Research
The Changing Landscape of
Corporate-Startup Engagement
September 2021
EXCERPT
Sponsored by
MIT
Corporate Relations

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WHY STARTUP-CORPORATE PARTNERSHIPS MATTER NOW

Catarina Madeira
Program Director
MIT Startup Exchange

Irina Sigalovsky
Program Director
MIT Corporate Relations

Startup-corporate partnerships play an increasingly important role in the corporate innovation journey and startup evolution. Yet this topic has not been widely researched or investigated. MIT Corporate Relations, which the Industrial Liaison Program (ILP) and MIT Startup Exchange are a part of, were delighted to collaborate with Innovation Leader to better understand the challenges and best practices of startup-corporate partnerships. Together, we reached out to a broad range of startups, early and late stage, as well as global corporations working across sectors and geographies to capture their expectations and perspectives about pain points and what needs to be done to make startup-corporate partnerships more successful. This report captures some of the most interesting findings and, even more importantly, further illuminates the white spaces and raises additional questions that will guide future research into this important topic.

The strong corporate relations that MIT has been forging since 1861 have proven to be a key success factor to creating transformational impact on the world. More recently, as corporations increasingly expand and accelerate their open innovation efforts, the MIT Startup Exchange platform was created to help them leverage

WHY STARTUP-CORPORATE PARTNERSHIPS MATTER NOW

MIT's world-class startups and entrepreneurial spirit by facilitating highly-vetted and targeted connections between them. Currently, MIT Startup Exchange has over 1400 active startups, and it is adding MIT-connected startups at an average rate of 140 per year. Together, the two programs have a unique understanding about how large global corporations and startups work together.

The value of leveraging complementary capabilities and the prospective impact that startup-corporate partnerships entail are potentially-game changing. For a small, high-growth startup, it may mean leveraging distribution channels, building up their reputation to help initiate other partnerships, and/or validating their technology or business model. For corporations, it may be an opportunity to reinvent their product offerings; rapidly de-risk, test, and acquire innovative technologies; foster in-house innovation; and/or quickly acquire new skills or creative talent.

While both sides naturally strive to achieve positive outcomes, the truth is, these relationships can be very challenging for both parties, and many end up being a disappointment or failure. On top of that, 2020 brought us a global pandemic that is pushing us to rethink the way we work and collaborate, and is making us pivot in ways never tried before.

So, what are the root causes of failures and/or inefficiencies when startups and corporations work together? What is not working for entrepreneurs? Where do corporations fall short? How can we decrease the risk associated with these relationships and, more importantly, how can we improve them so they deliver on their full potential? In collaboration with Innovation Leader, we asked both parties to share their views and best practices. In addition, the Innovation Leader team conducted in-depth interviews with corporate innovation experts and startup founders. These are some of the questions we posed:

- What drives you to seek startup/corporate engagement? Which are the most challenging aspects of it, when initiating collaborations and then scaling up?
- Which resources do corporates have in place, and which ones are considered most needed to support startup engagement? Who are the senior leaders supporting (and providing funding for) this activity?

WHY STARTUP-CORPORATE PARTNERSHIPS MATTER NOW

- How did the level of startup/corporate interaction change, and what were the most challenging aspects of operating throughout the pandemic?
- How do you measure success? Can you point to successful outcomes? And what advice would you offer to help others get there?

In the next pages, you will find interesting and useful statistics, revealing interviews with founders and corporate leaders, as well as some anonymous advice provided by entrepreneurs and corporate professionals who responded to our survey. As we reflect on it, it is our goal to incorporate these learnings into our practice. We hope these will help you as well. The more we learn about challenges and solutions to startup-corporate partnerships, the better equipped we will be to support our innovation networks and entrepreneurial ecosystems.

— Catarina Madeira & Irina Sigalovksy

MIT STARTUP EXCHANGE

MIT INDUSTRIAL LIAISON PROGRAM ILP

"The value of leveraging complementary capabilities and the prospective impact that startup-corporate partnerships entail are potentially game-changing."

A ‘FAIRLY EXPERIENCED’ RESPONDENT SET

We sought to understand how much experience our corporate survey respondents had with any sort of startup engagement or ecosystem participation.

How much experience has your company had with startup engagement to date?

