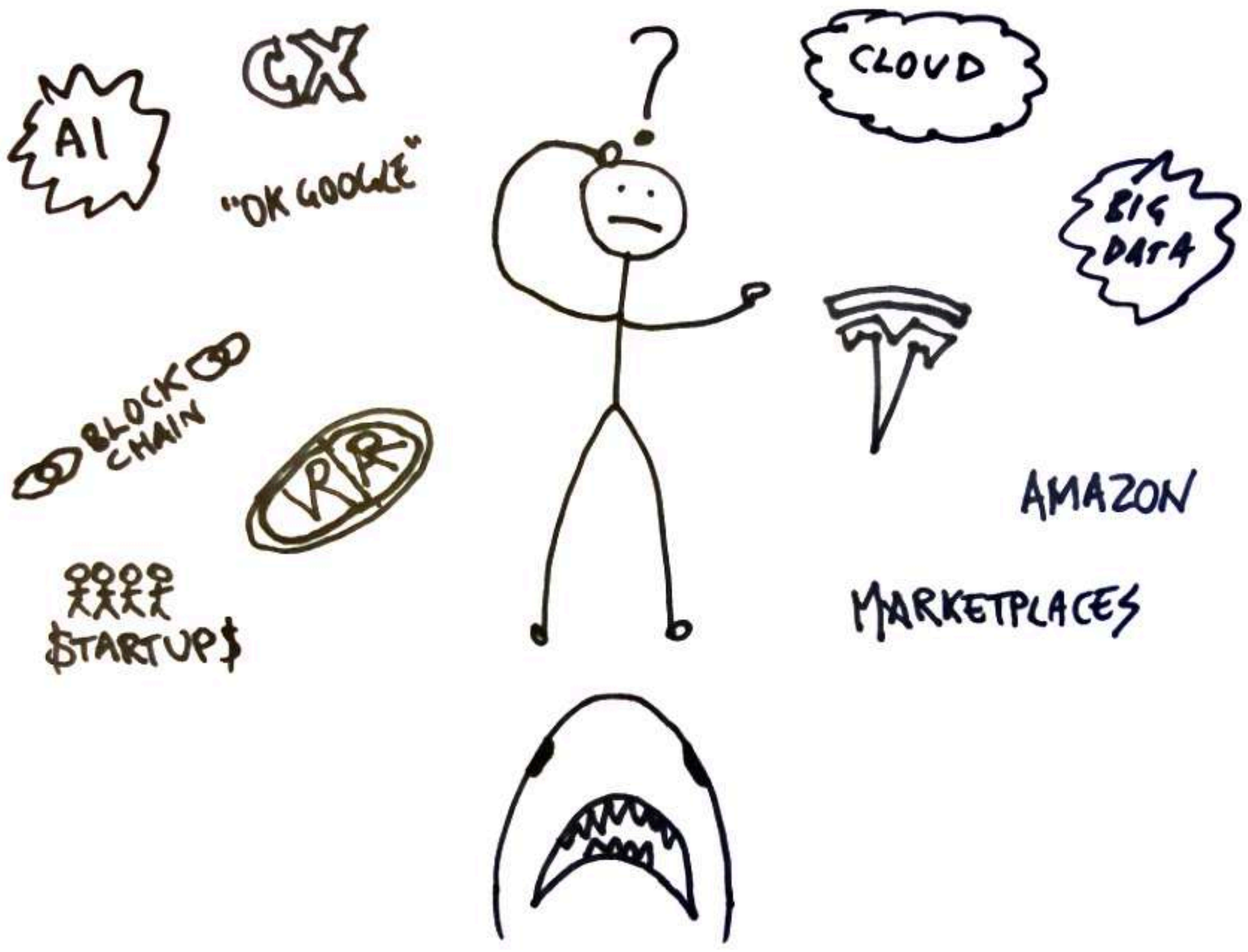
CORPORATE STARTUP PARTNERSHIPS 101



A TIME OF GROWING UNCERTAINTY AND VOLATILITY

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More than 50% of today's S&P500 faces replacement in the next 10 years, while one in three listed companies are at risk of being de-listed in the next five years alone.

20th Century management theories are based on a hierarchical chain of command, a separation of functions and an emphasis on planning, budgeting, efficiency, process, risk mitigation and of crouse, maximising shareholder returns above all else.

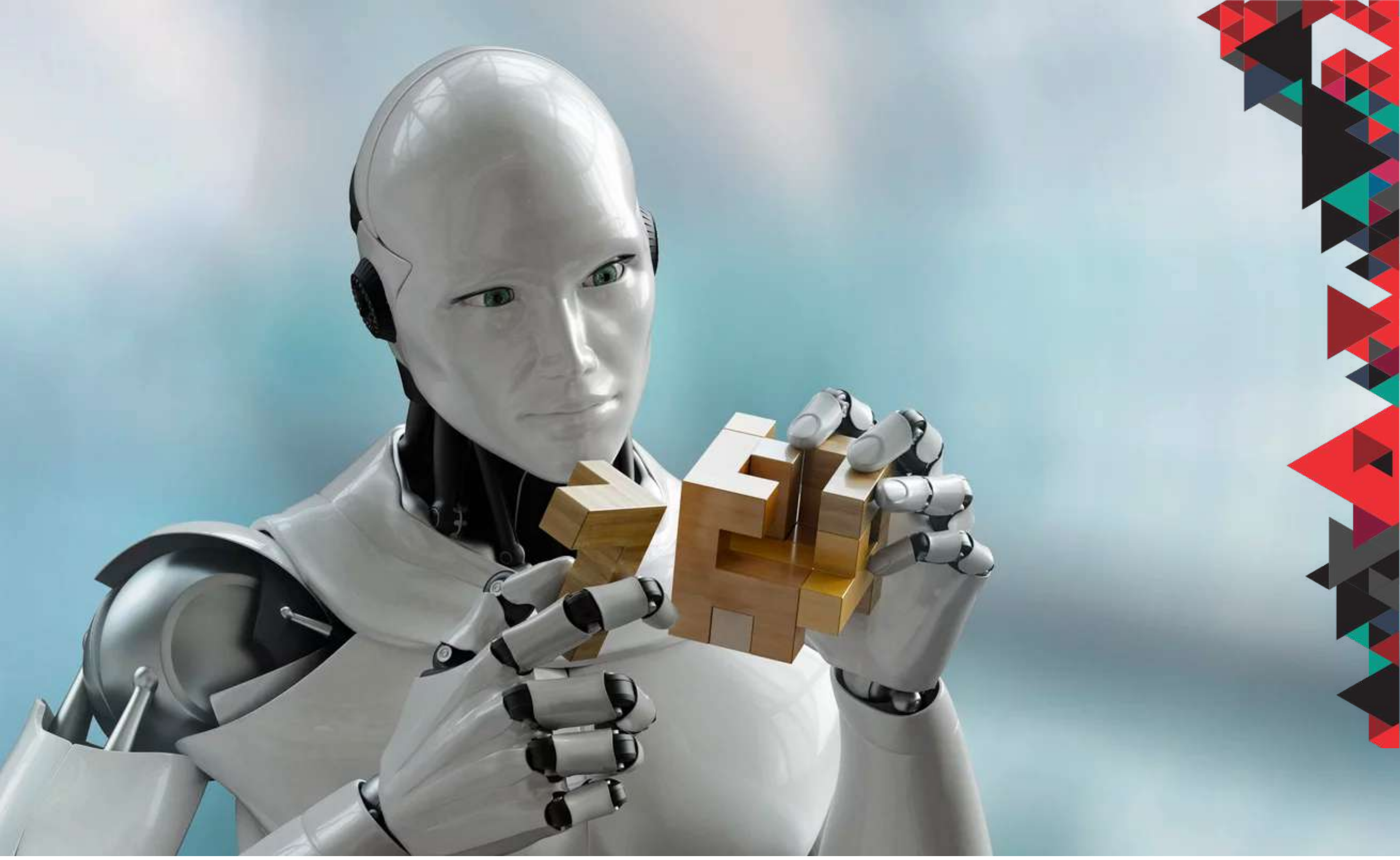
This might have made complete sense in a time when the impact of technology change was not as pronounced as it is today and decisions could be made with a little more certainty about the what the near to middle term would look like. Throughout the 1990s, Moore's Law took the transistor count per chip from one million to over one hundred million, this was representative of an increase of 99 million transistors. Sounds impressive, right?

