2020 [12], the prediction is that more than 40% of the entire American workforce will be freelancers by year 2020. In Sweden, close to 15% of the workforce is working as freelancers in the gig economy, according to studies done by UNI Europe [13] and the Swedish Union *Unionen*.

When we looked at the freelancer market in Sweden five years ago, the majority of them were 50+ year old men who had completed their corporate career and wanted to end their work life in a more flexible manner. Today we have four generations in the workforce where the majority of the freelancers come from the oldest and the youngest part of the workforce. When 2016 graduates at the Stockholm School of Economics were asked what they wanted to do after graduation,

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roughly half of them said they wanted to become their own boss as freelancers and entrepreneurs in the gig economy – a substantial shift in a very short time. Compared to the previous generation, millennials have different drivers in life altogether. Flexibility, being able to control your personal development, social values and a work-life balance are things that are very important to this generation and this goes hand-in-hand with the gig economy philosophy.

How will this new trend impact innovation and the startup community? Could this completely overturn existing models and lead to new ways of working? This is a distinct possibility so we need to understand the phenomenon.

Clearly the trend towards working independently is not a passing fad and the number of people working that way is expected to continue to increase. Today it is becoming commonplace for people to work from wherever they happen to be – home, coffee shop or co-working space – with just a smartphone and a laptop, used to both work and interact with other people. With fast wireless networks and cloud-based resources, employees and freelancers can now work from anywhere.

This trend is positive for employers because it can help them reduce costs. First of all, a company no longer needs to pay full-time employees to have enough capacity to deal with peaks in the workload. They can instead hire a core group of permanent employees and then hire other people for specific projects, as needed. Apart from reducing costs, this approach is also popular with employers because it expands the pool of potential people who can work on a project. There might be qualified people who are physically remote or working part time on other projects, but through the "gig" approach, they can still be available. These experts are usually not interested in becoming employed by the company, but are willing to take on a short-term gig.

Many employees also prefer this way of working. Some people choose a nomadic lifestyle or like to take on different challenges because they find that more motivating than a traditional job. For these people a work life consisting of many separate contracts, often without a fixed place of work, is preferable to a long-term employment contract. They can move around freely and learn new skills, transitioning from one career to another in their lifetime, finding new challenges to replace older skills that might be less relevant or obsolete. An additional reason why employees prefer this setup is that they want more flexibility in their work hours. This means both at which times they work during the day, but also planning the way the work is spread throughout the year; some months you can work very hard so that you can take a longer time off during the summer.

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Another advantage of a gig-based approach for many workers is that they no longer report directly to a boss. They might have people who provide input on projects but that is very different from having someone who effectively controls where you sit, the equipment you use or how much you earn. Some people might still prefer a permanent job with a regular salary, benefits and fixed hours, but we believe this is becoming less common each year.

Though the gig economy started with people working on projects rather than for a company, this trend could also lead to greater interest in the startup community. Once a person has decided to do contract work, it is a small step from that towards deciding to create a startup. Founding a startup used to involve greater risk because for most people it meant giving up a steady job and diving head first into the startup world. Today someone might already be working independently on contract work and found their own startup in parallel, gradually tapering off the contract work when the startup begins to demand more attention.

We can imagine that, in the near future, as fewer people are employed full time by companies, we might see the emergence of thousands of new startups as gig-economy workers take this step as a logical extension of their independent work. Already used to taking some risks, the step is not such a giant leap as it used to be. When these people also start to practice the “fail fast” approach instead of holding on to bad ideas for too long, then the economy could benefit from a new wave of innovative startups, ready to partner with established corporates to grow the economy.

> ”Sweden's startup ecosystem is one of the best in the world, but could really benefit from more 'creative destruction': founders should get to market faster and either win or fail faster and go on to the next big idea. Sometimes talented founders get stuck pursuing ideas that are good, but not the best because the ecosystem is supportive and the competition for talent is not as fierce as it is in Silicon Valley.”
>
> MATHEW JOHNSSON, PARTNER AT 500 STARTUPS

What if corporates open up to share ideas that they would like to explore and let freelancers with the necessary skills bid to become part of proof-of-concept projects? If the proof of concept is a success, the corporate can decide whether it should be spun out in a separate startup or further developed within the corporate. This opens up the discussion to issues of sharing risk, supporting possibilities, regulating ownership and risk in terms of IP rights and equity splits if a startup is

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founded, but on the other hand, we would have a way to get the best possible people and partners involved on a concept level without high risk at the very early stage.

THE LAWYERS PERSPECTIVE

A new use of data emerges with the increased user benefits of scalable software, economic cloud-supported storage and distribution. Privacy and IT-security are crucial components in creating trusted and valuable products and services. Ensure basic compliance of privacy legislation by reviewing technical design, user privacy policies, terms of cloud services agreements and instructions for your employees how to process data.

The gig economy is possible due to a new perspective on ownership. Ownership of results and taxes are legally linked to the employer of any individual. In a freelance context, ensure that results are transferred and that the individual manages her or his taxes in a compliant manner. If overlooked, the setup could have serious tax implications.

TOP TAKE AWAYS FROM THIS CHAPTER

1. In addition to mega trends such as digitalization with key enabling technologies like the IoT, AI, cloud computing, big data and blockchain-based solutions, we can also see a social mega trend called gig economy emerging.
2. The gig economy is powered by globalization and digitalization, and driven by individuals desire for flexibility.
3. The gig economy facilitates new ways of cooperating between corporates and startups by reducing the risk for all parties.

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THE STARTUP SCENE IN SWEDEN

Sweden's climate of innovation has contributed to a rich and diverse startup ecosystem. Most people have heard of digital tech unicorns such as Internet phone company Skype, the music streaming service Spotify, Minecraft game creator Mojang, Candy CrushSaga's King or the fintech's rising star Klarna. But there are many others from different geographical areas, technical fields and backgrounds which make up the Swedish startup ecosystem.

Startups in Sweden do not all come from the country's capital Stockholm, or even nearby cities. Many are instead created in the industrial-academic clusters in Gothenburg, Malmö and Lund, while others emerge from accelerators and incubators in smaller towns like Uppsala.

Sweden's startup scene is older than many people are aware of, starting in the 1990s when Nordic brands like Ericsson and Nokia dominated the mobile phone handset market. At that time the startup scene in Stockholm and Helsinki was part of what was then called the "Mobile Valley". After the dot com crash of the early 2000s some companies had a lucky escape. Sendit, for example, was bought by Microsoft. Other early startups survived the crash, like MySQL, which began as a startup in 1995 and was eventually bought by Sun Microsystems in 2008.

However, the majority of companies in the Mobile Valley did not survive the dot com crash. What is interesting though is that the people involved in those failed startups started all over again, but much better prepared this time. King and Skype are just two examples of companies founded by people who were involved in this first wave of startups.

Over the last ten to fifteen years the startup scene in Stockholm has changed dramatically. Today we have startup festivals, hackathons, startup pitch competitions and meetups of different kinds. In 2000 there were no organizations like incubators, accelerators, co-working spaces and other support groups like SUP46, MINC, Epicenter, Drivhuset, THINGS, Startup Grind, Brewhouse, SISP or STING. These organizations help startups develop their products, teams and companies in different ways, providing support and value at an early and extremely critical time. They provide guidance to help founders build successful startups. At the same time, they provide opportunities for startups to meet investors, corporates, legal advisors, design studios as well as other startups. This support is crucial when you are embarking on a journey to build your own company.

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Today there are plenty of opportunities for startups to meet and pitch to investors. It is however clear that there are fewer opportunities for startups to meet potential clients. This is slowly starting to change. One very good example of this trend is THINGS, a co-working space at the campus of the Royal Institute of Technology in downtown Stockholm for selected startups with global ambitions and with hardware as part of their solution. THINGS arranges meeting events with speed dating opportunities between representatives from various corporates and startups. They have now also launched a new program together with STING and LEAD called Ignite Sweden with the goal of increasing the pace of innovation in Sweden by establishing tighter bonds between Sweden's vibrant startup scene and the country's thriving, established companies.

> "At THINGS, we often see young, specialized startups providing amazing solutions, waiting to find the perfect fit partner or customer. At the same time, we meet corporations who are busy optimizing and fine tuning a well-oiled system. Usually, they have neither the time nor network to scout what's outside their industry, and that's where IgniteSweden can make a difference. By knowing the challenges in the established companies and matching them with potential solutions in the participating startups, we enable early stage partnership and joint development of successful solutions. In parallel, we'll also document our experiences - what works and what doesn't - and develop a toolkit for others to benefit from in the struggle to increase and improve of the rate Swedish innovation."
>
> LINDA KRONDAHL, CEO OF THINGS

Another example is SUP46, a Stockholm startup hub founded in 2013 that has now more than 100 member and alumni companies with a total aggregate funding of 153MUSD at the end of 2016. In addition to supporting member startups SUP46 has also become a meeting place for many actors including corporates in the Stockholm startup community.

> " There are many benefits that startups can obtain through cooperation with a big corporation. A startup/corporate partnership is often a win-win for both parties since corporates have the freedom to quickly pursue their market opportunities. Forming a great relationship can only lead to a better, more innovative company.
>
> JESSICA STARK, CEO AND CO-FOUNDER OF SUP46

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Building a company is difficult and to succeed you need a fantastic team, capital, a good product that can scale and customers that can support your validation of the business model. You will have to take many decisions on how to focus your limited resources. Your time is precious and knowing what activities you should select and which ones to turn down is not easy.

We are convinced that having a big established corporate to cooperate with in an early stage is essential. This will help the startup to validate their product and business model. Once a startup has a working cooperation with a corporate, they become much more attractive to other clients and investors. This is why focusing on this kind of relationship is so much more important than focusing on investors at an early stage. On the other hand, investors will most likely be fundamental once a startup is ready to scale to new markets.

Other important actors on the startup scene are the authorities. They are valuable in different ways and help with, among other things, arranging and sponsoring different startup events allowing for meetings between the different actors.

> ”Our role at Invest Stockholm is to make sure we keep evolving and improving as a city for tech and innovation. With that in mind we have a close dialog with the tech community and often raise the question of what the biggest needs and challenges are. In a recent data collection we found that 'cooperation' was the biggest pain point in the community: collaboration between startups and the public sector, academic world but above all large corporates. Other cities have come a long way in fostering collaboration between startups and larger established companies. In Sweden and Stockholm we have the perfect circumstances to bridge these two areas, and it's something that we're going to focus more on in the coming year.”
>
> JOSEPH MICHAELS, HEAD OF STARTUPS AT STOCKHOLM INVEST

TOP TAKE AWAYS FROM THIS CHAPTER

1. Sweden’s rich and diverse startup ecosystem dates back to the 1990s, with people leaving one startup to found another, conserving the know-how and culture.
2. Many startups survive for a long time but are less successful in scaling,
3. Startups are supported now by an equally rich and diverse infrastructure of incubators, accelerators and hubs that help to encourage the interaction between startups and corporates.

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ATTRACTING THE BEST STARTUPS

WHICH VALUES DO STARTUPS SEE IN CORPORATES?

Many agree that cooperation between corporates and startups is an effective way to exploit their combined strengths, uniting the agility of startups with the resources and know-how of established companies. But how do you attract the best startups for your company to partner with? To answer this question we have conducted interviews and surveys with both startups and corporates in Sweden, asking their opinions about the usefulness, benefits, barriers and needs with regards to cooperation. By asking both sides we could see what corporates should be doing to attract suitable startups and also what startups can do better to cooperate more effectively with corporates.

Most of the corporates we talked to already cooperate in various ways with startups and the majority of these startups rate this cooperation as beneficial or very beneficial to their company. Although cooperation is viewed as mostly beneficial, both startups and corporates identified some pain points in their cooperation. Many startups reported that they found interaction with corporates to be too slow and not agile enough for their needs. In a startup where new product iterations and pivots can come very quickly, waiting for typical corporate decision cycles can be a serious obstacle.

Other barriers identified by many of the startups we contacted include difficulty in identifying the right person, difficulty to understand internal processes, a perception that the startup business is a low priority and a lack of trust. Finding out who is responsible for startup activity in a large company and understanding internal processes can be challenging even for employees. The lack of trust probably does not reflect any lack of faith but simply reflects the reality of a large organization where decisions can be changed by other people and where responsibilities overlap.

But what exactly are the startups looking for? Understanding this is the key to attracting the right partners. In our interviews and surveys we identified that one of the most important reasons for startups to cooperate with corporates is to enter into a commercial relationship, gaining access to the corporate's wide portfolio of clients. Delivering almost instant access to an existing customer base also means avoiding the lengthy and costly customer acquisition process.