Our overall corporate repondent set can be described as “fairly experienced” when it comes to startup engagement. When analyzing responses to some questions, we created a “very experienced” respondent set, including 23 respondents, who said that their experience level was 8.5 or higher. In the pages that follow, we contrast their answers with those of the full respondent set.

Industries on the lower end of the experience spectrum included industrial manufacturing (5.2), financial services (5.3), and chemicals (6.) On the higher end were technology (7.9), energy and utilities (8.9), and automotive, transport, and logistics (8.9). Healthcare-related industries, which we grouped to include healthcare delivery, medical devices, and pharmaceuticals, matched the overall average response, at 7.1.

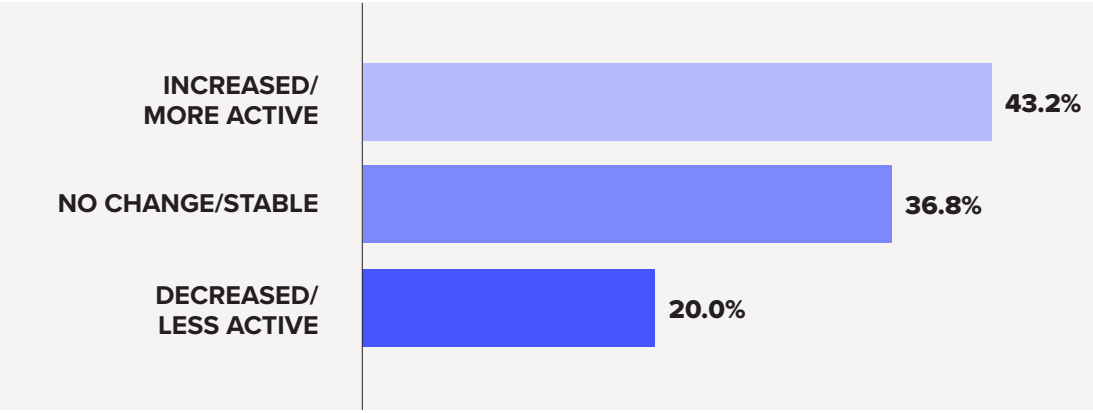
5.2
MANUFACTURING

7.1
HEALTHCARE

8.9
AUTOMOTIVE

HOW HAS THE PANDEMIC CHANGED ACTIVITY LEVELS?

Change in Startup Engagement Since March 2020



Just 20 percent of our respondents said that they had become less active in the startup ecosystem throughout the COVID-19 pandemic. But the plurality of our respondents, 43 percent, said they'd actually become more active. "Projects that were put on hold are now moving again," explained one respondent from the hospitality industry. "New projects have started."

In our "very experienced" respondent set, interestingly, it was more likely that their activity had stayed static during the pandemic (39 percent) than to have increased (35 percent), and it was also more likely that they had seen a drop in activity (26 percent), compared to the full respondent set. One possible reason? These companies may have entered the pandemic with a higher baseline level of activity and investment than the average company.

On the following pages, we break down changes in activity by geography, and provide insights into the dynamics behind the changes.

COMMENTS: WHY ACTIVITY INCREASED OR DECREASED (CON'T)

A sample of corporate respondents' comments on why activity has increased, remained stable, or decreased in their organizations.

INCREASED/STABLE/DECREASED?	WHY ACTVITY HAS INCREASED, REMAINED STABLE, OR DECREASED	INDUSTRY
Increased	"Since setting up our innovation team about five years ago, we have started to move from early discussions to actual investments and partnering with startups. Several projects have progressed to a proof-of-concept stage or further."	Industrial Manufacturing
Increased	"We set up a corporate venture capital vehicle."	Forest, Paper & Packaging
Increased	"Easier to connect, due to the virtual format of calls and conferences."	Agriculture
Increased	"Increased belief in the need for external partnering, followed up by opening up a new innovation hub in Boston."	Pharmaceuticals & Life Sciences
Increased	"We're looking for different solutions to test."	Agriculture
Increased	"Projects that were put on hold are now moving again. New projects have started. Growth is creating new opportunities and pain points that need to be solved."	Hospitality & Leisure

INNOVATOR PERSPECTIVE: BAE SYSTEMS

Steve Russell
Deputy Vice President and General Manager
FAST Labs

FAST Labs is a funding and advanced technology initiative within BAE Systems' electronics systems group.