However, from 2010 to 2016 alone, we've added over 10 billion transistors. That's more than 100 times the growth in transistors we enjoyed in the 90s. And the rate is accelerating. Moore's Law is relentlessly surging ahead and bringing us to an inflection point with the convergence of technologies such as artificial intelligence, the internet of things, nanotechnology, robotics, automation, virtual and augmented realities and blockchain, amongst others, together with changing political, economic and social realities across the globe resulting in more uncertainty than ever before and posing a significant threat to every industry and business model.

Large organisations are finding themselves scrambling to stay survive and stay relevant, let alone compete and thrive.

Most large incumbents have developed systems that, not unlike McDonald's, make them adept at efficient delivery but not chaotic discovery, something inherent to breakthrough, disruptive innovation. Incumbents are adept at execution, but not exploration. With growing uncertainty, the ability to make long-term decisions with any degree of conviction or accuracy is perhaps best left to clairvoyants, simply because the rate of change is so fast.

Israeli historian and author Yuval Noah Harari says of AI and exponential technology growth, the scenarios in which AI goes beyond human intelligence are, by definition, the scenarios that we cannot imagine and therefore ill-positioned to plan for. This fact has prompted Elon Musk, Reid Hoffman, Sam Altman and others to establish OpenAI, whose goal is to advance digital intelligence in a way that ultimately benefits humanity.



But to offer a less dystopian and slightly more relatable example to us humble homo sapiens, think of all of the enabling technologies and business models we take for granted today that we would struggle to live without? Most of these didn't really exist in any meaningful way as recently as 20 years ago (think search, the smartphone and cloud infrastructure for starters). Yet, the breadth and depth of disruption over the next ten years is likely to go far beyond these examples.

Thriving under chaos is something successful startups do well and it's also something that best-selling author Tim Harford says helped Donald Trump win the election. "He made the primary campaign all about him and sucked the oxygen away from all of his rivals. They just couldn't make headlines, and couldn't respond quickly enough to what he was doing." By the time his opponents had prepared their thoughtful rebuttals Trump was off to the next disorienting announcement and left them scrambling again to make sense of the situation and respond.

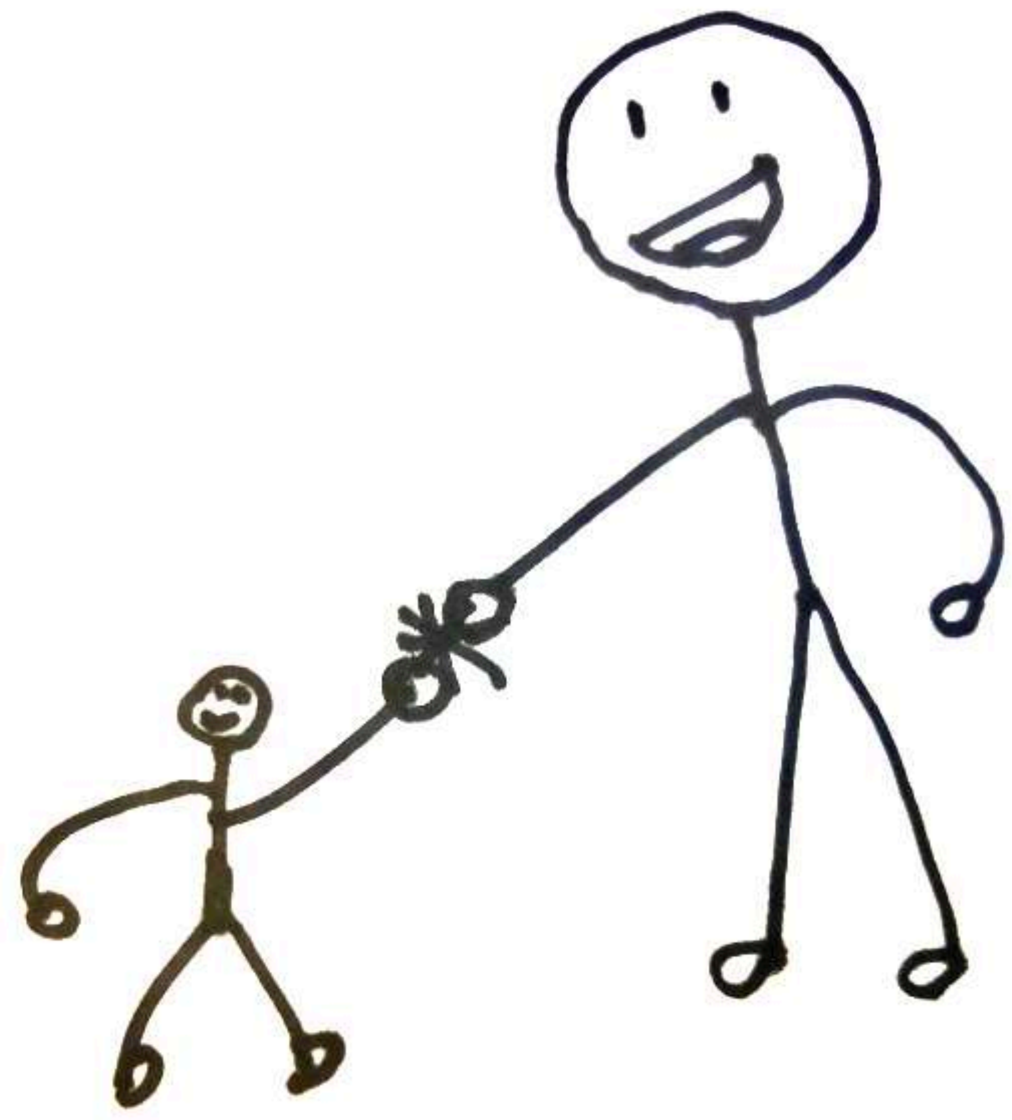
For large incumbent organisations, it's not a case of simply flicking the switch on "the way things have always been done around here", donning white shirts, red ties and embracing a, dare I say, Trumpian approach to innovation. Culture, mindsets, processes, systems, performance incentives and values at large organisations can often be the very antithesis of innovative thinking and if I'm a senior executive whose success has been pegged to having what appear to be the right answers, mitigating risk and maximising shareholder value and my core business is still, after all, making money today, then the prospect of genuinely moving from delivery to discovery for most large organisations is a grim one.
But it is not without its remedies.

Incumbents can attempt to re-design or create parallel processes and systems internally to support exploration but need to ensure that it doesn't compromise the delivery of the core business. They can carve out a new business unit to deal with disruptive innovation, create spin-offs or spin-ins or they can invest in, partner with or acquire startups.

The latter approach is indeed the most straightforward and popular one with technology M&A deals in the United States alone totaling US$42.8B across 486 investments in Q1 2017. Globally, corporate venture capital participated in US$24.9B across 1,352 deals in 2016 with seed and Series A investments accounting for almost half of this so clearly large incumbents see startup investment as a significant part of their growth strategy.

However, in the case of acquisitions, the question of independence or integration is one most large incumbents still seem to struggle with.

Clayton Christensen (below) urged caution in The Innovator's Solution in which he wrote that if a large incumbent is acquiring a startup for its processes and resources, then the last thing it should do is integrate the targets as this will "vaporize the processes and values of the acquired firm".



THE KEY LIES IN CORPORATE-STARTUP PARTNERSHIPS...

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A better strategy, Christensen tells us, is to let the acquired startup stand alone and to infuse the parent's resources into the acquired company's processes and values. If and only if the target is being acquired for its resources only then integration makes sense.

Christensen sights IBM's acquisition of telecommunications company Rolm as a classic case study. Big Blue's integration of Rolm, whose value resided in developing and finding new markets for PBX products, destroyed the very source of the original deal's worth.