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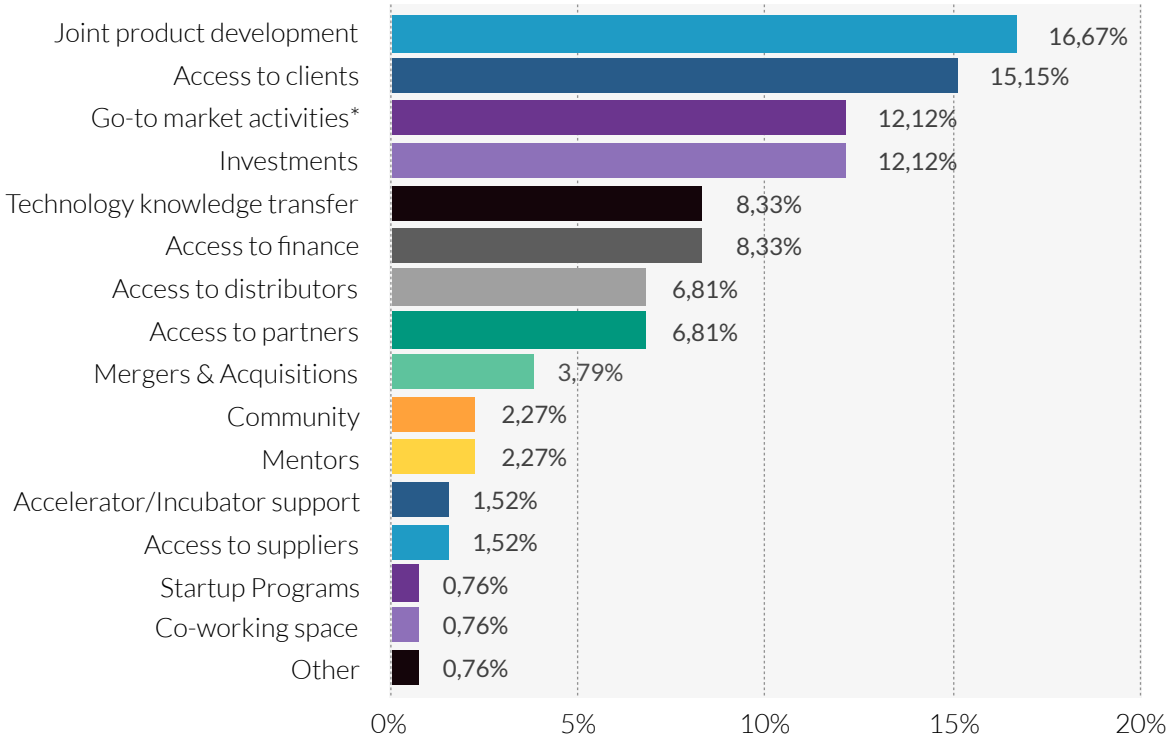
Among the startup founders that we surveyed, 44.1% rated cooperating with corporates as an absolute top priority -- ten on a scale from one to ten. The number one reason for them to seek cooperation is that they are looking for joint product development, leveraging their original ideas with proven development processes. Other joint activities, which startups perceive would add most value include joint go-to-market initiatives such as events and conferences, technology know-how transfer, access to distributors and investments.

All of the startups we surveyed already had a wish list of corporate partners. What is interesting is that all of the companies that they chose are large industrial corporations, major banks, internet giants and other leading players. Their focus is clearly on corporates with extensive resources to offer.

To identify what was really at the top of the wish lists of startups, we asked them in interviews and then let them vote in a survey. The resulting typical services were rated as follows:

TOP ACTIVITIES THAT STARTUPS SELECTED AS THE HIGHEST VALUE FOR THEM IN A COOPERATION WITH A CORPORATE



* Market activities such as joint exhibiting at events & conferences.

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COOPERATION ACTIVITIES

SUPPORTING SERVICES

What can corporates really do to help attract the best startups? It seems that corporates that decide to cooperate with startups often do not do their homework. They do not analyze what it is they could offer that would be most valuable to the startups they want to attract. This means that there might be some support that they could provide and that would cost them very little, but this goes unused because they were unaware of the value it would provide to the startups.

We have listed and briefly described the most attractive cooperation activities according to the feedback we received from startups. These activities mentioned by startups correlate well with the recommendations given to corporates in reports like "How the World's Biggest Companies Deal with the Startup Revolution" by Arnaud Bonsam and Serguei Netessine for INSEAD and 500Corporations [18].

BUSINESS DEVELOPMENT

Most startups consider that the best support they can obtain is for a corporate to validate the need for their solution and to demonstrate this by paying for it. But there is a barrier that holds many of them back. Startups simply lack the connections to talk to the right people at corporates to initiate any kind of cooperation. More than half of the startups we surveyed noted that identifying the right contact is a challenge. This is hardly surprising since only a quarter of the corporates we surveyed have a single point of contact responsible for overall startup relations. This could explain why startups often have difficulties finding this “startup manager” character.

It would be immensely useful if corporates clarified both within their organization and externally who the best person for startups to contact initially is. Ideally this person should be discoverable with a simple search for something like “startup contact” and listed on the corporate contact page along with investor relations, human resources and so on.

Such a startup contact or manager should be well connected within all the different business divisions within the corporate. Startups that are mature enough and have interesting solutions can then present them to the right people.

In some cases, corporates can help startups to sell their products or solutions to their own partners and clients. This kind of support has tremendous value to a startup since having a larger company to recommend their solution brings not just business but also visibility and reputation.

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CONSULTING & TECHNICAL KNOW-HOW

One of the main issues perceived by corporates as barriers to cooperation with startups is the concern that their solutions will not scale. For this reason, one of the areas where cooperation between corporates and startups adds most value is when corporates validate solutions, ensuring that they scale and that they have the required level of quality. This consulting support can include both technical and commercial aspects, ensuring both that the solution works and that it is marketed effectively.

MARKETING

Being able to go to market together with a corporate provides a high level of credibility to the startup. This could be done in several different ways, but joint participation at an exhibition or conference is a good example. In this case, the startup benefits from being associated with an established brand, from the visitors attracted to their booth and the opportunity to have a high-visibility presence that would otherwise be unaffordable. But to make this joint marketing a success it is important to be clear about the joint message and to ensure that there is value for both parties.

MENTORS

Corporates can assign a mentor or a startup coach who can help the startup founders and employees to navigate internal contacts within the corporate. These mentors should ideally have basic business development skills to help the startup build business plans, including 3-5 year forecasts, go-to market plans and product packaging.

ACCESS TO CUSTOMERS

Depending on the relationship with the startup, the corporate can help the startup sell to its customers and partners. By opening doors to their contacts, the corporate increases the likelihood for the startups to close business deals since they provide a formal or informal certification that their offering is of sufficiently high quality.

ACCESS TO FINANCE

Many corporates provide different types of financing to startups. This can be done in numerous ways, but common approaches are through microcredits, loans, debt, limited partnerships, venture capital funds and private equity. About a quarter of the startups surveyed identified access to finance as a significant value-add in a partnership. This is maybe not so surprising.

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ACCESS TO SUPPLIERS

Access to suppliers could be critical to startups, although this was not identified as a priority by any of the startups we surveyed. But this access could add significant value if a startup can use the relationships and discounts that a large partner obtains from suppliers. This area is mostly unexplored. It could however be an inexpensive way for a corporate to provide value to their startup partners.

ACCESS TO DISTRIBUTORS

While few startups prioritized access to suppliers, more than a third identified access to distributors as contributing significant value to their business. For those businesses where distribution chains are critical to success, this can make a huge difference between remaining a niche player and reaching sizeable markets.

ACCESS TO PARTNERS

Many of the startups we contacted also identified access to partners as adding value to cooperation with a corporate. This can among other things open doors for new clients for the startup.

COMMUNITY

Most startups that we surveyed did not identify community as a significant value add in their relationship with a corporate but it can contribute in many ways when startups, universities, corporates and other agencies all participate in hubs, incubators and accelerators. A strong sense of community can mean much greater cooperation and it is this know-how sharing economy that can make a significant though often under-appreciated contribution to the outcomes of startup initiatives.

RECRUITING

Cooperation with corporates might not impact recruiting directly, and startup founders probably never approach a corporate with this in mind, but having a serious corporate partner makes any startup immediately more appealing in the recruiting market. In addition, startups are often seen as a useful source of talent by corporates, sometimes as part of a deliberate “acqui-hire” strategy where a startup is bought primarily for its people rather than for the solution it offers.

LEGAL

In, for example, the life science and software industries, intellectual property (IP) is the building block of a valuable business because it defines and protects innovation. In our data-driven society, it is also essential that startups and corporates master privacy and IT security. Having early access

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to legal expertise is a major concern for startups from a cost perspective. There is also the issue of what kind of lawyer a startup needs and to which extent a startup can rely on corporates' counsels. Most often, the risk tolerance of startups and corporates is not aligned. In the context of an industrial cooperation, providing access to critical resources such as the corporate's internal legal know-how would be a valuable contribution to the startup community. In return for sharing its corporate resources, the corporate can be more confident sharing information and investing time and resources in the cooperation since the outcome is protected.

CO-WORKING SPACE

Finding a suitable co-working space is very important for early stage startups where they need the support and assistance of the startup community and especially from startups that are already better established. Though there are independent co-working spaces, the ones created by corporates have the added appeal of providing connections to corporate networks and resources that would otherwise be difficult for a small startup to obtain.

MERGER & ACQUISITIONS

Some of the startups that we surveyed ranked Mergers and Acquisitions as one of the areas where help from corporates would be most beneficial. This is a win-win for many startup-corporate cooperations, especially in cases where founders are looking for either an exit or to be "acquihired" by a much larger organization. For corporates, the benefits are clear. As Annika Steiber noted in her book *The Silicon Valley Model*, "The acquisition of smaller firms is an important source of innovation, regardless of whether the company is acquired in order to develop a new business area, or to be linked to an existing business, or is simply being acquired because of its competences".

THE LAWYER'S PERSPECTIVE

Get to yes faster in cooperation by involving legal from the beginning. No one likes surprises or not having enough time to figure new things out, whether managing a startup or an enterprise. In rapid innovation, there is often no need for long legal briefs, so choose a lawyer that can act as a business partner, working with the team providing creative solutions. Start with a legal validation of your contemplated business model to get a quick overview.

Set up a collaborative task force that include the control functions: legal, compliance, employment law, technology, tech risk and record retention. Key to successful innovation is to understand and mitigate relevant risks early. Both Goldman Sachs and Google favor this approach to supporting innovation.

BY SOFIA EDVARDSEN, PARTNER AT SHARP COOKIE ADVISORS

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TOP TAKE AWAYS FROM THIS CHAPTER

1. Many corporates already work with startups and find this cooperation beneficial but there are still some pain points such as slow processes, poor communication and a lack of trust.
2. Corporates are often able to provide valuable support for startups that costs them very little, including access to partners, know-how and workspace.
3. Startups tend to have preferences for partners that are large industrial corporations, major banks, internet giants and other leading players with extensive resources to offer.

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SUCCESSFUL COOPERATION PROGRAMS

Many of the large corporates have more than one program in place for cooperating with startups and we have noted that several of them are using many approaches in parallel. Internal communications between the different parts of the company are not always very good. This is an area where improvement can be made.

Startup cooperation programs can have substantially different goals but we have noticed that there are some typical arrangements that are repeated in several of the corporates that we have studied. In the following chapters we will describe the six most common types of cooperation approaches that we have found, based on the value that they bring to corporates and what they offer in return to startups. We will also present one case study exemplifying each type of cooperation between a corporate and a startup.

OPEN INNOVATION

SHORT DESCRIPTION

In the Open Innovation model, the ultimate goal is to discover new technologies for future use in a specific field, like life sciences or automation. When a corporate creates this kind of incubator, there are usually no revenue or profit targets. Instead they aim to develop or identify new, disruptive technologies that can be valuable for the industry and for the country. For this reason, Open Innovation incubators are often subsidized by governments. Exactly what support is offered depends on the needs of the startup and is chosen on a case-by-case basis. Corporates are very selective in choosing startups to take in their innovation hubs. They verify carefully that a candidate startup has the potential to grow quickly, that they can develop a product that is a good fit with the corporate offer and that they can benefit substantially from being part of the innovation hub.

CORPORATE VALUE

In the case of the open innovation model the value for the corporate lies in a better use of their know-how– both technical and organizational – and resources to bring support to the broader industry ecosystem. Another benefit of this approach is that corporates have an opportunity to evaluate the startups they support more easily. This evaluation will be useful when the corporate decides if closer cooperation could be useful in future.

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Open innovation is especially valuable in cases where a corporate is a leader in its field and has enormous resources to share but at the same time lacks the agility to act quickly. By teaming up with startups in an open environment they effectively trade their know-how and resources for this responsiveness.

Corporates choosing this approach benefit also by being able to observe the startups in their field so that they can move to a deeper level of cooperation when they find a startup that offers a technology, product or service that they need. In some cases, they also benefit by taking a share of any exit if venture firms later choose to invest in one of the startups.