"If you go back a few decades," says Stephen Russell of the aerospace and defense firm BAE Systems, "United States Department of Defense R&D funding represented over a third of global R&D spending. If you fast forward to now, the US Department of Defense R&D spending is less than two percent of global R&D spending. … We want access to that other 98 percent of the research and development that's going on. That's great, innovative work that we wouldn't have access to if we just focus on our more traditional customer set of the large department defense or some of our larger commercial partners that we work with." Much of it springs from startups and small businesses.

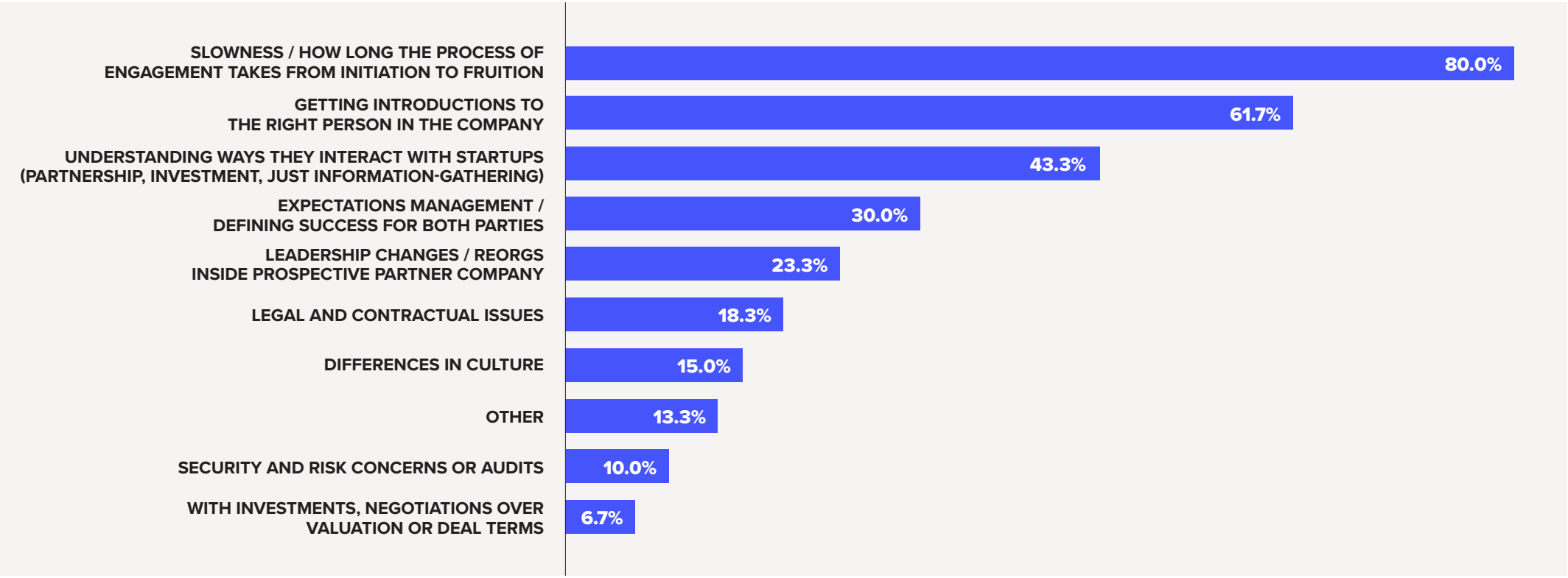
Some of Russell's advice for connecting to the startup ecosystem:

- Be a partner looking for "win-win" opportunities that provide a path to market for the startup, and access to promising technologies for the large company.
- Be sensitive to the challenges of small businesses and startups. For example, what may seem like a small contractual or invoicing delay to a large company may put a small business in jeopardy.
- Be careful not to levy "big company" processes on a small business that are not staffed to deal with such processes.
- Do not expect military-ready products from a small commercial startup. Instead, work with them to mature their technologies, processes, and products.

CHALLENGES FOR STARTUPS

What are the most challenging aspects of initiating a formal engagement with a large company, such as a pilot test?