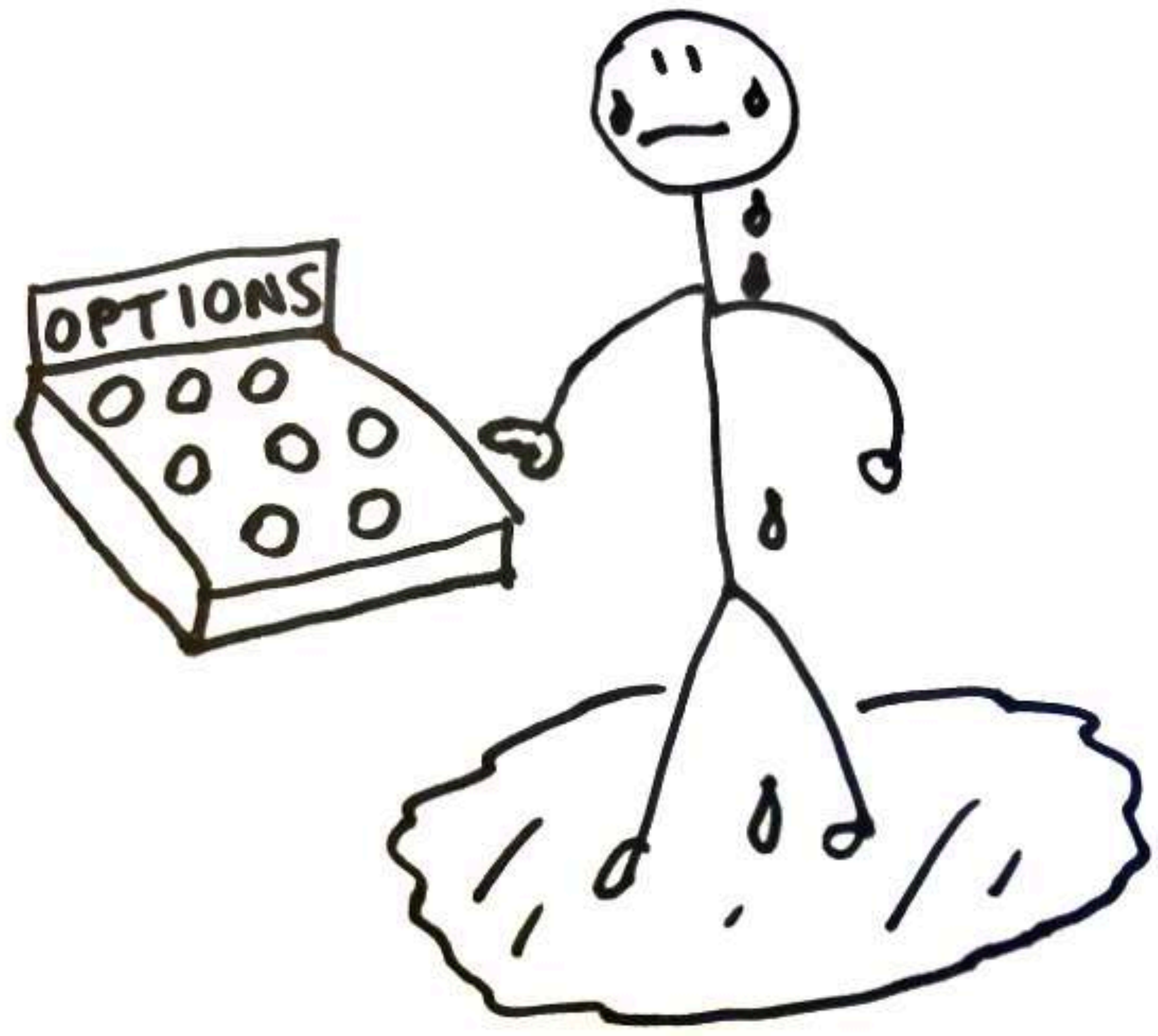
More recently, I had a conversation with the Head of Digital at a large commercial bank who shall remain unnamed. He revealed that the organisation had spent US$4M acquiring a startup, only to spend an additional US$5M integrating it into the mothership, shrouding it in corporate bureaucracy and IT systems, effectively destroying the startup's culture and cadence. This culminated with the startup founders leaving the organisation out of frustration. When all was said and done, over US$9M was invested into what fast became a train wreck with dwindling to little value.

Countless research papers and journals estimate that M&A deals fail to deliver on financial expectations up to 90% of the time.

With this in mind, the following guide provides readers with a high level overview of the when, how and who of corporate startup partnerships and acquisitions.

Perhaps more importantly though and to quote Simon Sinek, large incumbents on the investment trail should always start with why.

When deciding to invest in, acquire or partner with a startup, what is this decision really based on? Market sentiment? FOMO? Me too complex? Actual strategic alignment? Diversification?



8 WAYS TO ENGAGE STARTUPS

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Large organisations are engaging startups in growing numbers, due in part to a realisation that companies have not been built to respond to the accelerating pace of change in a timely manner, and that short of restructuring the entire organisation from the ground up, partnering with startups who are unencumbered by bureaucracy, short-term shareholder demands and employee incentives, is an easier way to tap into emerging technologies, business models and talent.

This makes sense for most large organisations given that startups tend to explore disruptive innovations - usually low margin, small market and high risk to begin with - don't support short term and often large company growth targets, but if left unchecked, may be the source of dwindling market share a few years down the track (here's looking at you Blockbuster for passing up the opportunity to buy Netflix for US$50M - the company is today worth 140 times that).

Below are eight ways that corporates can connect with startup ecosystems and engage startups to work collaboratively towards their mutual goals - some light touch and others that require a more serious commitment of time and money.

CORPORATE STARTUP ACCELERATOR PROGRAM

A corporate accelerator program pairs the domain expertise, resources, brand, distribution channels and networks of a large organisation together with the talent, speed and unencumbered nature of a startup, in order to leverage their respective strengths to take startups from zero to one. Programs generally run for about 6 months while the startup incubation periods tend to run for 8-13 weeks.

Cost: **9/10**

Pros:
- Gain financial exposure to disruptive startups (often corporate partners will take equity in the startups at the start of the program or may nominate to invest at the end of a program)
- Diversify across a number of startups and concepts (generally 8-10 startups go through an accelerator program)
- Identify opportunities to integrate new technologies into the core business
- Get across emerging trends
- Build relationships with talent in the startup ecosystem
- Provide employees with educational opportunities as part of the accelerator
- Improve brand
- Support talent acquisition and retention
- Give employees an opportunity to mentor startups on their domain

Cons:
Requires a considerable amount of effort to source quality entrepreneurs and nurture them throughout a 13-week program which necessitates legals, branding, funding, workspace, mentors, event management, workshops and diligent guidance throughout (a growing number of organisations with domain expertise have been established to run accelerator programs on behalf of large corporates).

Examples:
1. Barclays Accelerator
2. Mills Oakley Accelerator
3. DBS Accelerator

Recommended Reading: *Corporate accelerator programs*

REVERSE PITCHING EVENT

You've heard of startups pitching their ideas right? Reverse pitching essentially turns the table on startups and asks corporates to pitch the problems they want startup teams to solve and offer a pathway to funding and partnering.

Cost and Effort: **5/10**

Pros:
- Tap into lots of potential solution to defined problem
- Build relationships with the startup ecosystem
- Improve brand

Cons:
- Limited pool of applicants - you might be limited to startups in your geographic area which may not cast a wide enough net to find quality startups
- Limited diversification - corporates usually elect one or two teams to work with so while an idea might be good on the surface, it's all in the execution - this is why venture capitalists invest in ten startups expecting that *one* will deliver a significant return
- Poor problem definition - in more cases than not large organisations (and startups) define the problem they're solving incorrectly and if it's defined incorrectly then what do you expect from the solution?
- Incremental focus - by focusing on problems we can see, chances are they're problems that our competitors have too, and that any solution will only amount to incremental innovation which is where large organisations excel. Use startups to explore disruptive innovation.

Examples:
1. ReversePitching.com
2. Launch Tennessee

Recommended Reading: *Why Your Startup Needs to Reverse Pitch*

OPEN INNOVATION PROGRAM

An open innovation program poses a simple request of startups, entrepreneurs (and employees, customers, partners, academia and the general public) - "give us your ideas on topic X". These programs tend to be run online, supported by an idea platform like Spigit, and can often elicit hundreds of ideas which then lend themselves to subsequently engaging with the people behind the top ideas.

Cost and Effort: **7/10**

Pros:

- Access a very vast pool of ideas from people and organisations all around the world

Cons:

- Paralysis analysis - too many ideas makes it difficult to evaluate and select those worth pursuing (for more on how to combat this read this article on how to run an effective idea submission program)
- Usually there is limited to no pathway to take ideas further after an idea challenge
- Teams aren't committed to their ideas and fall apart after the challenge
- Winning ideas are the result of countless iterations and all about execution - the first idea, those submitted to the program, rarely look the same when they break through so you need to be prepared and flexible on how the ideas evolve
- Building on the previous point, there's usually no mechanism to build upon ideas other than simple commenting

Examples:

1. P&G Connect+Develop
2. Shell Gamechanger
3. GE Open Innovation Challenge

Recommended Reading: *4 Ways to Win at Open Innovation* and *Inside Procter & Gamble's New Model for Innovation*

CORPORATE VENTURE CAPITAL

Many large corporates are setting up corporate venture capital (CVC) arms simply to invest in emerging talent and gain financial exposure to companies that are treading an upwards trajectory. Companies can either set up their own funds or take a more hands off approach by investing in existing funds (and perhaps taking a Board seat in the process) that deal with early stage startups or scale-ups.