CORPORATE OFFER

The corporates we met that offer an open innovation platform to startups have different offerings, but they often offer the following services:

SUPPORTING SERVICES & CORPORATE OFFER

- ☑ Consulting & Technical KnowHow
- ☑ Marketing
- ☑ Mentors
- ☑ Access to Suppliers
- ☑ Access to Distributor
- ☑ Community
- ☑ Recruiting
- ☑ Legal
- ☑ Co-working Space

CASE STUDY: OPEN INNOVATION

ASTRA ZENECA

AstraZeneca's BioVentureHub was established in 2014 inside the company's Gothenburg R&D campus to provide a supportive ecosystem to strengthen the life sciences industry. Aimed at both emerging companies and other partners in the biotech and medtech fields, the BioVentureHub currently hosts 20 companies, one academic group, four external sponsors and two scientific partners.

By February 2015 the BioVentureHub had secured external funding from Vinnova, Västra Götalandsregionen, Göteborgs Stad and Carl Bennet AB.

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By 2016, the results from the BioVentureHub were already impressive. Companies in the hub had achieved important external milestones: two Initial Public Offerings, three Federal Drug Administration IND approvals to move into clinical studies and one product approval for launch. One company, Vivolux, was also acquired by a US investor and would eventually be leaving the hub. One company had left the hub, according to Magnus Björsne, CEO of BioVentureHub, but only because they pivoted to a new business idea which no longer was a good fit.

In addition to external successes, the BioVentureHub has also seen the emergence of eleven intra-hub cooperation projects, which is remarkable because there are 20 startups based there. One company which is strong in the field of plasma development helps others in that area. Another company with expertise in running clinical studies helps the others to design and setup their own. Companies also share different kinds of models routinely.

What BioVentureHub has created is a sort of knowledge-sharing economy, explained Björsne, where the currency is the exchange of know-how rather than money. This sharing economy – a sort of "UberScience", as Björsne calls it – has been established as the model for cooperation between the members of the hub community.

Another critical success factor of the BioVentureHub is its focus on open innovation. Because IP is the holy grail of life sciences companies, it is difficult to be open prior to putting IP protection in place. Once the IP is secured then partners can talk to each other much more easily. Because of this, the hub focuses on attracting more mature companies where the IP is already in place and as such, the Biotech and AstraZeneca can interact much more transparently, said Björsne. In a way, the true definition of innovation is to turn knowledge into value and the first step is securing the IP. Some startups fail because they stay in research mode and never make this leap.

AstraZeneca's role in the project is to provide access to human capital and industry infrastructure free of charge for the companies in the AZ BioVentureHUb. There is not much direct return on investment for AstraZeneca. The AZ BioVentureHub provides loose ties allowing synergies to emerge but does not push any capabilities to the startups, said Björsne. Through the hub, AstraZeneca provides a buffet of support but it is up to them if they want to eat or not. The hub focuses on providing technical support rather than business development support.

One of the top five ICT companies in the digital health field, Mentormate, with more than 500 employees is now setting up an R&D unit in Sweden and will be moving people from the USA to be based in the BioVentureHub. By placing themselves in a value chain where future business lies they increase their chance of success and bring new competences in digital health to the hub. In

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Europe, one of the problems is that there are plenty of investments made in digital health but few companies have experience getting products through FDA approval. Now the BioVentureHub is contributing by attracting such competence to Sweden, said Björsne.

What AstraZeneca is trying to do with the BioVentureHub is to catalyze innovation and this means creating the right environment and attracting talent. An increased talent pool benefits the members of the hub and it also benefits AstraZeneca. People often wonder what is in it for AstraZeneca. One answer is that the company has 2,500 people on its Gothenburg campus and needs to recruit the most talented innovators. Offering an environment which truly fosters innovation adds to the attractiveness of AstraZeneca as an employer.

To attract startups to the hub, AstraZeneca offers space, know-how and knowledge sharing. The company also offers training programs, internally and through the Gothenburg School of Entrepreneurship, so that startups, while being part of the hub, also become part of AstraZeneca's larger community.

> "Antaros is a good example of how methods that originally were created within industry and academy can be placed in new perspectives and thus create new unique opportunities. Antaros collaborates not just with AstraZeneca today, but with a large group of big medical companies and these new interfaces opens up fantastic opportunities to develop as a company."
>
> MAGNUS BJÖRSNE, CEO AZ BIOVENTUREHUB AB

ANTAROS MEDICAL

Antaros Medical was founded by Lars Johansson and Johannes Hulthe with two other colleagues from Uppsala University in August 2014. Lars and Johannes, the main drivers, left AstraZeneca to start the company as they had a clear vision of how to be able to run highly specialized clinical studies with high quality, fast delivery and affordable price. The founders wanted to be as independent as possible so the company started from scratch with no external funding at the time.

Just when Antaros was being created, AstraZeneca was also founding the BioVentureHub so the founders thought it made sense to take advantage of this opportunity and locate Antaros there.

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Antaros was attracted to the BioVentureHub because the startups there were more advanced than is usual in incubators, with some already in the clinical trial phase. This led to interesting and spontaneous discussions at the coffee machine and in the corridors -– interactions which have been mutually valuable with knowledge sharing in both directions. Sometimes these discussions are scientific and help bring value to projects.

The most valuable benefit of being in the BioVentureHub from Antaros's point of view is to be situated inside AstraZeneca, where employees are free to move around and talk to each other. This is an interesting blend because it allows employees to see the difference between the small startups in the hub and their big pharma host. AstraZeneca has been brave opening up their doors to startups in this way and it has generated value-adding opportunities and cooperation between AstraZeneca and startups as well as among the startups in the hub.

At the same time, the location inside AstraZeneca adds some complexity for the startups in the hub to meet and cooperate with big pharma companies besides AstraZeneca in the Biohub facilities, as these may feel uncomfortable to be there.

Small startups working at the hub also encounter difficulties that are common when working with a larger partner. Starting the cooperation is often complicated by the long agreements commonly used by corporates. Another problem is the time that must be spent identifying the right contacts in large organizations. For smaller companies the practice of corporates to settle invoices after 75-90 days is also an issue when they have to pay their own suppliers after 30 days, leaving a gap in liquidity. This problem is aggravated when volumes increase, creating a disincentive for growth.

Within the hub, Antaros has been running a handful of projects for AstraZeneca. At one point, Antaros also hosted a very senior project leader seconded by AstraZeneca, who stayed for a year just to learn how to work with a small company.

Antaros has also created a jointly owned company with another individual located in the Biohub. The company, Metynex Pharmaceuticals AB, is a pure research company which has developed IP for diabetes treatments exploiting the advantages of being in the hub.

Meanwhile Antaros itself has developed IP for some of the imaging science that the company is working on. These tools are currently used only in scientific studies with sponsors and collaborators and it is currently not part of the company's strategy to market these tools.

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Today Antaros has grown to a total of 25-30 people, of which 21 are employees and the others consultants. The company is currently setting up other cooperations, starting to move into oncology and aiming to establish a foothold in the U.S. This could be done without further investment but this would take longer, so these new ventures might require venture capital.

Antaros sees high value in participating in the BioVentureHub and it comes primarily from knowledge sharing. But technical support in facilities and services also plays an important role. BioVentureHub companies can rent advanced lab facilities from AstraZeneca or they can engage AstraZeneca staff and equipment to address specific tasks – some of this being funded by Vinnova. Antaros has not used this possibility directly but has done this through Metynex. AstraZeneca can also provide senior advice from drug experts when needed, and other startups have taken advantage of this though Antaros has not used it yet.

OTHER EXAMPLES OF OPEN INNOVATION HUBS

In addition to the AZ BioVentureHub, there are other excellent initiatives at, for example, ABB with SynerLeap and GE Health.

STARTUP PLATFORM PROGRAM

SHORT DESCRIPTION

Corporates usually choose to create a Startup Platform Program to validate and find new applications for corporate solutions. This is a clear win-win situation where the corporate obtains more users for their products and the startup receives both technical and marketing support to build a solution with global potential. If the startup is successful, the corporate benefits from it because their product is part of the solution. At the same time, the main drawback of startup platform programs is that startups could be locked into the corporate solution and become completely dependent on the corporate partner. This could be an issue for investors who are often less interested in investing in a startup that is dependent on a single vendor.

CORPORATE VALUE

Corporates that embark on this type of program view entrepreneurs as a valuable source to further explore additional use cases for their offering. They have understood the potential of the innovation power that startups can provide and use the program to court this important segment of the market. In short, startups are vital members of their ecosystem. Together, they join in new and dynamic ways to work with flexibility, agility, and speed to strengthen new markets like cloud, mobile, big data, and analytics.

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When a corporate offers a startup program that is based on one of their products, the main purpose is usually to get new ideas and usage on their platform. If a startup that builds their solution on the corporate platform is successful, then the corporate will benefit as well.

The setup is usually well-defined, which helps ensure that there is a win-win in the cooperation and clear terms and conditions prior to entering the program. As always, startups that understand the value they can bring to corporates, can work to ensure that this happens and when it does, they can get tremendous value back from corporates. They have the scaling muscles, which the startup lacks.

> "Large enterprise vendors have a lot to offer to startups. Among other things they have access to an established base of large and strategic customers. The name of the game in sales is to eliminate anything that stands in the way of a deal. So why would anyone invite a startup in a sales cycle? The only way this will happen is if a startup can consistently demonstrate that their involvement will either accelerate or grow deals. Identifying how you can add value to a sales cycle is the key to working with large enterprise vendors."
>
> DEMED LHER, CHIEF ARCHITECT AT SAP

CORPORATE OFFER

With this type of program, the main support is usually the go-to-market, business mentorship, technical guidance and networking opportunities needed to quickly bring a product to market that is based on the corporate's platform. The most valuable support is often the access to clients via different marketing channels. As with all the different types of cooperation, the exact setup differs, but we have seen different combinations of the following kind of support:

SUPPORTING SERVICES & CORPORATE OFFER

- ☑ Business Development
- ☑ Consulting & Technical KnowHow
- ☑ Marketing
- ☑ Mentors
- ☑ Access to Customers
- ☑ Access to Suppliers
- ☑ Access to Distributor
- ☑ Access to Partners
- ☑ Community
- ☑ Recruiting
- ☑ Legal
- ☑ Free use of product/platform

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CASE STUDY: STARTUP PLATFORM PROGRAM

IBM

IBM's Global Entrepreneurship Program is an excellent example of a company that opens up its offering to startups. All startups accepted in the program obtain access to IBM Innovation Centers all over the world. They also have access to IBM's technical expertise and to the company's sales organization. The program equips the startup with the go-to-market support, business mentorship, services, discounts, technical guidance and networking opportunities needed to quickly bring a solution to the market.

Startups in the program get free access to IBM's data centers to develop their product. This includes access to Bluemix IBM's cloud platform as a service and Softlayer cloud infrastructure.

The first year of access to these resources, startups can use their credits on the IBM Cloud. After 12 months and exiting the program, startups begin to be charged proportionally depending on usage, with a free usage share. Pricing is determined automatically. All startups are welcome to participate by applying to the program through an online application form. IBM validates every application before approving the different levels of access to the program, depending on the solution the startup will be approved or rejected. Once a company is qualified, they can receive up to 120KUSD in IBM Cloud credits, build with infrastructure, platform, Watson and software services on the Bluemix Cloud.

A potential issue with these kinds of programs could be that Startups and their solutions become "locked in" to a specific vendor. IBM has ensured that this will not be an issue since their platforms are built on Open Foundry, an open-source cloud platform standard. This makes it easy for a startup to transfer to another platform if they so wish.

> "If a startup selects IBM and BlueMix they can easily switch to any other vendor that is based on Cloud Foundation, so there is no issue with locking them into just a proprietary IBM solution."
>
> MAGNUS MÅRTENSSON, COUNTRY MANAGER COMMERCIAL SALES AND CSP & ISV, IBM

Johan Hoffert is an IBM manager for the cooperation with some of the startups in the Nordic region. Johan has several roles when working with startups, including mentoring and introducing startups to the right people at IBM. Working with startups is part of his many responsibilities. At

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IBM, he works in the SME sector as a business development manager and works therefore also with mature companies. This means that Johan is well-connected both internally at IBM and with many other partners and clients in the Nordic region, which is a great value to the startups he is responsible for.

Working with entrepreneurs is very exciting, Johan Hoffert said, because IBM employees can learn from their agility and drive. He sees many business opportunities with startups when all parts of the ecosystem come together: one partner does integration with the back office, another brings the software, and together we go to a client with a complete solution where all of the partners are building on the same IBM platform.

A local presence, absence of a "lock in", open source code, Watson services and six people available to work with entrepreneurs just in Sweden are some of the benefits that open doors for startups at IBM. Today the IBM Entrepreneurship program is working with more than 1000 startups in the Nordics.