Other challenges cited by entrepreneurs included: problem discovery; “vision management” and “getting appropriate mind-share for something different”; and getting funding allotted for pilot tests.



INNOVATOR PERSPECTIVE: MORI

Adam Behrens
CEO and Co-founder
Mori

Mori is a Cambridge, Mass. startup spun out of an MIT lab that uses a silk-based protein to extend the life of perishable foods.

Clearly define the success criteria. "We spend a long time on the problem definition, with an eye towards trying to define some kind of technical milestone. When pilots have gone well, there's at least been an attempt at defining success criteria on the front end. ... It allows both sides of the partnership to communicate really discretely around success and failure."

Working with legal departments. "Where we see bureaucracy always rear its head is when contracts are in legal. What helps facilitate it being productive is making sure that the business unit lead is seeing what is fair... That could come down to payment or IP ownership or whatever it may be. If you have that internal champion on the business unit side, having them broker it through legal as an active contributor helps with the process."

Be transparent about timelines. "Our agreements...on the fastest scale have taken three months, and the longest has probably been like, 18 months or so. Depending on the stage of startup, companies could be living and dying by those timelines... Being transparent about the timeline allows the startup to communicate effectively to their backers. I don't mind that [a] contract takes a year [if] I know that for the next six months, 90 percent of my staff will be working on this. ... [So] there are these moments where sometimes delays are okay."

"We all have our own backers, and we all have to justify our milestones and funding, but if these contracts are in perpetual delay, it's very hard for me as an operator to hold back resources."

INNOVATOR PERSPECTIVE: HIGH ALPHA

Claudia Reuter
CEO
Stealth Mode Startup / High Alpha

High Alpha is a Indianapolis-based venture creation studio. Reuter was previously a Managing Director at Techstars and an SVP at the publisher Houghton Mifflin Harcourt.

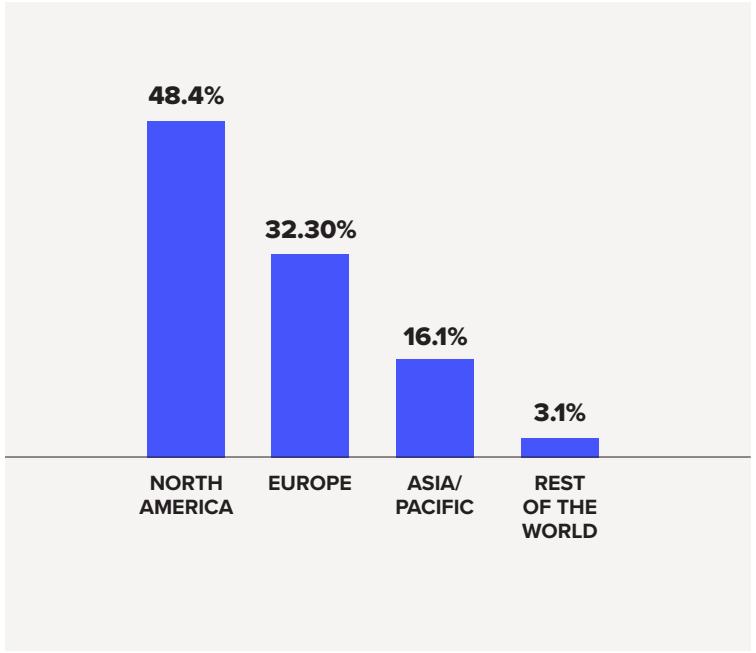
A burning need beats a great widget. "All of this stuff comes down to people and relationships. And I think [one] of the things that we've coached startups on is really taking the time to understand who you're talking to, understanding the burning challenges that they're facing in the large organization, doing the research on what the company is experiencing in the market, what they say their strategy is, and really being thoughtful about what you're building and [being] supportive of what that organization needs. I think sometimes, people get so excited about what they're building that they end up talking about, 'I've got this great widget, I've got this great thing.' And that's wonderful – but that's like a lot of noise to a large organization. So just take the time to do the research on who you're talking to, and what matters to them, and then think about how you can help solve that problem for them... It's the most critical thing, and that's usually where people get side-tracked because they think, 'Oh, I've made this awesome thing.'"