Cost: **9/10**

Pros:
- Have deal-making authority
- Diversify across a number of startups in your industry
- Build relationships with the ecosystem and gain exposure to emerging tech and talent

Cons:
- Costly to set up and manage (a company in its own right)
- Costly to invest
- High risk asset class

Examples:
1. Westpac Reinventure Fund
2. Far East Ventures
3. SingTel Innov8

Recommended Reading: *Corporate VC is on the Rise - Here's What to Know*

HACKATHONS

Hackathons bring teams together for 2-3 day bootcamps, the purpose of which is to define problems, solutions and business models, build prototypes to test key assumptions underpinning those business models with actual customers and present solutions and pitch learnings at the culmination of the program.
Corporates can engage the startup ecosystem to participate in corporate hackathons around a particular theme and put the call out for startup strategists, developers, designers, marketers and more.
Cost: **5/10**

Pros:
- Low set up and delivery cost
- Engage employees and senior executives as part of hackathons to help to shift mindset and culture (demonstrate the value of moving quickly and experimentation)
- Build relationships with startups and emerging talent
- Brand development

Cons:
- Usually there is limited to no pathway to take ideas further after a hackathon
- Teams aren't committed to their ideas and fall apart after the event
- Not enough time to seriously hone in on problem and solution fit

Examples:
1. Telstra Cloud Hackathon
2. AngelHack
3. Unearthed

Recommended Reading: *How to Run an Effective Hackathon*

SPONSORSHIP

One of the more light touch ways to engage the startup ecosystem is simply to sponsor an industry event or coworking space. It's questionable how much benefit is derived from doing something like this and while it might give you access to coworking space residents or startups at the event, it's not something you couldn't have tapped into by, you know, renting a desk or buying a ticket.

Some organisations may flaunt the benefits of being able to provide services to the startups, but most startups don't need overpriced tax, accounting and legal services delivered by a big four firm for example, they need to find product market fit.

Cost**: 4/10**

Pros:
- Brand development
- Exposure to startup ecosystem
- Give employees access to work from the sponsored coworking space or gain access to said event(s)

Cons:
- Difficult to track tangible benefit
- Small pool - at the mercy of startups in the coworking space or at the event (which may not necessarily be of a high caliber)
- Theatre - no clear pathway to developing new lines of revenue for the corporate sponsor

Examples:
Every entrepreneurship event, everywhere.

MENTORSHIP AND DISTRIBUTION

If your organisation is serious about helping startups but is not yet in a position to invest in say a CVC or a startup accelerator, then making some resources available to identify and work with promising startups by way of domain mentorship and providing access to distribution channels and/or customers for testing purposes, can go a long way towards building credible, sustainable relationships with startups, keeping up with change and eyeing off potential investment opportunities.

Cost: **6/10**

Pros:
- Exposure to the startup ecosystem
- Exposure to emerging tech and talent
- Identify investment opportunities

Cons:
- Little tangible benefit or outcome in the early stages
- Considerable effort versus projected reward

BECOME A CUSTOMER

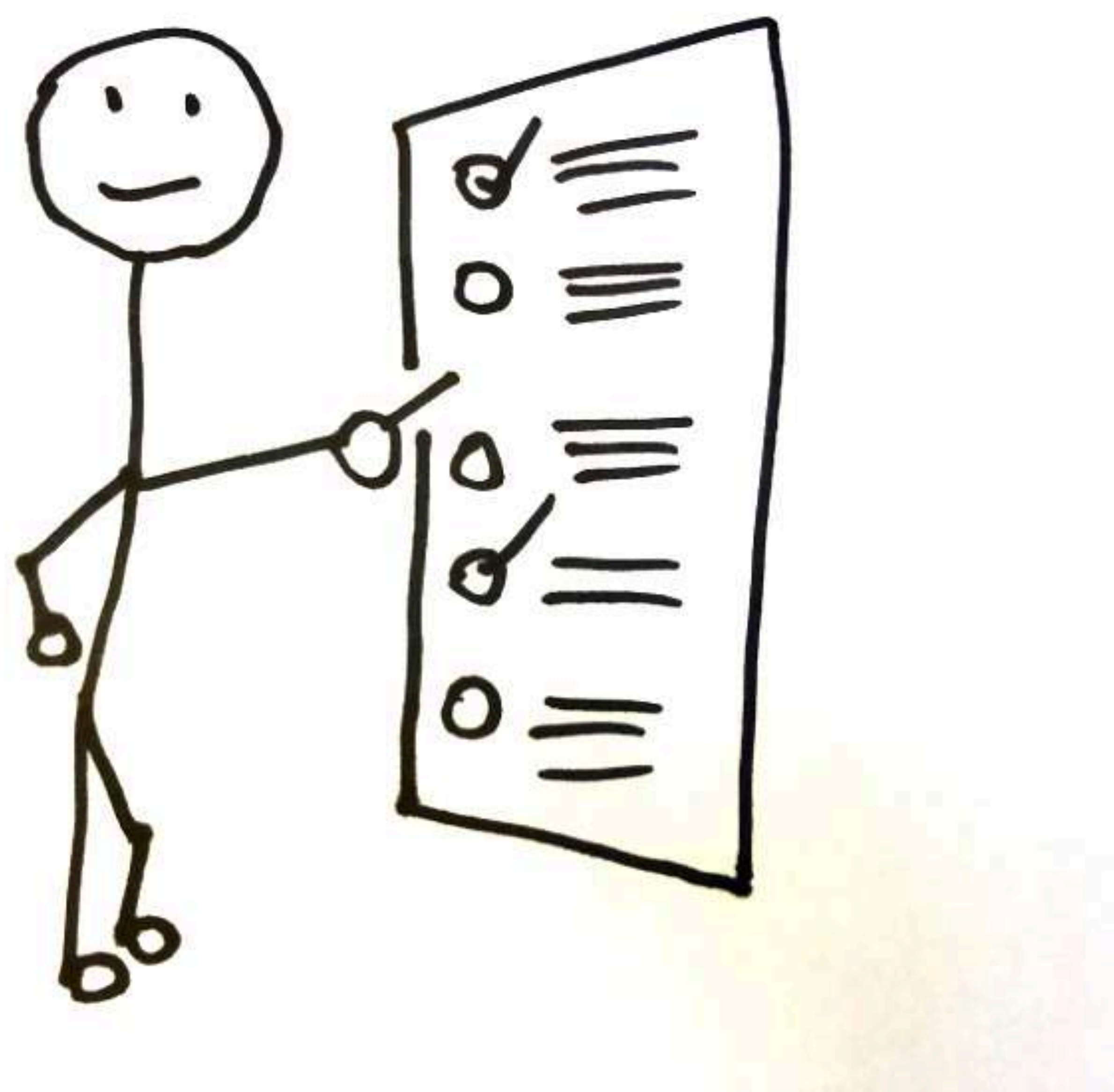
Easy enough and one of the best ways to support a burgeoning company. Be one of the first customers of a startup on its way up.

Cost**: 5/10**

Pros:
- Build relationships
- Gain early access to emerging tech that might give you a competitive advantage
- Help to guide the conversation on the startup's and product's evolution
- May be considerably cheaper in the initial stages

Cons:
- The product might not be good enough initially on a number of levels to satisfy your needs and will require that you engage with startups to help them towards product market fit

A word of caution on working with startups can be found in the following article, Corporates are from Venus, Startups are from Mars.



HOW TO EVALUATE STARTUPS

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In the past three years, Collective Campus has been home to more than 50 startups that have gone on to raise over US$13M.

We've run multiple accelerator programs with companies from the legal services, technology, real estate and entertainment sectors and we've observed a massive upswing in the number of large organisations exploring different ways (here's eight) to partner with startups.

From corporate accelerator programs to reverse pitching and setting up venture funds, in each of these cases executives need a method to decide which startups to work with.

And it's a decision not to be left to senior executives and their own devices as oftentimes that's likely to result in evaluating the startups through the lens of a big corporate (how can we use this *today*? How big is the market *today*? How has this worked *before*? Is this a *sure thing*?).

For more on the difference between corporates and startups and why they should be approached differently check out *Corporates are from Venus, Startups are from Mars*.

To best make decisions, you need a framework to help you along the journey.

Find below a snapshot of the criteria we turn to at Collective Campus to help us evaluate startups for corporate partnerships.

