Corporates and Start-ups: Engage or Else!

There have never been more ways for big companies and entrepreneurs to collaborate - and you'd be surprised at how common these unlikely pairings are becoming.

Singapore-based DBS Bank is Southeast Asia's largest bank by assets, but its leaders aren't taking continued prosperity for granted. Nor should they, knowing as they do that Asian banks may be even more vulnerable than their Western peers to near-term disruption by fintech startups.

To head off the threat, DBS has invested $1.2 billion in digital initiatives. Incongruously, this includes extending a helping hand to Asian entrepreneurs, whilst simultaneously, and aggressively, answering challenges from the start-up world. DBS recently launched a Hong Kong-based mentoring programme for start-ups in collaboration with a leading local incubator. This complements its pre-accelerator in Singapore offering participants S$25,000 in seed funding. The bank has also introduced reduced-fee accounts for entrepreneurs and released a mobile app for budding Singapore SMEs, among other goodies.

What's more, in 2015 alone DBS has given 5,000 employees - nearly one-quarter of its total headcount - the chance to participate in hacking challenges and hybrid team projects involving startups.

Unlike a conventional venture capital (VC) or M&A relationship, there are no overarching strategic or financial objectives evident here. So what does DBS stand to gain from all this? Believe it or not, quite a lot. It can be difficult bordering on impossible for large organisations to teach themselves how to become innovation-driven. DBS's hunch was that engaging closely with start-ups in many different ways would help the organisation imbibe something of their creative, agile culture. And the bank is by no means an outlier: Many of the world's most iconic companies are similarly seeking cultural contagion from start-ups, drawing on a broad spectrum of novel channels for engagement.

Less risky relationships with startups

For the first time, all the different ways incumbents are engaging with start-ups have been documented in a report, co-authored by INSEAD and the Silicon Valley venture-capital firm **500 Startups**, **"#500 Corporates: How do the World's Biggest Companies Deal with the Startup Revolution"**. The most well-known channel, and still the most popular, is corporate venture capital, (164 corporations of the Forbes Global 500), a sector that saw the number of deals rise by 30 percent between 2009 and 2013, in line with the soaring stock market. Indeed, the majority (61.7 percent) of *The Wall Street Journal's* **Billion Dollar Startup Club** have received funding from at least one corporation (which doesn't include investment firms like Goldman Sachs).

However, it goes without saying that VC is an expensive proposition, one that may be out of reach for smaller companies. Our report shares the good news that if a company lacks the financial resources to invest, or isn't quite ready to take the plunge, there are plenty of other ways to engage that are relatively low-cost and low-risk.

The same goes for companies in need of innovative talent that lack the cash flow to acquire, or acqui-hire, a company or team. Mingling with start-ups in a more open-ended way builds a bridge that some entrepreneurial talent may choose to cross – without jeopardising the bottom line.

The ecosystem of engagement

Here are a few of the more common ways to engage, in descending order of popularity:

- **Start-up competitions –** 76 corporations of the Forbes Global 500 have held competitions, which usually involve entrepreneurs pitching their start-up ideas as they vie for a cash prize. Comcast, for example, has Innovations for Entrepreneurs, Philips sponsors an Innovation Award, and Pernod Ricard runs a contest for social-impact startups called The Venture. Companies can use competitions to engage a particular demographic (e.g. L'Oreal USA's Women in Digital programme), and/or foster partnerships unlikely to come about otherwise (e.g. the Head Health Challenge, a joint endeavor of General Electric, Under Armour, NIST, and the National Football League).
- **Accelerators/Incubators** – 64 corporations of the Forbes Global 500 have set up incubators and/or accelerators to aid the development of nascent companies. Some incumbents are using these programmes as tools to facilitate networking and relationship-building. For example, an interesting model has been launched by Airbus Group with BizLab, where entrepreneurs and intrapreneurs (employees) are working under the same roof. In addition, Deutsche Telekom, Orange, Microsoft, and Coca-Cola are just some of the companies that have taken their accelerator programmes international: the Coca-Cola Founders seed/start-up platform has set up in 11 countries, Microsoft and Microsoft Ventures Accelerator are in seven.
- **Startup programmes** – 57 corporations of the Forbes Global 500 provide packages of free corporate products and services to start-ups. For example, PayPal waives fees for transaction volume up to US$1.5 million. This is the most widely used way for regional banks to engage with start-ups (see above). Itaú Unibanco Holding (Brazil) and Garanti Bank (Turkey) are targeting women through their entrepreneur programmes. Maybank with the New Entrepreneur Fund grants a start-up loan to enterprises under full Bumiputra (Malay ethnic group) ownership.

Factoring in corporate VC, 68 of the top 100 companies from the Forbes Global 500 are engaging with startups somehow.

Europe leads the pack

While writing the report, we were surprised to find that the epicenter of corporate/start-up engagement was actually Europe. France, in particular, stood out as the country where almost every corporation on the Forbes Global 500 is engaging with start-ups, and using 1.7 different channels to do it. Tied at a rather distant second place were Germany and Switzerland, while Japan at fourth place has the distinction of being the sole non-European country in the top five (but Japanese corporations are employing VC almost exclusively). The United Kingdom rounds out the top five.

It is too early in the game to hypothesise why Europe is out in front, but it is a notable trend nonetheless. For more detailed country and industry breakdowns, download **the report**.

Start small and lead decisively

Even if you're able to invest in or acquire a start-up right away, there is something to be said for starting small, this could be by sponsoring an event or offering support services. That way, you'll have a better sense of how start-ups work before going all-in, and thus be more likely to avoid imposing big-company standards and KPIs where they don't apply. Starting small also means not petitioning the biggest players right away; small start-ups make for easier collaborations.

No company we looked at followed exactly the same pattern of engagement. The key is to know your objectives, resources and timeframe before elaborating the right strategy to work with start-ups. The leadership team should be steering the initiative from the beginning with strong support as well as vision, budget, and a stable organisational environment for experimentation.

Perhaps the main takeaway from this report is that with these new lower-commitment channels, there's little for start-ups and corporates to lose by engaging, especially compared with what both parties have to offer one another. The world of start-ups is such a hotbed of disruptive potential that established firms can ill-afford to have their backs to it. Meanwhile, entrepreneurs crave access to the bounty of resources big corporates enjoy - and since nine out of ten start-ups fail, engagement may be a matter of survival for them as well. As our report demonstrates, corporate/start-up collaboration will be an essential part of every company's innovation portfolio going forward.

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