> "We live in disruptive times and to be part of a journey together with a startup and see how they innovative with IBM is really great! I am proud to be part of the future IT era."
>
> JOHAN HOFFERT, BUSINESS DEVELOPMENT MANAGER, IBM

ASTERIA

One of the Swedish startups that Johan is responsible for, which participated in the IBM Global Entrepreneurship program, is Asteria. Asteria is a company that provides cash flow optimization as a service, using big data techniques to take data from existing business software to produce forecasts and the tools to use them.

Asteria was founded quite recently, in August 2016, and has a small team of just four people. Asteria initially used a local service provider and their own proprietary development environment but decided to move to IBM's BlueMix platform.

Asteria discovered the IBM program when they were accepted for a Nordea Accelerator program after the founders pitched at a Nordea event in Oslo. At that event, there was an IBM booth and there they learned about IBM's cloud-based solutions. After looking at BlueMix, they wanted to

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migrate. After a number of follow-up meetings with IBM representatives, they were accepted in the program.

> "IBM supplied us with infrastructure to build and scale Asteria, in a portal our developers enjoy working in. In addition, we expect this collaboration to prove great value thanks to the IBM marketplace."
>
> ANDERS NORDKVIST, CEO OF ASTERIA

After Asteria had been accepted into the BlueMix program, they met with Johan at IBM's Kista office in Stockholm, to find out how IBM could help them. The support involved helping the Asteria team with technical know-how – mostly how to do things using BlueMix – as well as publicity in IBM channels. The plan was that IBM would introduce Asteria to their *Marketplace* – a kind of Application Programming Interface (API) equivalent to an app store. IBM's Marketplace is an important tool for accessing the API economy, since startups can make their products available through an API in a marketplace with 20 million users per month.

Once Asteria had decided to migrate their software to IBM, the process took less than one day, thanks to the technical support from IBM. Through the Bluemix platform, Asteria can have the same development environment and infrastructure accessible in the cloud to everyone in the team. This makes it possible to have one person working for them in Berlin. This person has all the same tools but with local technical support.

Nordkvist believes that the greatest value obtained by working with IBM is initially the access to the combination of IBM infrastructure and software, but in the mid- to long-term he expects that access to the IBM marketplace will be of great benefit.

At the same time, there are challenges, said Nordkvist, although these are not directly related to the cooperation with IBM. A major challenge in the fintech industry, especially when working with banks, involves transforming the perception of cloud-based solutions. There is a common belief that Cloud-based infrastructure is less secure than traditional servers. This is not entirely true: the Cloud is here to stay and security measures have evolved accordingly, said Nordkvist Banks are reluctant to invest in cloud solutions although, at the same time, some have already migrated parts of their operations onto the cloud. The team at Asteria believes the illusion that a physical server in a single location is more secure will take time to phase out.

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Meanwhile Asteria continues to be based at the Nordea premises in Lindhagen. Through the Nordea Accelerator program Asteria was one of the startups – along with half the 15 startups in the program – chosen for a continued partnership with Nordea.

MODCAM

Founded in 2013, Malmö-based startup Modcam develops intelligent computer vision applications that enable a leap forward in vision technology by building the processing into the sensor unit. ModCam's platform is optimized for video content analytics, building on the company's in-depth knowledge about image processing and the interactions between software, hardware and camera sensors. By combining these elements, ModCam makes it easier to see, understand and react to movements. The secret, according to the company, is a combination of an original software architecture and a high-resolution sensor.

An example of how this platform can be used is ModCam's MOD01 sensor. This smoke detector-size unit is simply attached to the ceiling somewhere in a building and then provides data through the Internet on the number of people moving in the area. Because no images are sent over the network, privacy is not compromised and it avoids data protection issues.

Modcam was originally founded by four people who had the idea that video analytics could be executed within a sensor device using a standard smartphone platform. Today the team has grown to ten employees, all still based in Malmö.

After the first two years, Modcam started to look for investors to boost the development of the company. One of the investors came through the regional investment agency "Invest in Skåne". But Modcam was not only looking for capital, they were also looking for a partner who would do more than just invest and cooperate in other ways. They found this in one of the early investors, Robert Bosch Venture Capital, RBVC. For Modcam the cooperation with RBVC has been a "quality stamp" rather than a go-to-market partner.

> "Having RBVC as our investor provided a lot of credibility for our company and opened doors to both new investors as well as more fruitful cooperation"
>
> ANDREAS NORDGREN, CEO OF MODCAM

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Another cooperation with IBM started in early 2016 when the IBM startup team in Malmö contacted Modcam because they had been using the IBM cloud services to manage the large amounts of data that their computer vision application generates.

In spring 2016,Modcam became a part of IBM's international entrepreneur program and IBM's Swedish team introduced Modcam to their IoT business unit in the United States. Soon after that, the two companies began to cooperate and Modcam's solution was added to the IBM product offering. Since this cooperation started there have been many joint customer installations and IBM also sells Modcam solutions in the USA.

"Modcam's intelligent computer vision applications hooks into some of the IBM products in a very beneficial way, that creates a more complete customer offering and makes IBM sell more products", said Nordgren.

The Swedish IBM team also brought Modcam to a large IBM customer conference in Las Vegas. During this conference Modcam was introduced to "the right people" within IBM.

> "Getting ambassadors at the right level within IBM has truly been a success criterion for the cooperation with IBM. These people have been able to open doors and make introductions that would not have been possible without that kind of an ambassador commitment. Without someone internal leading the way it is easy to get stuck in processes and routines. That makes partnership with a large corporation and a small startup very time consuming and energy wasting -- lost time and effort that does not lead to mutual beneficial business."
>
> ANDREAS NORDGREN. CEO OF MODCAM

Looking ahead with a new funding of 14,9 MSEK from the existing investors -- Robert Bosch Venture Capital, Spintop Ventures and a few private angels -- Modcam is now ready to expand its business in the US and enter new markets such as China.

GO-TO MARKET RESELLING STARTUP PRODUCTS

SHORT DESCRIPTION

The study shows that this model is appropriate for Business-to-Consumer (B2C) startups that are developing new, mostly hardware-based, consumer products. They need to discover ways to reach consumers and can benefit greatly from cooperation with a large global reseller. Arguably this should perhaps be called Corporate Innovation, since it is primarily about reselling, but it has

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proven to be very valuable for startups to be marketed and sold by a corporate in this way; it can mean global sales more or less instantaneously.

Corporates typically have many years of experience in manufacturing and a deep knowledge of quality and security requirements. This can be of tremendous value for a startup, which might have an innovate idea but lacks the necessary process competency. Another difficulty for new startups is financing production costs. The necessary funding is often a minor investment for a large corporate but very difficult to afford for a startup.

One very obvious value to startups here is recognition from a large retailer and access to their extensive international customer base – truly a fantastic opportunity for any hardware startup. However, to benefit from this opportunity the startup needs to be at the right stage in its development. It usually only gets one chance to launch in this way and, if their product does not meet the expected quality level, they will fall flat on their faces with little chance of recovery. There is also another downside risk to this approach: demand might be much greater than expected and if they cannot fulfill orders there will be problems both with the retailer and with consumers.

CORPORATE VALUE

For corporates choosing the Go-to-Market Reselling Startup Products model, the primary benefit is to be able to be first to hit the market with an innovative product. This brings direct commercial benefits since an innovative new product can be priced at a premium, generating valuable revenue. It can also attract customers who might then buy other products.

At the same time, it brings benefits to the brand and to the company's reputation. Having some innovative products on offer gives the impression that a company is very innovative even if the bulk of its products are more conventional. By associating with innovative startups, a corporate will also be recognized as a pioneer, making it easier to recruit new employees and to make deals with other startups.

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CORPORATE OFFER

As far as we can tell, this kind of cooperation is not yet very common, but it seems that both corporates and startups see high potential with this kind of cooperation. Since there is a lack of experience with working this way, there were in most cases no firm programs in place for this type of startup cooperation. Instead, we saw a strong commitment to success and a willingness to help out with whatever type of support that could be helpful on a more opportunistic approach.

SUPPORTING SERVICES & CORPORATE OFFER

- ☑ Business Development
- ☑ Marketing
- ☑ Mentors
- ☑ Access to Customers
- ☑ Access to Suppliers
- ☑ Access to Distributor
- ☑ Community
- ☑ Legal

CASE STUDY: GO-TO-MARKET RESELLING STARTUP PRODUCTS

MEDIA MARKT

Through a local initiative, Media Markt Sweden decided to approach some innovative startups and evaluate the Go-To-Market Reselling Products model in the Swedish market. This approach has proved to be very effective: identifying startups with new products and then helping them readying the product for retail in the company's stores, website and mobile app.

To begin with, the company asked how they could stay innovative in their marketplace. They saw that innovations were not just coming from the usual large companies; many were also coming from smaller players and especially startups, according to Sweden country manager and CPO Andreas Vogler. While many of these startups had innovative products they did not have a connection to end consumers – a missing link that Media Markt Sweden was able to provide.

Media Markt Sweden also realized that for a project like this to succeed it would need someone in management to protect, cover and defend it within the organization. They also understood that execution would be critical, to avoid problems with quality and service. Innovation might bring people into the stores and traffic to the online and mobile page, but poor quality would undo this advantage.

Through this Go-To-Market reselling approach , Media Markt can bring to market innovative products that cannot be bought from the usual suppliers, although not every startup is retail-ready. This is where Media Markt Sweden is able to help, providing all the technical support to

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make products ready to be placed on store shelves– helping with labeling requirements, certifications and other local regulations. While they need support, these startups also provide value to Media Markt Sweden by linking the company name with innovations. People might not immediately buy the innovative products but the fact that these products are on the shelves brings these people to Media Markt.

This type of cooperation also offers to the startups involved completely new opportunities for partnerships. Investors looking at a startup want evidence that the concept works and for a startup to be available through Media Markt Sweden is compelling proof that at least one major customer had confidence in the product.

By identifying innovative startups and helping them to market Media Markt Sweden has also moved into a new way of doing purchasing. Previously buyers would sit inside, waiting for suppliers to pitch new ideas. Now buyers have to go out, find the innovations and turn them into store-ready products.

> ”The value for Media Markt Sweden in working with startups is to have early access to great product ideas while building a long-term relationship to the entrepreneurs behind them. We see ourselves as a retailer driven by entrepreneurs, always looking for the next new thing. Innovation is part of our DNA. That’s why we like to connect with passionate young people running new startups, helping them to reach out to the people they would like to contact. We can open the door to end consumers. Tinitell is a good example where we had early contact with the founder to launch this product together in the Swedish market. This is a great product with passionate people behind it. Simply a great startup!”
>
> ANDREAS VOGLER, COUNTRY MANAGER SWEDEN, MEDIA MARKT

What Media Markt Sweden has learned from this cooperation with small startups is that sometimes large organizations need to understand that there are many small solutions that will change the way we live. Glue, a startup that makes an app-controlled smart door lock, is a great example because it is more than just a product. It solves the problem of how to let someone make a delivery at a property when there is nobody there. Because this solution is so appealing for delivery companies, Glue is not just selling to the end-user market; they also have partnerships with logistics companies like PostNord.

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Tahero Nori was the former Global Innovation Manager at Media Markt Sweden and the person that originally set up their cooperation with startups. He is now working as a close partner with Media Markt Sweden with his newly founded startup, Tech Buddy now rolled-out nationally in Sweden. Tech Buddy's idea is to provide service on-demand, said Nori, but they are also looking at "up-front" service, where the service comes before the product purchase. This is especially useful for markets like smart home equipment where most consumers need some help to decide what they might need to buy – a kind of virtual in-store shopper. Another concept being tested by Tech Buddy is the idea of a "Digital Driver's License", a kind of consumer tech training offered free to Media Markt Sweden's customers and delivered by Tech Buddy. The benefit for Media Markt Sweden is that a consumer who understands the technology is more likely to buy new products.

TINITELL

One of Media Markt's startup partners is Tinitell, creators of a wearable tracking and communication device that connects parents with their children. The idea originally came to Tinitell CEO Mats Horn in 2013 when he was at a friend's house for dinner. His friend did not feel comfortable about letting his child go out to play alone and unsupervised, so they stayed inside playing with their Ipad instead of being outside enjoying fresh air. This sparked the idea that there had to be a better way to stay connected with children without hindering them.

Mats then moved back to Sweden and started putting together a solution to this end. His target was to make a wearable device for children, which would be affordable, durable, and elegant, and combine voice communication with GPS location tracking. This device would be paired with an app in the parents' smartphone so that they would always know where the child was and be able to talk to him/her.

Tinitell initially launched using online sales in the U.S. and Europe, following a crowdfunding campaign. Through the retail partnership with Media Markt, they expanded sales into offline stores. Today, the company's main offices are in Stockholm where the company employs 25 people; they have another five employees working on R&D and production in Shenzen, China. Logistics for Europe is handled directly by the company in Sweden; logistics in the U.S. is handled by a local partner.