HOW TO EVALUATE STARTUPS

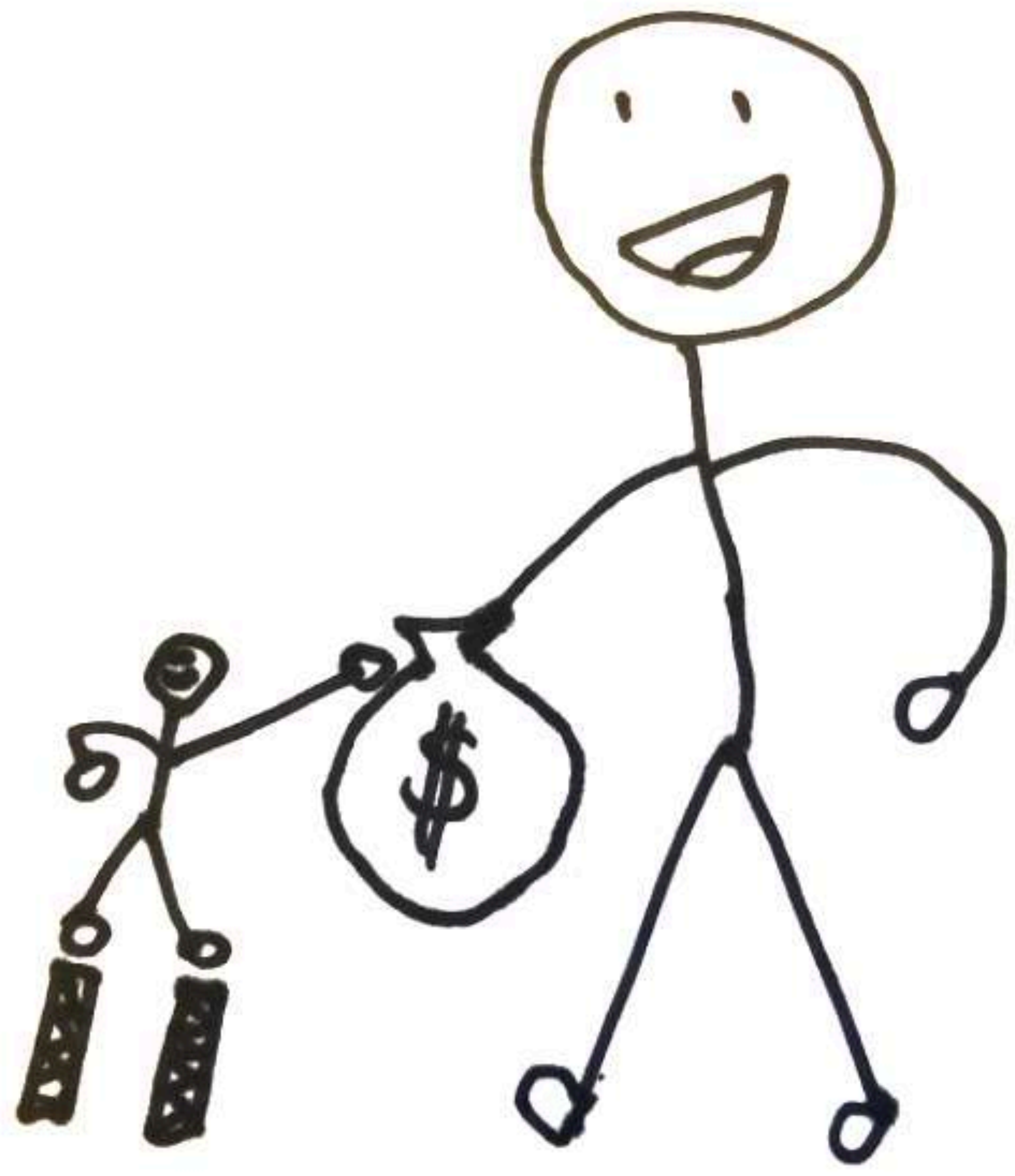
Criteria	Observations and Suggestions
Product	The type of innovation that the target company is exploring, particularly for early stage startups, should be taken into consideration, i.e. whether incremental, adjacent or disruptive innovation. Secondly, whether the product is solving an actual problem should be taken into consideration. What is the value proposition? (what customer job - be it functional, social, emotional, personal or a combination thereof - is being addressed, what pains related to this job are being solved or gains are being created?) Are we satisfied that this is a large enough problem or gain that people/companies will pay to solve? In *Product Strategy,* it is worthwhile understanding methods of product feature selection (such as Kano questionnaires), and whether or not the team engages in iterative product development cycles (such as build, measure, learn) would also be important factors. Speed and the ability to deliver the technology required should also be considered (can it be done? How fast will it be done? Can we test our key assumptions cheaply and/or by leveraging networks?)

Company	A strong emphasis has been placed on the product - while important, there are a few other areas that also require attention that serve to differentiate a great product from a great company. This includes: • strength of the company's brand and brand perception • the strength of the company's existing partner networks • the strength of the company's customer relationships and service it provides, measured by Net Promoter Score and Customer Satisfaction • the strength of the business model
Alignment	If acquiring a company, the following factors should be considered. Are we acquiring to: • bolster our revenue and financial position • tap into economies of scale to drive efficiencies and financial performance • to acquire additional resources; or • to access the distinguished culture and abilities of the startup and diversify the business. This will help to determine whether the acquired company is integrated into Company X or allowed to remain autonomous. Vigilance must be exercised when assessing whether a target company's culture clashes with Company X's 'values'. Company X should also consider: • whether the startup adds to portfolio diversity; and • whether Company X is in a position to add value to the startup and vice versa by leveraging its customers and networks (startup founders refer to this as 'smart money')

Timing	The life-cycle stage of the startup can play a major factor in the risk return ratio. *Search*: Searching for a repeatable and scalable business model. This is your Seed and Series A funded startup. *Build*: Growing customers at a rate that allows it to achieve positive cash flow and generate users at a rate that can be monetized. This tends to be startups with Series B funding. *Grow*: Liquidity has been achieved and is growing by a repeatable process. Full KPIs and procedures are in place. By this stage the company has often either gone public or been purchased. The further along the lifecycle the startup is in, the less growing it has to do and therefore the lower the possible return on investment for Company X. Vigilance should be exercised to determine where the startup sits in the life-cycle and whether or not, based on an assessment of internal and external factors, the startup is on a strong growth trajectory or flat-lining. Questions to ask: - What are the plans for additional growth? - Where will new customers come from (different customer segments, geographies, technologies etc) - Has the startup's value chain and opportunities within it been fully explored? For earlier stage startups, it is worth exploring analogs and antilogs (where have variations of this worked, where have they not and why?) It's also important to look at whether there are emerging technological, economic, political and other developments which might render the startup obsolete (eg. software company Slack's mobile game 'Glitch' failed once smartphones rendered the Flash platform it was built on redundant on mobile)

Market	Market size, especially for an early stage (or 'Search' stage as defined above) startup can be difficult to determine. Markets for disruptive innovations by their very nature are initially either nonexistent or insignificant, even in the first few years. Therefore, care should be exercised when using market size as an assessment criteria and should be reserved for later stage startups who have found product market fit and a repeatable business model. A famous example of this is Airbnb. In the first eight months of operation, Airbnb only made *$200 a week*, and received letters of rejection from investors who claimed that the market for peer to peer lodging was too small.. Today Airbnb's market capitalization of US$25B is larger than some of the world's largest hotel chains, such as Marriott, Hilton and Starwood. On early adopters: • Who are the early adopters? (very few, if any disruptive innovations are embraced by an entire market from day one, usually 2.5% - 16% of users, made up of technologists and early adopters, embrace the innovation way before the pragmatic rest of market). Some additional innovation metrics and determinants that are more conducive to disruptive innovation and should be assessed for Search and Build stage startups are:: • Cost-per-customer acquisition (CPA)s) • Customer lifetime value (LTV) • Whether current customers in the market are underserved or over served by existing or alternative offers, and whether the startup appears to be entering a competitive red sea or diving into a blue ocean and carving out a new market • What *learnings* the team has gathered from testing, and whether the team has acquired any unique learnings that will give them a competitive advantage and defensible position, at least for a material period of time. Some important statistics to consider are: • Companies seeking growth via new markets are 6x more likely to succeed than firms seeking growth by entering established markets, and the revenue opportunity is 20x greater