Startups can fall into a trap. "It's very easy for startups to fall into a trap, where they're doing a ton of work, and burning a lot of calories, on something that they think is going to turn into a huge sale. And it turns out that they're not even going to get paid for the work they did, and it may turn into nothing. I think making sure that there's some sort of skin in the game to show that there's real engagement on both sides, [that] is really important."

Think a few steps ahead. "The more startups can do at the beginning to be organized about their paperwork, and think about enterprise-level security, and all the things that a large enterprise needs to worry about, the better. ...Even if you're not in a position to do some of those things yet, be able to demonstrate how you're going to get there. Because that's going to give your corporate partner more confidence in your roadmap and your ability to engage."

ABOUT THE CORPORATE RESPONDENTS: LOCATION

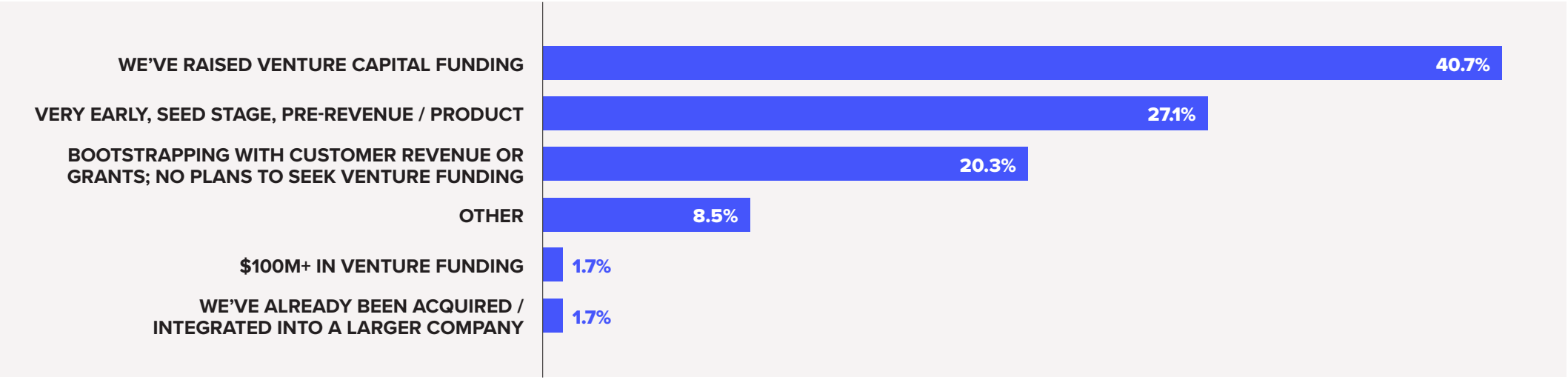
Company Headquarters



Nearly half of our corporate respondents work for companies based in North America, and another third for European companies.

ABOUT THE STARTUP RESPONDENTS

Which stage best describes your startup?



Nearly 41 percent of our respondents had raised some amount of venture capital funding; an additional 20 percent said they were bootstrapping on customer revenue, without plans to seek venture funding. The most common "other" responses involved bootstrapping with plans to eventually raise venture capital.

ABOUT MIT CORPORATE RELATIONS

MIT Corporate Relations aids and directs companies interested in multidisciplinary involvement with the Institute. Its expert staff works with MIT senior administration, faculty, and company executives to structure and define individualized alliances that mutually benefit the company and MIT.

MIT Corporate Relations also offers industry access to MIT through two integrated programs, the MIT Industrial Liaison Program (ILP) and MIT Startup Exchange.

The Industrial Liaison Program is instrumental in providing connections to MIT faculty, departments, labs, and centers. It serves companies across the globe and is organized both geographically and by industry.

MIT Startup Exchange actively promotes collaboration and partnerships between MIT-connected startups and industry. Qualified startups are those founded and/or led by MIT faculty, staff, or alumni, or are based on MIT-licensed technology. Industry participants are principally members of MIT's Industrial Liaison Program (ILP).

Contact: ilp-info@mit.edu

Upcoming in-person and online events calendar: https://ilp.mit.edu/attend

For more information: http://corporaterelations.mit.edu

MIT ILP INDUSTRIAL LIAISON PROGRAM

MIT STARTUP EXCHANGE

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