Tinitell 's devices are manufactured in China to keep costs competitive, but building this capability has been a slow process and required having people locally to select suppliers. Tinitell has changed supplier several times and uses its own resources and network in China to manage this demanding part of the activity.

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Tinitell's cooperation with Media Markt started when CEO Mats Horn had early contacts with Tahero Neri at MediaMarkt before they were ready for retail sales. With its interest in new and innovative products MediaMarkt was a great fit for Tinitell.

> "The collaboration with Media Markt has made a huge difference to us in terms of the way the brand is perceived, from a customer perspective it adds confidence to see our products in a physical store and gives an additional layer to the Tinitell offering. Furthermore, retailers in other countries are more likely to consider taking Tinitell into their product range once they have seen the success story from such a launch, and we have already had contact as a direct result of this. The opportunities opened up directly from this collaboration are far reaching, Media Markt has over 700 stores in 14 countries and if we get everything right then the potential for expansion within the MediaMarkt structure alone is huge – the pressure is on, but these make for exciting times here at Tinitell!"
>
> SEAN FARRER-SUNDBERG, BUSINESS DEVELOPMENT MANAGER, TINITELL

Launching the product together with Media Markt brought tremendous value to Tinitell. The learning curve for requirements was very steep but the partnership has given the company valuable experience. From Tinitell's point of view it was very useful to have MediaMarkt's experience and expertise guiding the launch. Media Markt was especially helpful with the launch campaign, including a Facebook campaign that made many people talk about the product. Through the partnership, MediaMarkt has a three-month period of exclusivity in stores, which could be extended. This does not affect online sales.

Along the way, there have been some challenges in the Tinitell project. As often happens the initial agreements were long and time-consuming to verify, but this was not a major issue for Tinitell. The main challenge was in production, where it was difficult to fulfill the high volume of orders when there were some delays in manufacturing but, as Farrar-Sundberg added "We are dealing with a hardware product and hardware is exactly what it sounds like: hard".

Tinitell announced in late October 2016 that they had obtained a 9MSEK investment from Optimizer Invest and a number of private angels. It is very likely that the relationship with Media Markt was instrumental in demonstrating the potential of Tinitell to these investors.

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ENGAGED CUSTOMER

SHORT DESCRIPTION

This type of cooperation is often not based on any well-defined startup program offered by the corporate. Instead it is an activity that is under the responsibility of the part of the corporate's organization that is focused on research, innovation and business development. In a typical setup, the corporate sponsors a proof-of-concept development initiative together with a startup. If this initiative is fruitful then the corporate invests more in the project, aiming either to use the startup's product internally or to take it to the market as part of their own offering.

In our research, we found this to be a very important form of cooperation since it is often quite successful for both parties. It provides the startup with an extremely valuable validation of their ideas and at the same time helps the corporate to test new and innovative ways to do business.

Startups that we have talked to have told us that they are often asked to do a first proof-of-concept free of charge. Our recommendation is that they should not agree to this. It is important to get some real commitment from the corporate to ensure their interest at the right level in the organization. Ideally, the initial proof-of-concept can be created or customized with a small effort, keeping costs low. Using an agile development approach will be essential to ensure success.

Provided that the initial proof-of-concept is well-received, the next step is to discuss the nature of the cooperation. At this stage, it is important to work through both short- and long-term scenarios of the cooperation to ensure that there are common goals and that these are well-defined and in writing. If the corporate invests in shares of the startup, there will be a bigger incentive for a joint agenda. However, this can also limit the market for the startup if it is perceived by rivals as being too close to the corporate.

Faced with this dilemma, startups have to ask themselves what the pros and cons are with having the corporate become an owner of the startup. Would this inhibit other clients or actually be a strong demonstrator of the value of and trust in the startup offering?

CORPORATE VALUE

In the Engaged Customer model the value for the corporate is that they can become the first in a segment to offer a specific new solution to their clients and be the first on the market to take advantage of a new technology. In this case the corporate benefits both by being perceived as an innovative company and in terms of financial results.

Often the corporate benefits in another, more indirect but extremely useful way:

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By working closely with startups in this way they learn best practices of the agile approach to business of the startups, absorbing the mindset and techniques. Adding this strength to their existing know-how and resources makes the corporate more competitive.

CORPORATE OFFER

When a corporate actually purchases a solution from a startup, this is normally a case-by-case cooperation. Our understanding is that there is normally a thorough proof-of-concept phase, but once the cooperation passes the initial phase and the corporate decides to invest in the startup's products or services, it is done with a high degree of commitment. The corporates working this way usually have a lot at stake and therefore a willingness to support the startup with many different types of services.

SUPPORTING SERVICES & CORPORATE OFFER

- ☑ Business Development
- ☑ Marketing
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- ☑ Access to Customers
- ☑ Access to Finance
- ☑ Access to Suppliers
- ☑ Access to Distributor
- ☑ Access to Partners
- ☑ Community

CASE STUDY: ENGAGED CUSTOMER

TELIA COMPANY

Telia has a good track record of cooperating with tech companies and has invested in successful startups like Spotify. Though the company did not really have a formal startup program, they have invested in startups and when they invest they take responsibility and really work to ensure it becomes a successful investment.

A good example of this is the arrangement with Springworks, a member of Telia's IoT partner program, which was really more focused on larger partners like Ericsson. Springworks had been pitching to different telecom operators in Europe but had not yet contacted Telia. Once they started a dialogue with insurance company Folksam and gained some traction there, they showed up on Telia's radar and discussions started.

Springworks has developed a connected car platform called Spark that connects mobile operators with service providers. By enabling in-car data services, Springworks creates a new ecosystem for revenue generation in connected cars.

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Springworks brought their innovative product concept to the partnership. On their side, Telia was able to bring their knowledge and experience in market analysis, how to scale the solution to be ready for the mass market and manage security aspects. Using this know-how, Telia performed extensive market research to ensure that the solution being built was actually something that car owners would be interested in buying. Telia then got back to Springworks to share their findings and discuss necessary adjustments to secure an offering that was on target for what the market wanted.

Telia has learned a great deal by cooperating with startups. Jens-Peter Meesenburg, who manages some of the company's startup cooperation projects, explained that when a startup first comes to Telia with their ideas, it can take some time for Telia to work out how much that actually already exists and how much that is just at a concept stage. They have had to learn to ask more questions to find out what is really there.

Telia's work with Springworks has been a bit like the two sides of "Crossing the Chasm", explained Meesenburg. On one side there is the visionary and agile Springworks, and on the other side there is Telia. Telia is perhaps a bit slower but brings mass market reach and know-how in privacy, security, maintenance and scaling – all things that a company needs when it aims at a mass market.

Telia's research inputs guided the tone of voice that Springworks would use. Customers surveyed by Telia did not like the voice of the prototype and preferred a cold, Scandinavian voice. Telia had the resources and experience to conduct in-depth surveys like this.

Cooperation between two very different companies is never easy and there was some bridge building needed between the two sides. Both companies needed to understand how to leverage the strengths of the other side. Telia has plenty of legal people, quality processes and experts in program management. While Springworks operated with agile program management with short time spans – sprints of two weeks -- Telia has a more complicated style. In the end the two companies met somewhere in the middle, said Meesenburg.

New businesses like Springworks are allocated to Division X, a new business separate from the traditional divisions. This approach makes it easier for Telia to invest in startups. The company has a 30% stake in Springworks, which is a deliberate choice and is part of the company's focused go-to market approach. Telia's startup operation is not an incubator; they tend to choose a startup and go all in, rather than supporting a large number of startups, some of which might not lead to a product. This investment and the early announcement of the Telia/Springworks partnership ensured that Telia would be committed to the project.

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Rather than joint development, in the Springworks project, Telia is essentially buying a platform as a service. “You could call us an engaged customer”, said Meesenburg. But there were some areas where Telia helped, such as project management of all involved parties. Short sprints and being very agile is very good when you are working on your own but when there are many partners involved it can become difficult. This is why Telia hired an external project manager to run the overall project, governing the deliveries from all parties ranging from hardware to Ericsson Device Connection Platform as well as internal Telia deliveries . This was one of the key learnings from the project.

> ”The combination of Springworks and Telia has been fantastic and very dynamic. If it was easy anyone could do it, but it is not, and it is where different people meet that you can leverage values from both sides.”
>
> JENS-PETER MEESENBURG, DIRECTOR, HEAD OF INDUSTRY VERTICALS, GLOBAL IOT AT DIVISION X - TELIA COMPANY

Cooperating with a startup like Springworks has been valuable for Telia because it allowed them to do things differently. It is not the platform that is unique, said Meesenburg, but Springworks has a great team. If Telia had to do it on their own they would be too big, and not hungry enough. On the other hand, perhaps Springworks could not have brought it to market on their own without someone helping with scaling and customer research.

SPRINGWORKS

Springworks is an IoT startup that was founded in 2010 by Erik Ramberg, Kristofer Sommestad, Jonas Jepson, Thomas Ericson and Mikael Printz. Springworks provides mobile operators with an opportunity to master the connected car ecosystem. It gives them a position higher up in the value chain, with sustainable revenues from selling smart data to service providers such as repair shops or insurance companies. At the same time, it also provides car owners with a new way to facilitate the ownership of their cars.

Initially, Springworks was created as a consulting company with the goal of determining what the market really needed. As a result of this approach, they were able to design their startup in an engineered and better way. In discussions with clients they realized that everyone had problems related to car ownership. They discovered, for example, that nobody likes to refuel their car, which

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made them think about how you might provide fuel as a service, said co-founder and CEO Erik Ramberg. At that point in time, the Springworks team decided that telecom operators would be the best partners in this market because they are big enough to bring volumes, car owners trust them dealing with their data and service providers trust them with creating a fair and open ecosystem.

Springworks's first client is Telia (for the Nordic and Baltic markets) and they use the Ericsson Device Connection Platform for connectivity and SIM-card management. Each client/car means one more SIM card, so Springworks's solution means that millions of SIM cards will be activated over a period of time.

There are already many concrete applications planned for this platform and some are in fact already deployed. Springworks is also working with insurance companies to make insurance solutions that are based on the actual behavior of an individual driver, so-called usage-based insurance (UBI), rather than making assumptions based on age, gender, postcode and so on.

With the Springworks solution, insurance companies will be able to personalize insurance. At the same time, this approach provides every driver with an economic incentive to drive more safely – drivers slowing down to cut the cost of insurance will also save lives. If drivers were to slow down just 3km/h on average up to 40 Swedish lives might be saved each year, according to Folksam. At the same time, this also benefits the environment. This service first went live in November 2016.

> "The collaboration with Telia has been very valuable. They have helped secure that our solution would get market acceptance and is a great first proof point of the kind of solutions our white label Software-as-a-Service platform provides"
>
> ERIK RAMBERG, CEO OF SPRINGWORKS

Springworks will earn revenue from this kind of application by sharing part of the mobile operator's revenue. The company is working with other mobile operators in other markets but for the Nordics and Baltic region, Telia is the exclusive mobile partner.

Reflecting on the success of the Springworks product, Ramberg has some advice for other startups. It is not enough to have a good product, he said, you need to be able to make someone a

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hero in a big corporation to succeed. Before taking on any project, you also need to ask yourself if it will help your hero to climb higher. You also need to go "all in" and trust that you are the expert in your field.

When negotiating with a corporate it is better to get to a "no" and move on to the next one rather than struggling to make the cooperation work when you are between yes and no.

He also had some advice for corporates thinking of partnering with startups. Big companies need to wake up and realize that there is a big train coming, a train that you cannot afford to miss. The car manufacturing industry has looked essentially the same for decades and then came Tesla and disrupted everything. Corporates will have to create an environment where it is ok to fail, he concluded.

CORPORATE VENTURING

SHORT DESCRIPTION

When a large corporate takes an equity stake or enters a joint venture agreement with a startup or scaleup, this is called corporate venturing. There can be several objectives, but the primary ones are to gain a specific competitive advantage and secure control of potentially disruptive innovations in the investing company's business domain.

This type of cooperation is increasing in all business domains and across all geographies. According to the April 2016 BCG report "Corporate Ventures in Sweden", around 20% of Sweden's top 50 companies have a Corporate Venturing setup compared to 33-40% among the Fortune global top 500 companies in the period since 2012.

Corporates that we have interviewed all seem to agree that the best investments are those that have been identified from the start as interesting to one of the company's business units. Many corporate venture setups initially started allowing in principle any financial investments with high ROI potential, but in several cases, we have seen that in the end they are restricting the investments to only related business offerings.

CORPORATE VALUE

For the Corporate Venturing model, one of the main values for corporates lies in the growth it enables into markets and niches that they are not already covering with their existing activities, thereby increasing overall market share. By working with a leading startup in these fields, the corporate can grow business in new areas much more rapidly.

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Though it is usually not the primary reason for corporate venturing, it will often provide some return on equity investment. The metric chosen to evaluate performance will reflect this.