Management Team	Management's ability to demonstrate innovative characteristics • Resilience and tenacity • Broad experiences and interests • Curiosity • Challenging the status quo • Well networked • Passion • Tolerance of ambiguity • Vision • Self-belief • Flexibility • Associational thinking (connecting the dots between broad experiences, industries and innovations) • Health (building a startup is a marathon and a founder's perceived or actual physical and mental health can play a significant role in the outcome) These qualities all support innovation and the creation of new markets.
Customer	How the team is getting the product to market should be taken into consideration. It's important to understand how the startup is reaching customers, whether this a scalable method (how many people can they reach through this channel), and whether the management is actively testing new traction methods. Other metrics to measure are 500Startups' 'Startup Metrics for Pirates' or 'AARRR': Does the startup know the cost of acquisition / rate of conversion across the following funnel tiers? • Acquisition - how the startup is finding users • Activation - users sign up to a newsletter, freemium product or otherwise engage • Retention - users come back • Revenue - users pay for the product • Referral - users refer other paying customers to the product
Finance	It is worth noting that *Likely ROI on Exit* is a difficult metric to assess, particularly for Search stage startups. Capital efficiency metrics (RoNA, RoA, IRR) provide wise guidance when capital is scarce, however they inhibit long-term innovation as they tend to favour short term returns where ratios can be maximised with greater certainty than long-term uncertainty that investing in disruptive innovation brings. While it's definitely an important metric, it should not be looked at in isolation as a sole determinant for investment and should be viewed in conjunction with innovation-centric metrics outlined earlier.



STARTUP ACQUISITION

HOW TO EVALUATE STARTUPS

What entrepreneurs really need goes far beyond just mere funding but more importantly, extends to networks, mentorship and guidance, education, distribution channels, brand and reputation, resources, access to prospective customers to perform early stage testing and domain expertise. An investor that can support startups in one or preferably many of these areas is far more likely to be a value-adding “smart money” investor (insert quote).

When considering investing in or acquiring a startup, corporates can conduct a simple exercise to assess just how ‘smart’ their money is before signing on any dotted lines.

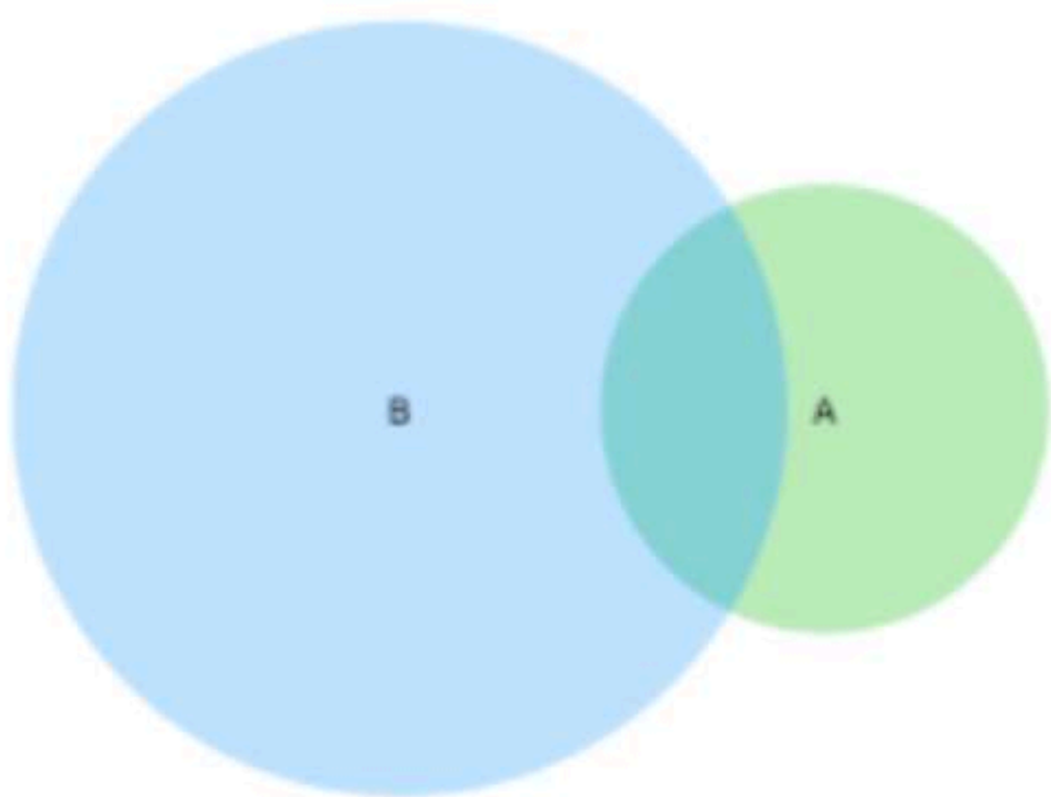
The business model canvas has become a popular idea development tool in recent years, but it’s utility goes far beyond helping us support prototype development and hone business models.

The canvas effectively breaks a business into building blocks such as distribution channels, customer segments, customer relationships, key partners, value propositions, resources, activities, costs and revenue models. It’s often used by startups in the early stages of building a business in place of a traditional business plan in order to get moving quickly and start testing assumptions. The canvas has also been gaining more prominence amongst corporate innovation teams.

However, it has applications beyond simply mapping out a starting point for a proposed business - it can help us identify how large corporates and their spinoff entities and even startups can best work together.

HOW TO IDENTIFY SYNERGIES

Step 1 - The spin-off or startup completes a business model canvas. Easy and familiar enough.
Step 2 - The large company or a business unit therein completes a business model canvas (or multiple canvases for different business units).
Step 3 - Map the spin-off or startup’s canvas over the corporate’s business model canvas and identify any overlaps (no dissimilar to a good old fashioned venn diagram, below).



By taking this approach, not only will incumbents help to identify strategic fit, but they will also have a roadmap to start helping from day one.

That bit in the middle - that's where a corporate can help a spin-off or a startup.

A HYPOTHETICAL CASE STUDY

Suppose it's 2008 and Southwest Airlines wants to diversify by exploring emerging business models in the travel industry and decides to partner with an up and coming startup from SF called Airbnb.

Their respective business model canvases at the time might look a little something like this (at a very high level for simplicity's sake).

Canvas building block	Southwest	Synergies	Airbnb (startup)
Resources	Pilots Flight attendants Engineers		Developers Traveler network
Partners	Travel agents	Travel agents	Payment providers Traveler networks Investors Travel agents
Activities	Short haul flights Limited service Marketing	Marketing	Photos Platform development and maintenance Marketing
Customers	Students Budget conscious travelers	Students Budget conscious travelers	Students Budget conscious travelers Locals (hosts)
Channels	Travel agents Online bookings	Online bookings	Online bookings Word of mouth Social
Customer relationships	24/7 support	24/7 support	24/7 support Brand

Very quickly we've identified a number of potential synergies.

Students and budget conscious travellers: First and foremost, the target market of a budget airline and Airbnb, at least in Airbnb's early years was shared making for strong synergies to share audiences in a very complementary space

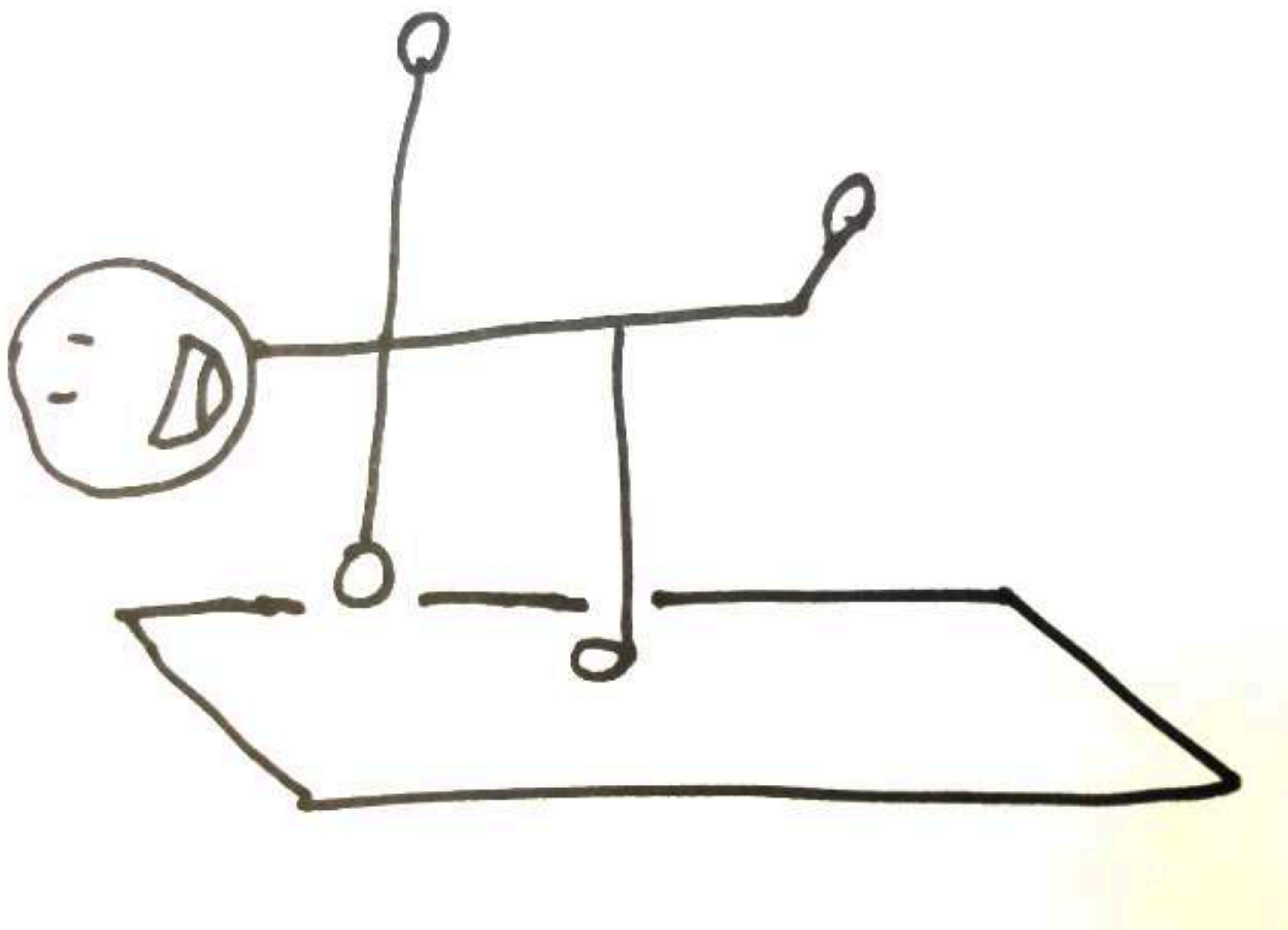
Travel agents: Southwest could introduce Airbnb to its network of trusted travel agents to explore an affiliate program

Marketing: Airbnb might be able to leverage Southwest's marketing resources, for example its email marketing database, to get in front of its database of what would no doubt be hundreds of thousands of target customers

Online bookings: As a startup, it's IT infrastructure may be ill equipped to scale and support growing traffic and demand. There may be scope to share or leverage some of Southwest's infrastructure in this space.

24/7 support: Notwithstanding its budget model, Southwest may or may not be able to provide some level of customer support to aid the development of Airbnb's brand, one of its key Customer Relationship strategies.

By identifying where the overlap is we can identify who in the large corporate we need to be working with to help us accelerate customer testing, leverage partnerships, increase reach and ultimately increase our chances of finding product market fit, today.



MIND OVER MATTER

MIND OVER MATTER

Strategic fit alone isn't enough. Things might look good on paper but how can we assure ourselves of the execution? After all, ideas are a commodity as Michael Dell famously said.

Venture capitalists invest in people first so ensure that you have a process in place to evaluate the people behind the idea as building a startup is one of the most difficult things one can do. On the topic of character, Paul Graham, founder of Y-Combinator, recounts what one startup founder told him, "the emotional ups and downs were the biggest surprise for me. One day, we'd think of ourselves as the next Google and dream of buying islands; the next, we'd be pondering how to let our loved ones know of our utter failure; and on and on".

Building a startup requires mental resilience and fortitude above all else to ride the emotional highs and lows that come with defying in most cases, parents, teachers, your bank manager and societal conventions in order to do something fraught with risk. As an entrepreneur and somebody who has mentored countless startups, I am no stranger to lingering in the 'trough of despair' and it is not without clarity of thought and emotional intelligence that one successfully navigates their way out of this trough without making irrational decisions.

Aside from resilience and tenacity, look for startup founders to have broad business and life experiences, broad interests, strong networks, tolerance of ambiguity, vision, self-belief, flexibility. Curiosity is fundamental to exploration so look for your investment prospects to demonstrate that they're interested in something a little more obscure than mainstream reality TV shows and pop-stars on their social media profiles.

Yes, startup investment goes far beyond just hypothetical numbers on a page.

WHEN TO ACQUIRE STARTUPS

WHEN TO ACQUIRE STARTUPS

Timing is another aspect of acquisitions that large incumbents appear to struggling with. The instance of incumbents paying massive premiums to acquire or invest in later stage startups, who in many cases have already done the majority of their growing, appears to be on the rise. In some cases, this might make perfect sense where there is strategic alignment and where the resources of the acquired firm don't exist in the parent or where the acquired firm provides other complementary business model improvements.Quite often though, such acquisitions are ill advised and are driven by not knowing how else to respond.

Yahoo acquiring Geocities in 1999 for US$3.7B and eventually shutting down the service as users defected to blogs, Twitter and Tumbler or Newscorp acquiring Myspace for US$580M in 2005, only to sell it six years later for US$35M are case studies in the wrath of terrible acquisition timing.

Prominent venture capitalist and founder of Foundry Group and Techstars, Brad Feld, reiterates these sentiments, stating that "there are continuous cycles of non-technology companies entering into the world of trying to buy technology companies going back well before I started even my first company (Brad started his first company in 1987). And a small number of those companies extract significant value out of [those deals] because they buy well at the right time on their curve and they're able to do something with it. And a whole bunch of companies don't get a whole lot of value for their investment".

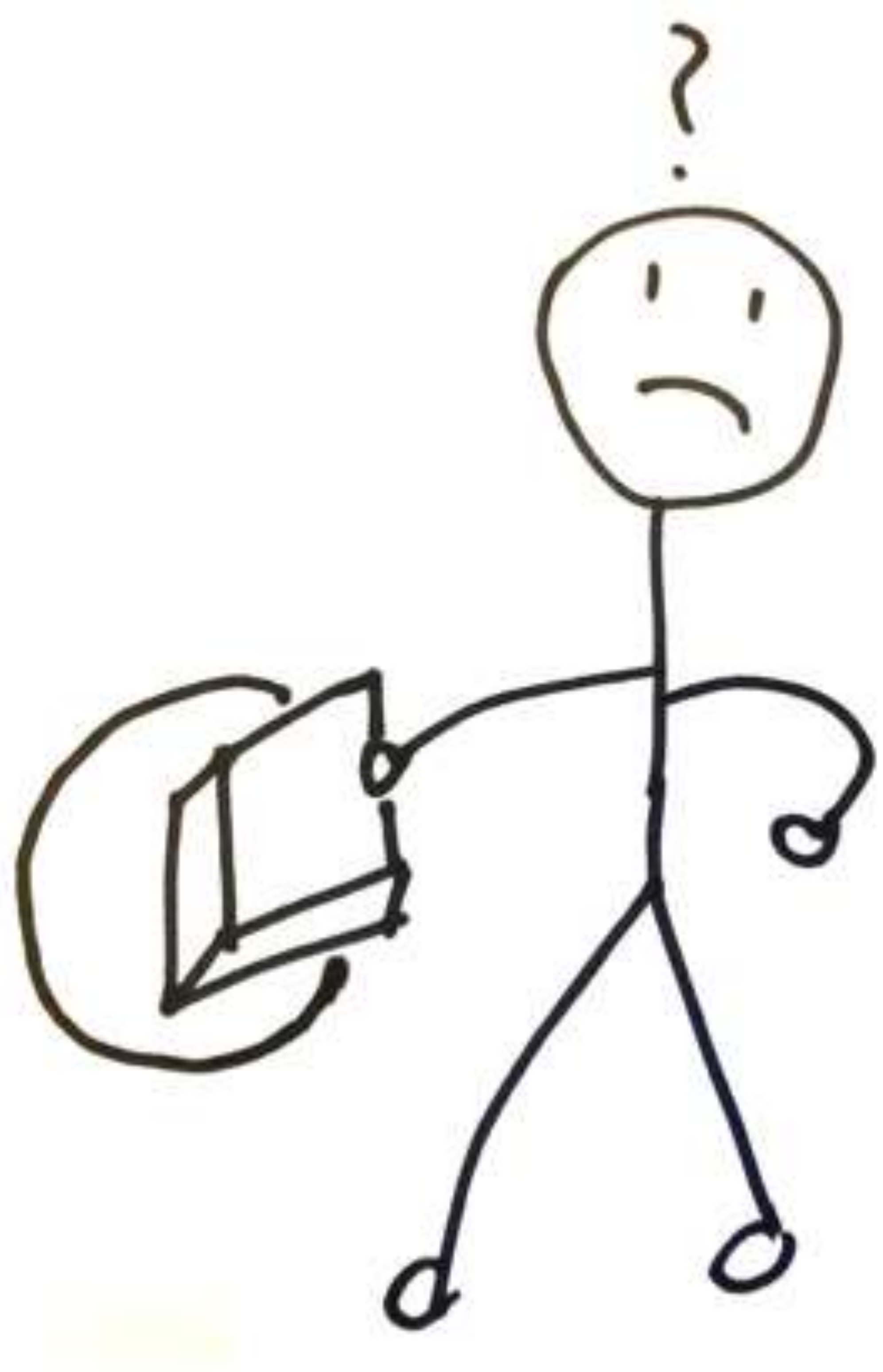
Think of it as the buy high, sell low folly of corporate acquisitions. Something we're so often told not to do when it comes to our own investment philosophy by the likes of Warren Buffett and Charlie Munger and other prominent investors.