Corporate venturing also brings a greater visibility of coming trends and disruptions. In the process of identifying and selecting startups, the corporate will also encounter many other companies and gain a closer understanding of the state of merging innovations.

CORPORATE OFFER

Corporate Venturing is another type of cooperation that can be very flexible and where the corporates can provide support in more or less all dimensions depending on the partnership phase, structure and need. In some cases, we have seen that the only support that is being provided is the access to finance, but in others, more or less all of the below are being offered.

SUPPORTING SERVICES & CORPORATE OFFER

- ☑ Business Development
- ☑ Marketing
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- ☑ Access to Customers
- ☑ Access to Finance
- ☑ Access to Distributor
- ☑ Access to Partners
- ☑ Community
- ☑ Recruiting
- ☑ Legal

CASE STUDY: CORPORATE VENTURING

VOLVO GROUP VENTURE CAPITAL

Volvo Group Venture Capital AB (VGVC) was founded in 1997 as Volvo Group's corporate investment company. The role of Volvo Group Venture Capital is to drive new business growth by identifying and initiating partnerships with innovative companies, which participate in the transformation of the transportation industry.

To identify new partnerships, the company cooperates with an extensive global network of entrepreneurs and investors. While analyzing opportunities, they look at the company's potential and how the assets can be combined with the capabilities of the Volvo Group to deliver better solutions to the customers. For the evaluation process, they work in close cooperation with the relevant commercial and engineering teams within the Volvo Group as well as with external partners. They look for passionate management teams sharing a vision of how the partnership can create customer value.

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The investment focus is on areas in which technology-based innovation results in new solutions that improves the profitability of the customers and enable new business opportunities for the Volvo Group.

One of the startups in the Volvo Group Venture Capital portfolio is Steelwrist, a Swedish manufacturer of attachments for excavators that allow the operator to rotate, tilt and switch buckets very easily using a joystick control, thus boosting productivity. The investment came in 2009 and initially the idea came from Volvo Group's own engineering team. They needed to have a tiltrotator and quick coupler to offer as a factory fit for new excavators and as an accessory through dealers.

> "Our partnership approach for collaboration with startups has given us a powerful capability to bring new, innovative solutions to our customers, increased our speed of learning and enabled more efficient use of our resources."
>
> ANNA WESTERBERG, PRESIDENT OF VOLVO GROUP VENTURE CAPITAL

STEELWRIST

Steelwrist develops, manufactures and sells tiltrotators, quick couplers, accessories and attachments for excavators. A tiltrotator is best described as the wrist of the human hand, but for an excavator. They are one of the three tiltrotator manufacturers, all of them Swedish, that control the world market. Steelwrist's goal is to be the "best in the world" in developing, manufacturing and selling equipment that increases the efficiency of excavators. Today, Steelwrist has approximately 75 employees, of which 60 are based in Sweden. The company is currently headquartered in Sweden, and has employees in France, Norway, Germany, Finland, the U.K., Benelux. They are also opening offices in the U.S.

Steelwrist was founded in 2005 and has enjoyed steady growth since then. The whole market froze in the fourth quarter of 2008 following the financial crisis initiated by Lehman Brothers's bankruptcy. This was an extremely tough period for companies all over the world and being a quite young company, Steelwrist also struggled. It is fair to say that the preferred supplier agreement signed with Volvo Construction Equipment saved the company and created the conditions to consolidate operations and build a new production plant in Sweden. Later on, when VGVC acquired a minority stake in the company, this provided Steelwrist with a good and safe foundation for growth.

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For Steelwrist, one of the key benefits of this kind of cooperation, has been taking advantage of Volvo's global sales channels, a very attractive plus for a company aiming to expand into new export markets. Steelwrist's business is based on a healthy balance of a combination of Volvo factory fit and resale via Volvo dealers and other customers. Steelwrist has deliberately worked on not becoming solely dependent on one client but instead to grow with revenue flows from many different clients.

Being closely linked with just one customer can have a negative impact on negotiation with other customers. VGVC has a minority stake in Steelwrist and some customers misunderstand this to mean that the Volvo Group controls Steelwrist, which is not the case. This can make it easier for Steelwrist's competitors to sell to rival excavator makers.

To a certain extent the problem also lies in the way purchasing managers view the relationship between the excavator and products like tiltrotators. To some people, the tiltrotator is just part of the excavator and comes as part of the machine; for others the two products are separate and they would expect to choose them independently – much like people used to buy a new car then choose their own stereo to be fitted, often being influenced in their choice by factors like brand loyalty. This approach is almost entirely replaced with factory-fitted stereos chosen by the car manufacturers. In the same way when vehicle manufacturers supply new machines with the tiltrotator as standard, this is changing the way buyers view the product.

Another challenge that Steelwrist encountered is the common problem of finding the right person to talk to within Volvo Construction Equipment, even with the help of their contacts at VGVC. This reflects a typical large-company scenario where finding the right contacts is sometimes difficult for insiders too. But overall, the impression of Steelwrist is that while the journey has been tough, the two companies have an excellent relationship. Volvo Construction Equipment was looking for a partner that was flexible, agile and fast, which is exactly what they found in Steelwrist.

Tilt rotators are very popular in Sweden where they were first invented and where there are about 2000 excavators sold annually. Today, more than 90% are equipped with tiltrotators and, in a developed market like Sweden, it is in fact not possible to get a job if the excavator does not have a tiltrotator mounted. Comparing this to a greenfield market like the U.S., where more than 50,000 excavators are sold annually, less than 1% have tilt rotators today, which means that this is potentially a source of disruptive growth.

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"All the structural capital decisions we have ever taken, like way of working with CRM-, ERP-, CAD-, CAM-, Quality-, Environment- and other data management – systems have always aimed at Steelwrist becoming a large company, yet with the flexibility of a smaller company. Working close to the Volvo Group has allowed us to move in this direction faster than we would otherwise have been able to achieve."

STEFAN STOCKHAUS, CEO AND CO-FOUNDER OF STEELWRIST

CORPORATE INCUBATOR/ACCELERATOR

SHORT DESCRIPTION

We have grouped Corporate Incubators and Accelerators together into the last category of the different types of cooperation between corporates and startups. They are similar yet not synonymous.

Both accelerators and incubators offer startups and scaleups good opportunities at an early stage. Founders get help quickly to build a solid foundation for their business and both incubators and accelerators often improve the startups' chances of attracting a top VC company to invest in their company at a later stage. But they use different frameworks to help startups to succeed.

Accelerators focus on the growth of an existing company, while incubators – as the name suggests – "incubate" disruptive ideas with the hope of building out a business model and company. Simply put, accelerators focus on scaling a business while incubators are usually more focused on innovation.

The maturity of the startups differs and mentors supporting the startups need different competencies.

CORPORATE VALUE

In the corporate incubator/accelerator model, the value for the corporate lies in the improved capability for developing innovative ideas internally. It also leads to the development of minimal viable products that could be the foundation for future commercial products or services.

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An added benefit is that working with startups in these kinds of environments tends to inspire new ideas in a corporate. These ideas might be about how to potentially disrupt current ways of working and possible also to find smart ways to solve other problems in the company.

Having an incubator/accelerator also attracts employees with a more entrepreneurial spirit to the company and contributes to developing "intrapreneurs", that is entrepreneurs within the company. In addition, it can be useful to test startup-like environments.

CORPORATE OFFER

Corporate incubators and accelerators differ a lot depending on the corporate but also in nature. Accelerators often add marketing, access to customers, access to finance, access to partners in addition to services that traditional incubators offer. The below shows the most common types of supporting services that we have seen in these kinds of environments:

SUPPORTING SERVICES & CORPORATE OFFER

- ☑ Business Development
- ☑ Consulting & Technical KnowHow
- ☑ Marketing
- ☑ Mentors
- ☑ Access to Customers
- ☑ Access to Distributor
- ☑ Access to Partners
- ☑ Community
- ☑ Co-working Space

CASE STUDY: CORPORATE INCUBATOR/ACCELERATOR

ERICSSON GARAGE

Ericsson Research created the Ericsson Garage concept in January 2014, initially as an internal technology and knowledge incubator. It opened it up to external companies and startups in April 2016. By creating the Ericsson Garage, the company's goal was to create a platform for building communities, rather than just another corporate incubator, according to Sandor Albrecht, director at Ericsson Research and head of Ericsson Garage. For this reason, the Ericsson Garage is not a single physical space where startups rent space. Instead it has physical spaces in Silicon Valley in the U.S., Montreal and Ottawa in Canada, Lindholmen and Stockholm in Sweden, Aachen in Germany, Paris in France, Budapest in Hungary and Zagreb in Croatia.

When it was first created in 2014, Ericsson Garage was an internal incubator with a single location in Kista on the outskirts of Stockholm. At that time when an internal incubation project was approved the project members were invited to move to the physical Ericsson Garage space,

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though there is no requirement to be located there. The facility is a flexible work space with many possibilities for project members to organize their work efficiently for the lifetime of the project, usually three to nine months. Project members not working in Kista can be part of the project by using the Virtual Garage tool. This tool connects members of distributed teams with permanent video conference links, persistent chats, screen sharing and other collaborative tools.

An Ericsson Garage project has three requirements: It must firstly solve a real problem –a pain point – secondly have a partner verify the pain point and finally define a minimum viable product. This means that the Ericsson Garage is focused on early stage ideas and startups.

What Ericsson Garage primarily offers to startups is access to the global reach of Ericsson, helping with go-to-market and verifying business plans in up to 180 countries. Because of this focus on early stage startups, it acts more like a sandbox than as a traditional incubator. Ericsson does not take an equity stake, it will not charge for rent and startups that are accepted are not required to be physically present and are left to get on with their work with minimal supervision. A project non-disclosure agreement (NDA) and contract is signed between Ericsson and the startup to define the minimum viable product (MVP) and activities, and clarify the ownership of intellectual property rights (IPRs).

When a startup is about to exit the Garage, Ericsson discusses with the startup what the two companies could do together and whether it would makes sense for Ericsson to invest in it. At the same time, Ericsson Garage can introduce the existing startup to Ericsson's M&A department, although they are usually dealing with more mature companies. Through the Ericsson Garage platform, Ericsson Research is also creating a community or network of companies that can help one another even if they are not part of the startup program.

At Ericsson Garage, the focus is on bringing small startups into the Ericsson eco-system. Most of these startups do not primarily need money to succeed; what they really need instead is the right product and the right customers. Through the Ericsson Garage platform, they get help with finding these customers through the global reach of the Ericsson group, boosting their incubation before they look for a bigger investment.

Ericsson Garage discovers some startups through partnerships. Ericsson Garage became a networking partner of THINGS in Stockholm, officially sponsors UC Berkeley Skyjack and similar partnerships are being discussed with Chalmers Ventures and KTH Innovation. One of the ways Ericsson Garage chooses startups is through reverse pitching, whereby they invite startups at partners like THINGS to pitch on a topic of strategic interest to Ericsson.

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One thing that the company has learned with Ericsson Garage is that the company should be more humble, explained Albrecht. Ericsson is known to be a very innovative company in its core businesses but is not known for activities in the startup community. This is a different world, he said, where it is no longer the big fish that eats the little fish but the fast fish that eats the slow fish. To succeed, Ericsson continues to look for ways to become even more agile and flexible, and this is where Ericsson Garage comes into play.

Through the Ericsson Garage platform, the company has created both a framework to foster innovation and a mechanism for connecting startups, which can often become partners and customers of each other. The company is doing this to learn as much as possible about emerging technologies and products. At the same time the company identifies potentially valuable talent that they might need to acquire and builds a new brand in the field of innovation. A challenge for all big corporates including Ericsson is to identify what the next big things will be, and by tapping into the Ericsson Garage community Ericsson is more likely to find them.

The first Ericsson Garage project, "Streamr", – started in February of 2014, and addressed a need from Universal Music to offer concert goers the ability to share their experience of an event. Using the Streamr app users can stream video that can be viewed by friends somewhere else in the venue, and the organizers may display it on a big screen. In addition, more information about the tunes that are being played, merchandise and other events can be shared. The outcome of this project was handed over to one of Ericsson's business units, now responsible for making the commercial offering for the solution.

IMAGIMOB

One of the first of the external startups at Ericsson Garage is Imagimob. Imagimob was founded by Tony Hartley, Alexander Samuelsson and Anders Hardebring. Imagimob's Motion Intelligence Products can help product development companies make their products and services better and smarter. Motion Intelligence is the artificial intelligence (AI) technology that understands the motion of things and people. It has the potential to become one of the key drivers in the development of new products and services based on IoT and AI.

The company met Ericsson Garage at the STHLM TECH Fest in 2016. At this event, the Imagimob staff saw some Ericsson Garage demos that impressed them and they set up a meeting at Ericsson's Kista location. The combination of Ericsson Garage and Imagimob seemed to be a perfect match, noted Anders Hardebring, CEO and Co-founder, with good chemistry and the feeling on both sides that this cooperation was worth pursuing.