Sadly, the instance of large organisations falling into the same hype cycle as individuals, paying premiums for sentiment driven acquisitions and investments and later suffering the cost shows no apparent signs of slowing down.

DUMB MONEY

When a startup successfully raises investment from an entity or individual that can't provide any tangible value above and beyond the color green, they're said to have received "dumb money".

I recently facilitated a pitch night for a legal-tech accelerator program. One of the budding legaltech startup founders was a former partner at a top-tier law firm. During question time, a senior partner in the audience asked him "why do you need the money?" in response to the $55,000 investment that successful applicants would receive for participating in the accelerator. I couldn't help but laugh at the naivety of this question - as if money is somehow all that stands in the way between an entrepreneur and realising their vision.
If only it were that easy.



HOW TO WORK WITH STARTUPS

HOW TO WORK WITH STARTUPS

Corporate startup partnerships represent a massive clash of cultures. If there was an equivalent of author's name's Women are from Venus, Men are from Mars to support corporate-startup relationship development, I'd be amongst the first to buy it.

There are countless platforms that corporates can leverage to connect with startups such as Crunchbase, Angellist, Startup List and Gust. Add to this meet-ups, pitch nights, conferences, blogs and social media all making it easier than ever to identify and connect with startups doing compelling things in your industry or adjacent industries.

What's really lacking is a roadmap on how to work with startups.

Startup	Corporate
Move fast and break things	Move slow and maintain things
Get out of the building from day one	Get things 'perfect' before release
Risk management by doing	Risk management by analysis
The customer is always right	We are always right
Iterate towards success	Be sure of success from day one
Take many small bets	Take few large bets
Ask for forgiveness	Ask for permission
Limited runway and resources.	Need more funding? Complete a business case.
Return on learning driven	Return on investment driven
Mid to long term focus	Short-term, shareholder driven focus
Discover and explore	Deliver and execute
Challenge the status quo	Maintain the status quo
Thrives in uncertainty	Thrives in certainty
Emphasis on simplicity	Gravitation towards complexity
Data	Opinions
Failure is a necessary part of innovation	Failure is not an option

From Different Worlds

As the often-heralded Godfather of Silicon Valley, Steve Blank likes to say, a startup is not a smaller version of a large company.

A startup is a temporary institution looking to find product market fit, whereas a large company has already found product market fit and a compelling, repeatable business model. It's merely looking to execute, maintain and incrementally improve upon this money-maker.

A typical startup founder might label a large corporate as a slow, time-wasting, monolithic organisation whose employees are laggards and care too much about mitigating risk, watching the clock and therefore spending all of their time in pointless meetings.

A corporate executive might label a startup as a band of cowboys (and cowgirls) moving quickly, breaking things and throwing caution to the wind insofar as risk management and due diligence is concerned. They might think that a startup is in the habit of releasing half baked products to market, with no methodical process being followed and figuring stuff out as they go.

There might be some semblance of truth in both of these assumptions, but therein lies the mutual benefit and if a large incumbent is serious about deriving value from startup partnerships, it needs to learn how to speak the language and align its processes.

STARTUPS THAT LEARN THE FASTEST WIN

Eric Ries' statement is truer today than it was when The Lean Startup was released in 2011. Startups rely on speed so much so that entire industries have popped up, seemingly overnight, to support the optimisation of almost everything.

From food consumed, calories burnt, ketone and blood oxygen levels, sleep patterns, moods, brainwaves, fitness levels, productivity, distance jogged and more, the desire to measure and manage is perhaps highest amongst startup founders and employees.

This extends to the use of automation and outsourcing tools which help startups play on 11, to quote the delightful Nigel Tufnel from mock rockers Spinal Tap.

If you've gone to college, scored a gig for a large investment bank and then quit to follow your dreams and work for a fraction of what you were making at a large firm and your business only got 6 months of lifeblood left before it begins its quick fade into oblivion then you'll do whatever it takes to make things work. If you've only got five employees, you'll monitor and optimise so that five operate as if they were 10, 15 or even 20 equivalent full-time employees at a large organisation.

This is what the entire growth hacking movement which is gaining serious traction in Silicon Valley and beyond was born out of. Necessity.

If you don't have bags of cash to throw on expensive above the line, (and often underperforming) advertising and public relations campaigns, you'll find other ways of getting the word out such as leveraging the audiences of influencers for free by providing some form of value.

To reiterate this point, Google Ventures' Jake Knapp and John Zeratsky who co-authored the best-selling book Sprint, run a Medium blog called Time Dorks, all about making good use of time.

You'll be far more diligent with every dollar and every minute spent.

PROCEED WITH CAUTION

With this in mind, anything that slows down a startup radically compromises its chances of success.

If you're a corporate executive who likes to take meetings with startup founders because you feel you're doing them a favour or simply want some light entertainment to get a break from your day job, stop. You just might be getting in the way of the next Elon Musk, Jeff Bezos or Mark Zuckerberg changing the world, or failing that, you just might be getting in the way of a budding young entrepreneur realising their own dreams and making life better for a niche set of consumers.

If you're the type to lead a startup on in so far as investment, partnering or purchasing goes, and chew up their resources by asking them to "submit a proposal" that you have no serious interest in or budget for - please, just stop. Startups can't wait for important decisions to go before steering committee meetings that might take months to coordinate.

Ensure you align on communication and expectations. Setting up a process or unit internally to move in lock step with a startup is key if you seriously plan to work with them.

Having said that, startup founders who have never spent any time in the corporate world would be well advised to educate themselves on how corporates work as well.

With that in mind, here's a simple do and don't chart for both corporates and startups working together.

Corporate		Startup	
Do	**Don't**	**Do**	**Don't**
Be transparent around budget and timing	Take meetings unless genuine interest in investing or partnering with startups	Expect sales cycles of 3 - 18 months with some B2B clients	Expect same day turnaround.
Look for ways to fast-track procurement of and engagement with startup offerings	Schedule long meetings when qualifying startups (keep them to 30 minutes or less)	Build a strong pipeline of potential partners to offset long sales cycles and low conversion rates of about 2% for some industries and companies (of course, this depends on how good your customer segmentation, marketing and sales approach is)	Put all your eggs in one basket
Make complementary business model resources available (people, expertise, distribution, marketing etc) to help startups test and grow their businesses	Ask for elaborate proposals unless you have a genuine interest in partnering	Ask qualifying questions early in a pursuit to determine appetite, budget, strategic fit, decision maker buy-in and authority of your prospect	Overcommit time and resources into elaborate proposals without qualifying leads properly
Understand what drives startup founders, the sacrifices they have made and their limited runway (no play, no pay)	Expect or demand that startups part with their IP as part of early stage investment rounds or give up a majority ownership share in their companies (think <10% at most for seed stage financings)	Understand how corporate executives are incentivised and how they make decisions	Get upset when a corporate executive isn't responsive. Understand they have conflicting priorities and short term obligations and that your startup is probably not on top of the list unless you can bring something truly compelling to the table.

The world is indeed moving faster than ever towards uncharted territories and large incumbents can learn and benefit a lot from startups that thrive on being adaptable and navigating uncertainty is par for the course.

Partnering, investing and acquiring startups all makes a world of sense in what is often a nonsensical world but only by taking the time to diligently navigate the when, who and how of corporate startup partnerships are large incumbents likely to derive any value above and beyond press clippings that the startup ecosystem is so damn good at generating.

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