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Soon after the first meeting the two companies started to discuss joint marketing and speaking opportunities, including a quick decision for Ericsson and Imagimob to make a presentation together at the TMForum in Nice. This opportunity gave Imagimob access to Ericsson resources to boost their visibility and at the same time aligned with Ericsson's goal to build relationships with small innovative startups. This visibility has also opened doors for Imagimob at other companies like Husqvarna, where they are currently discussing a joint opportunity.

Imagimob sees value in engaging with Ericsson for a number of reasons. First of all, this cooperation gives Imagimob access to Ericsson's customers and markets. It also gives Imagimob additional credibility – to be able to go on stage with Ericsson as a partner is fantastic for a small startup, Hardebring noted. Additionally, Imagimob sees value in Ericsson's validation of their technology, although they take a different approach, and in the possibility of scaling knowledge. Today, the Imagimob software runs on a Windows machine but when it becomes available as a cloud service it will scale in interesting ways. Finally, Imagimob sees the presence of Ericsson Garage in other countries as a valuable opportunity. This could be especially useful in Silicon Valley where it would provide both office space and an opportunity to meet Ericsson customers and perhaps even some investors.

> "We believe that if we can leverage on Ericsson's technical and market leadership and global reach, it could prove to be a very valuable partnership for Imagimob."
>
> ANDERS HARDEBRING, CEO, IMAGIMOB

This cooperation between Imagimob and Ericsson Garage has only started recently so it is too early to comment on the actual value, but they have already agreed on joint speaking opportunities. There are also plans for joint development in the area of narrowband IoT (NB-IoT) devices and applications in the future. Once again this project is effectively an endorsement from a trusted partner that will help open doors when Imagimob approaches new clients in addition to helping them develop and scale their ideas.

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TOP TAKE AWAYS FROM THIS CHAPTER

1. There are many different models for cooperation that a corporate can choose. Some companies use just one while others choose several in parallel.
2. Which model you use depends on the ecosystem of your business, your corporate goals and the needs of the startups.
3. Communication between the startup initiative and the rest of the company is one weak point that should be addressed.

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CHALLENGES

Any cooperation between corporates and startups is intrinsically difficult because of the difference in size. This brings differences in management and communication style as well as an inevitable imbalance of power. There will be many difficulties even when both partners are fully committed. Success will only come when the two partners trust each other and when there is a solution which is beneficial for both parties – the win-win.

There are also some general issues where the differing perspectives of corporates and startups cause conflicts. One startup CEO pointed out that startups and corporates have very different priorities. To startups, the top priority is to build a proof of concept as quickly as possible. Employees of corporates are, on the other hand, often more focused on their career rather than a specific project. Because of this they tend to avoid risky decisions that could impact their career path. Not having a traditional career at stake, a startup founder can take greater risks to ensure the success of the proof of concept. In contrast, fear of failure can undermine the motivation of the corporate people working on the project. Having both kinds of people working together on the same project can be challenging.

Workplace culture differences can have a big impact as corporate investors expect a seat on the board of any startup in which they have a stake. This means that on the board of the startup there will be someone who will be reluctant to take decisions that might affect their career negatively. This can be frustrating for startup founders who are willing to take risks to achieve their ambitious goals.

There are also many other specific challenges for cooperation between corporates and startups. Through our research we identified a number of barriers and collected data on the ones that were perceived as more serious.

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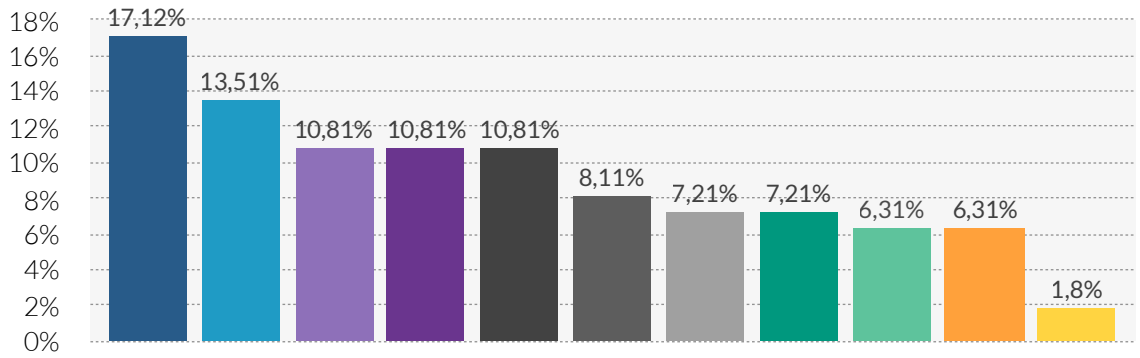
Based on a questionnaire to corporate representatives, we found that corporates identify the following barriers to successful cooperation with startups:

BIGGEST BARRIERS FOR CORPORATES TO SUCCESSFULLY COOPERATE WITH STARTUPS



- We have too much else to do that is more urgent
- Our company is not agile enough
- Their solutions do not scale
- There is no budget for startup cooperation
- This is not viewed as a top priority by our top management
- Startups are too naive and don't understand the complexity of large corporations
- Startups do not understand our processes
- The risk is too high
- There is no room for failure in our company
- We have trouble finding good enough startups to cooperate with
- Lack of trust

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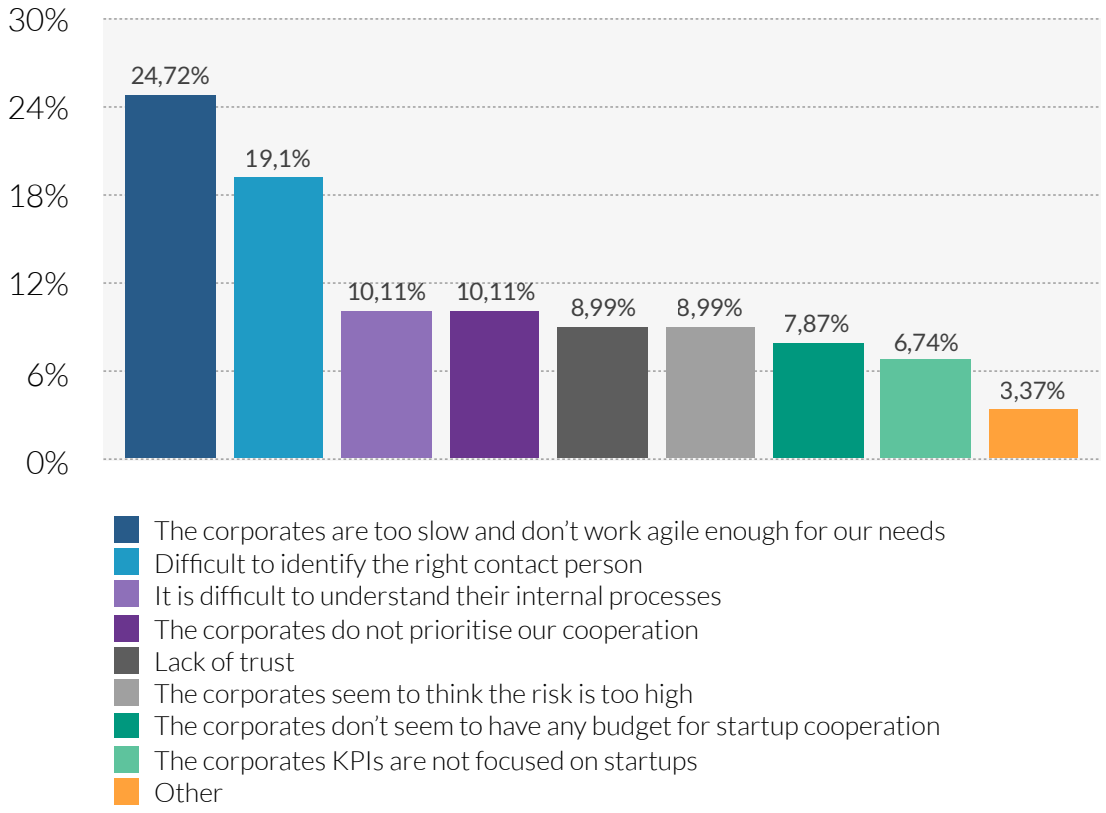
Asking startups the same questions revealed that they perceive the following barriers to be most serious:

BIGGEST BARRIERS FOR STARTUPS TO SUCCESSFULLY COOPERATE WITH CORPORATES



Corporates are not used to cooperate with startups resulting in cooperation agreements being heavy and complicated. The negotiation of terms and conditions slows down or even inhibits cooperation.

Both sides point to a lack of trust, generally aggravated by poor communication and problems in understanding the viewpoint of the partner. These issues can usually be addressed by educating employees and by promoting a culture of cooperation on both sides. For corporates, this will mean creating programs to cultivate both an entrepreneurial mindset and a learning culture, whereby corporates can learn from the startup approach.

At a more fundamental level, corporates often find the risk management side of cooperation one of the most serious challenges. While problems of communication can be addressed relatively

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simply, perception of risk is linked to the different strengths of corporates and startups. Corporates excel at incremental innovation with existing technology but they tend to push back on disruptive innovations that undermine this advantage. This problem is often aggravated by the fear of failure that prevails in corporates.

Another issue identified on both sides is cost. Corporates sometimes perceive startup development as more expensive than in-house R&D. In addition, the real problem can be that there is no budget regardless of the cost.

In conversations with startups we also heard many times that it is difficult to identify whom to talk to within corporates. Even when that problem is solved, there are other issues related to paperwork and bureaucracy; corporates have the resources to work on these but startups find it overwhelming. Very often a startup is open to starting cooperation but just does not know who to contact or they are afraid of initiating something that they feel could take too much of their time.

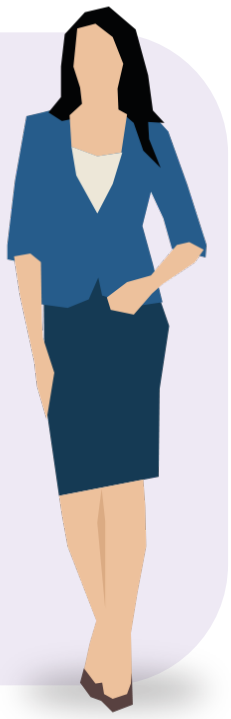
Among those who had already started cooperation another common concern is the way corporate metrics are often inappropriate for measuring startup initiatives. Key performance indicators (KPIs) are clearly needed but they need to focus more on the longer term.

THE LAWYER'S PERSPECTIVE

Be focused on the core objectives in the negotiation with the stakeholders to reach an agreement to explore a cooperation early on. Do not waste time. Define few, clear objectives and focus only on securing the top management's acceptance. Do not wait on the corporate's lawyers to weigh in on the agreement language before you agree with the business management on the principles of the deal. Use the momentum. Often crucial items of discussion are outcome, ownership and usage rights, allocation of costs and marketing.

Business Managers, or Managing Partners have influence inside corporations, while the **Founders** decides in startups. If you have anyone else prospecting the cooperation, treat them with respect, but insist on developing a direct relationship with the person in charge of the decisions.

BY SOFIA EDVARDSEN, PARTNER AT SHARP COOKIE ADVISORS



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TOP TAKE AWAYS FROM THIS CHAPTER

1. There are many challenges in the cooperation between corporates and startups because of the difference in size and mindset.
2. Corporates tend to be more risk averse than their startup partners, which can frustrate startup people.
3. Communication is often an issue and requires both special approaches and training for corporate employees.

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GETTING STARTED WITH STARTUPS

So far we have discussed why corporates should be cooperating with startups and the different ways in which this can be accomplished. But how can a corporate that is new to this approach get started? Concretely what are the required steps?

DEFINE OBJECTIVES

Corporates need to identify their real business needs driving the cooperation initiative and they need to communicate these goals effectively to all stakeholders in the organization to ensure that there is no misunderstanding or confusion. Defining goals is also critical to structure the cooperation initiative in the best possible way. As we have seen in earlier chapters, there are many different ways to approach cooperation and usually the choice is conditioned by the objectives that the corporate sets. By using the objectives as a starting point for designing the program you are more likely to deliver the results and value that you have defined at the start.

"Vision without action is a daydream. Action without vision is a nightmare," is a Japanese proverb that fits here as well as with all other initiatives to introduce new ways of working at a company.

These clearly defined and agreed goals are often business goals, such as acquiring new technology or disruptive new approaches to problems, but it might also be goal about branding and public relations. A retailer might choose to partner with innovative startups because their products make the retailer's offer look more impressive, or a long-established engineering company might partner with startups to change the way that the company is perceived by potential employees. Whatever the goals are, they should be clearly defined and articulated from the start.

TOP MANAGEMENT COMMITMENT

As with most change initiatives, if you don't have top management support, it is not worth embarking on this effort. The best approach is usually to share clear evidence of benefits associated with the cooperation and risks of not doing it. It can be helpful to present some compelling case studies from competitors.

Once the buy-in is achieved, ensure that it is communicated effectively in the organization, with a clarity of purpose; this will help ensure everyone pulls in the same direction.

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Where it is not possible to get top management buy-in in your organization, your best bet might be to start off with a small-scale pilot, communicate results, iterate and then scaleup. Don't give up!

EVANGELIZE

Once the objectives of the cooperation have been clarified, the next step should be to evangelize the initiative internally by sharing the goals of the startup program, a proposed roadmap and how it will be organized. In this phase, we recommend identifying the pros and cons of each proposal so that it can be evaluated objectively.

On the plus side, cooperation with a startup can lead to the earlier detection and access to disruptive technologies, services and products that can help a corporate expand into new areas of business or to stay competitive in existing markets. This can grow market share and increase shareholder value. There are also benefits in brand reputation for stakeholders like customers, employees and partners. This is because the corporate partnering with a startup is more likely to be viewed as an innovator and leader in its market, helping it to attract top talent. Working with startups also has the positive effect of inspiring corporate employees to consider agile and lean approaches to business, approaches that are common in the startup community but still new to most corporates. Mastering these methods makes corporates more capable of adapting to fast-shifting markets.

On the negative side, cooperating with startups does introduce new risks. A startup might be more agile but the failure rate is higher, bringing with it the risk of damage to a company's reputation. There is also a real risk that, by encouraging disruptive ideas, you undermine existing products without having any replacement ready yet. In many cases, there are also high short-term costs with no immediate return – and sometimes no return at all.

Do the pros outweigh the cons? In many cases the answer is yes but, in any case, the worst choice would be to not take the risk because the downside of ignoring disruption is to be made irrelevant. The real question is if you can afford to not take the risk because the winners of tomorrow are the corporates that disrupted themselves while those that ignored disruption until it was too late failed to survive.

ENGAGE MANAGEMENT

Once objectives have been clarified and evangelized, the next step in getting started with a cooperation project is to engage senior management and get their support. Without this

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commitment, it is too risky to start any cooperation. Obtaining this commitment is usually a matter of presenting clear evidence of the benefits that the cooperation will bring, preferably with case studies from other companies in a related business area, which have been successful in making the cooperation work.

Once you obtain top management commitment, the next step is to ensure that this is shared throughout the organization so that everyone involved in the project will be aligned and working towards the same goals. If this does not happen and management is not willing to commit to the project, the best alternative is to start with a small-scale pilot under their radar. This pilot can be used to demonstrate positive results. Then you can use those results as a lever to convince management that this is the right road to take. Beginning with a small project, you can build on initial success to attempt a succession of more complex projects, communicating positive results each time until management has seen enough evidence to commit to the initiative.

BECOME A STARTUP MAGNET

Ask any startup founder what sort of partner they are looking for and they all have a very clear idea of the companies they dream of partnering with. Sometimes their ideal partner is a corporate that has already been involved in a similar partnership in the past but sometimes the preferred partner is chosen simply because of its size and position in the market. Startups interested in specific markets tend to look at market leaders, or at least the companies that have access to key markets, partners or suppliers. These corporates can be especially helpful to startups because they can bring large business deals, which is one of the best ways to increase the value of a startup. Sometimes startups could also be looking for a partner with critical market know-how, as often happens in fields like Life Sciences, where dealing with regulatory issues is a major obstacle for disruptors but just routine business for the established businesses.

Clearly the corporates that have these benefits will tend to attract startups, but any corporate can become a 'startup magnet' also by the way it behaves with startups and in the startup community. The steps needed to achieve this can be listed in just a few lines but they are sometimes easier to say than to do.

First of all, the aspiring startup magnet should have an easily-identified startup manager. It should also have a reputation for being fair in dealings with startups, streamlining agreements and processes. In addition it also helps if they are visible in the startup community, sponsoring events and spreading news about their cooperations.

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In the following sections, we will describe some of the ways that will help your organisation become more successful in attracting the best startups.

IDENTIFY A STARTUP MANAGER

Many of the startups we interviewed during our research noted that it is often very difficult to find out who to contact in a large corporate to start discussing cooperation. Employees in the same corporates often agree, not knowing themselves who would be the person to contact in their own organization.

More than three quarters of the corporates in Sweden that we interviewed say that they cooperate with startups today but less than a quarter have any employee that can be described as a "startup manager" – a single point of contact for initiating startup projects. Clearly there is a need for this type of position and we recommend strongly that any corporate intending to work with startups identifies an individual who will have this responsibility, fielding contacts from the startup community and directing specific requests to other parts of the organization, while retaining ownership and monitoring the activity to ensure that the ball is not dropped as it passes from department to department.

CREATING A STARTUP TEAM

Examining successful startup programs, it is clear that another factor, common to all of them, is that they have not only a clearly defined startup manager but also suitable staff to work with this manager on the day-to-day running of the startup cooperation project. People working in this team should have a solid understanding of the corporate's strategy and processes combined with a good understanding of the startup community. They should also have a strong network, both internally and externally, to bring in outside help when needed. Ideally, all people on the team should have some experience working *at* a startup, or at least working *with* startups, so that they can understand their position and be able to deal with a faster, more agile way of doing business.

IDENTIFY PROOF OF CONCEPT OPPORTUNITIES

One of the key functions of a corporate startup manager is to identify the real opportunities within the corporate's business units, where a disruptive innovation could bring real value to the company. It is not enough to just cooperate with startups; this cooperation has to lead to an end result that is aligned with the goals of the organization and to do that the startup manager needs to have a clear understanding of the needs and opportunities for each business unit, identifying those where a startup partnership could be the answer.

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To identify these opportunities the startup manager needs to work closely with business units to learn about their needs, but the payoff is that it becomes much easier to “sell” the startup solution to a business unit that can see a direct value of that solution. To identify these opportunities the startup manager should work closely with business units to learn about their needs. The payoff is that it becomes much easier to 'sell' a startup solution to a business unit where there is a fit and the mutual value for both the startup and the corporation has so much greater potential.

DEVELOP AGREEMENTS FOR STARTUPS COOPERATION

If your organization is serious about working with startups and truly wants this cooperation to work, you will have to develop agreements that do not kill all the excitement before you had even started. You need to ensure that your legal department understands the nature of this cooperation and develops templates that are fit for purpose. Do not use other existing partnership documents that have been drafted for similar big corporations.

DEVELOP FUNCTIONAL LEGAL SUPPORT

If your organization is serious about working with startups and wants cooperation to work out, you should develop a culture of cooperation across company sectors that do not kill the excitement or reduces the idea to a shadow of its potential. Remember that there are risks associated with not innovating. Not doing anything is a risk too. You need to ensure that your business and legal department understand the nature of this cooperation and take part in the conversation early.

The opportunity lies in cooperation that includes the final approvers, embedding legal teams in the design and innovation process. Successful companies such as Facebook, Google and Goldman Sachs have their cooperation task force with competence from legal, compliance, employment, technology, tech risk and record retention.

The partners should refrain from using any existing partnership documents intended for large scale industrial cooperation. Focus on the issues that matter to you now. Depending on the nature of your business and the venture at hand, contemplate using simpler consultancy agreements in the early phase instead of the rigorous license agreements.

FINDING STARTUP PARTNERS

Once a corporate has chosen to at least consider the startup cooperation route, they need to find the right partners. Finding these partners is complicated in Sweden due to the high number of

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startups and startup spaces. Corporates might need to invest some time and effort in the discovery phase. More established startups, which already have a working product, tend to be more visible and easier to find, but there is also potential value in many smaller companies that have little more than a minimum viable product demo, if even that.

One traditional way of looking for partners is to attend startup events. There are many opportunities to meet startups that way. Other corporates choose a different approach, inviting potentially interesting startups to come to them through reverse-pitching events, competitions, prizes and sponsorships. In this area, having a team that is well-connected to the local startup community is indispensable, especially since news of really interesting new startups tends to spread by word of mouth in the community.

It might also be valuable to proactively communicate on the corporate website and in social media in general what kind of startups a corporate is looking for.

JOINING MATCHMAKING EVENTS

We have seen good opportunities for cooperation come out of matchmaking meetings between representatives from corporates and startups, but it should not become too much of a "pitch-competition". Some of these events are on the edge of being humiliating, forcing startups to share their entire story in a few minutes and when they have all pitched, there is a vote to determine who won.

To build a good foundation for a working cooperation, you need to build trust, understanding and respect for each other. This is best done when there is time to really get to know one another and discuss different types of cooperation in a more serious way.

The problem is that there are many big corporates, very many startups and very little time. It is simply not possible to spend a significant amount of time in all of those meetings. Instead, the following service to big corporates has received a very positive response:

- Discussion under NDA with corporate representatives to better understand their goals to get a more insightful understanding of what kind of startups and solutions that they are looking for.
- Based on good engagement with the tech startups scene in a combination with research on sites such as http://www.nordictechlist.com/organization, we identify a list of say 20 startup candidates to the corporate.

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- Discussion with the corporate representatives to get a better understanding of what is a good match for them and to jointly select a final list of five to eight candidates.
- Arranging a corporate internal event
    - Participants
        - The startup manager
        - Representatives from the business units that may be interested in Proof-of-Concepts
        - Representatives from corporate venture division (if relevant)
        - Representatives from merger/acquisition team (if relevant)
    - Invited startup founders are invited to present their company with a special focus on how they envision that they could contribute to the corporate
    - The startup representatives are not present at any presentation by another startup
    - There is time after each startup presentation for the representatives from the corporate to discuss internally what possibly next steps could be taken.
    - For each startup, there is a decision on who will be responsible for the cooperation and thus who will reach out to discuss the next steps.

There are naturally no guarantees for successful cooperation after an event like this, but our experience is that the meetings have been considered very valuable for the corporates as well as the startups.

MAKING THE COOPERATION A SUCCESS

In our experience, there are some best practices and attitudes that consistently contribute to success in cooperation with startups. First of all, be serious about all cooperation projects you participate in; do not go in half-heartedly. Make sure that there is a genuine win-win outcome for both your organization and the startup. Remember that while this could be seen as an interesting "experiment" on your side, this may be the chance of a lifetime for the founders of the startups. It might also be your company's insurance to stay on top of disruptive innovations in your line of business – instead of becoming a victim. The journey that the corporate and startup undertake together begins with an agreement. But what really leads to success is the commitment from both sides to the execution of that agreement and the entire project. Along this journey the partners can also benefit greatly from external support to ensure that they build a strong foundation for success.

The winners of tomorrow are the corporates that continuously look for ways to disrupt themselves.

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THE LAWYER'S PERSPECTIVE

You have your cooperation task force, now start with an initial validation of the new venture. Involve legal, compliance, employment law, technology, tech risk and record retention (for proper documentation). Use layman's terms and make quick assessments. What issues do we absolutely need to resolve prior and post launch? In this phase there is no time for "nice to haves".

Be flexible about what rights your company need to have to any outcome. From the corporate's perspective, do you need ownership or exclusive rights to the outcome of the project? Perhaps, your business perspectives are met ensuring you non-exclusive rights or sector limited exclusive usage rights.

BY SOFIA EDVARDSEN, PARTNER AT SHARP COOKIE ADVISORS

TOP TAKE AWAYS FROM THIS CHAPTER

1. Careful planning is essential to make a startup cooperation effective. This begins with a clear definition of goals and to ensure top management commitment.
2. Another critical step is to identify clearly the startup manager and communicate this throughout the organization.
3. Always make sure that there is commitment from both sides to ensure a win-win outcome.

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RESEARCH METHODOLOGY

In preparing this report, the approach that we have taken is to identify corporates that have already cooperated successfully with startups and interview key corporate and startup players. Most of these interviews were conducted face-to-face, some by telephone. In many cases, there have also been follow-up interviews to clarify points. In each case, we talked with representatives of the corporate about their experience working with startups and then we talked with the founders of the startups to hear their side of the story. To get an understanding of how Sweden relates to other countries, we have also interviewed representatives from prominent organizations such Stanford Research Institute in San Francisco, Digital Catapult in London, Massachusetts Institute of Technology, Robert Bosch Corporate Ventures and 500 Startups.

In parallel, we also conducted some online surveys to obtain numerical data to measure objectively the priorities, needs, and issues of both corporates and startups. These surveys were done in late fall 2016 and we received responses from more than one hundred corporate innovation managers and startup founders.

In addition to the above, we have studied articles, reports and books on relevant topics.

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DISCLAIMER

The authors of this report provides the report as a service to all parties interested in learning more about cooperation between established corporates and startups. The report is provided for information purposes only and under no circumstances should the content of the report be seen as legal, tax or investment advice. Cooperation between corporates and startups has many faces; this report covers one aspect of this cooperation and is primarily meant to inspire both corporates and startups to explore further different ways of cooperating for mutual success.

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