



Pollenizer

WORKING WITH STARTUPS

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A QUICK GUIDE FOR ESTABLISHED FIRMS WHO ARE
THINKING ABOUT USING THE ENERGY AND CREATIVITY
OF STARTUPS TO HELP BOOST THEIR OWN INNOVATION
CAPACITY AND FIND NEW GROWTH.

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FOREWORD

Startup innovation practice is a new field, emerging from these times of massive disruption.

You don't need evidence from me that this disruption is occurring. We can see it happening around us in every update to the board from our management teams and in every news story. Times are changing and we have no choice but to make the 'new thing' that our customers demand, faster and better than anyone else. We need to do this systematically and courageously. Like a startup does.

Startup innovation practice has risen from this need to be fast. We are all learning as we go, but the learning is happening fast. Some of us are learning what we need to do by founding companies and running incubators, like my company Pollenizer. Others, like Paul and Nancy, are travelling the world, examining best practice and sharing it back for us all to be successful quicker.

Your company can start working like a startup, but perhaps you could begin by 'getting involved' and establishing a partnership strategy with the thousands of startups around you? That's what Paul and Nancy have assembled for you here. You don't need to take big risks or invest bucket-loads of capital. You just need to begin, and do so deliberately and strategically. If you do it without purpose and follow-through, it won't come to much.

This paper will get you started. We hope that it helps you level-up your own practice.

Phil Morle - CEO - POLLENIZER



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INNOVATION AND CHANGE

These are times of rapid and dynamic changes in markets and technology, consumption and competition. Ever shortening product life cycles, higher demands from customers and shareholders, and the disruptive effect of the Internet in bringing cut-price or feature-rich services into new markets means every firm has to be looking for growth, next-generation business models and over-the-horizon innovations. But this also means opportunity, the opportunity to hook into new sources of creativity, talent, expertise and energy within the startup ecosystem.

There are several forms this collaboration can take for established firms, each with particular advantages:

- ✎ Engage an incubator or member of the startup ecosystem to run a “hackathon” or startup weekend for your firm.
- ✎ Engage a member of the startup ecosystem to run an accelerator program to identify and develop minimum viable products that prove a concept or exciting new business idea.
- ✎ Run your own “hackathon” or accelerator program to identify and nurture internal and external creative ideas.
- ✎ Engage directly with startups as innovation-focussed, fast-moving subcontractors.

This guide is specifically about **collaboration with startups, young, new-venture enterprises**, and how this offers established firms an avenue towards “open innovation”. We have drawn upon our own research, field work and published academic research, as well as reports from organisations such as the Global Entrepreneurship Monitor (GEM) consortium, INSEAD, consulting firms and the OECD. And recent surveys show that joint ventures, strategic alliances and informal collaborations between companies and startups are gaining traction and growing rapidly.

Open innovation is an innovation framework proposing that established firms should use external sources as pathways to new ideas, technologies, business models and markets. This has substantial enterprise, as well as wider economic and social benefits. In this document, we briefly describe the benefits of initiating such partnerships, some of the prerequisites and capabilities firms need to make this succeed, and some of the pitfalls to watch out for.

WHAT'S IN IT FOR COMPANIES?

Develop out-of-the-box ideas: Many major firms know they are geared towards efficiency, lean management and control. The very basis for success can become a liability, as established methods and knowledge (“core competencies”) becomes a block to innovation (“core rigidities”). Although not confined to high-tech, many examples of great innovation come from Internet startups: AirBnB owns no hotels, Uber owns no taxis – and yet they are highly disruptive to the existing markets. Using startups through corporate accelerators for example will let your firm identify such threats and new growth opportunities.

Exploit a low risk approach: Collaboration with startups does not usually involve large amounts of capital, infrastructure or personnel. Whilst the relationship needs to be managed intelligently and with the right touch, the first key ingredient is the energy, intelligence and of course self-interest of startups who have



an eye on highly-scalable business development. This kind of partnership can lead to significant win-win outcomes if the established firm can facilitate the success of the startup in a way that brings strategic innovation benefits to the firm.

Encourage innovative thinking: Established firms need motivated, entrepreneurial staff. Employees, particularly the emerging generation, want a stimulating and exciting work environment where they can actively engage in shaping the future. Bring startups into your environment can stimulate a multi-faceted and creative environment and make you an attractive employer to the best talent. This can be achieved by a fairly low-level of investment and risk: participation in start-up events, mentoring and training startups who work in your industry, or working with startups in specific phases of new product development such as design or testing.

Introduce an innovative buzz into your firm: New ideas, new perspectives and out-of-the-box thinking emerges out of the cooperation with young, dynamic startups who are not constrained by standard business models, sunk investment costs, or history. To get proximity to this, you might share infrastructure, invite startups to co-develop prototypes and proofs of concept. Enhance your supply chain with innovative future suppliers, customers and partners: New relationships in your value chain can be created with startups of all kind, for example by starting with an incubator or accelerator process. Australia generally performs poorly in international comparisons about business-business collaboration: this is one way to discover the synergistic powers which are ignited when you co-create with business partners. Involve startups in innovative research, do pilot projects or share with them in blue-sky innovative thinking, even take part-ownership of promising firms.

Develop your local community: Established firms can contribute to the wider economic life of Australia, securing and developing high-value jobs and a positive, diversified economy. Such corporate citizenship will open the confines of the firm and improve its external focus. Established firms can educate entrepreneurs, conduct co-operative tech-shows and employ startups for market and product tests.

Enhance your brand: Working with startups may provide you with the opportunity to cast your brand in a more contemporary and forward-looking light. Startups are widely associated with rapid development of innovation, intelligent and creative business thinking and low levels of formality and bureaucracy. Conducting a hackathon, rewarding and funding startups, running your own accelerator are all opportunities to begin to add these attributes to your brand that will resonate in the marketplace and within your organisation.

WHAT'S IN IT FOR STARTUPS?

Companies need to understand the perspective of startups. Why would a startup, with great ideas, energy and high-scale growth potential want to work with established firms? For startups in such relationships, there can be challenges. Large organizations can demand disproportionate amounts of a small company's time and the startup can quickly lose control over its own priorities. But complex markets are full of challenges: startups need reference customers, technical know-how and information resources, as well as financial and organisational security. A reliable and considerate partner in the form of an established firm can help a young company in their development in a number of ways:



Maintaining financial momentum: Young companies must avoid the funding “valley of death”. Established firms can help through specific orders, investment or equity participation.

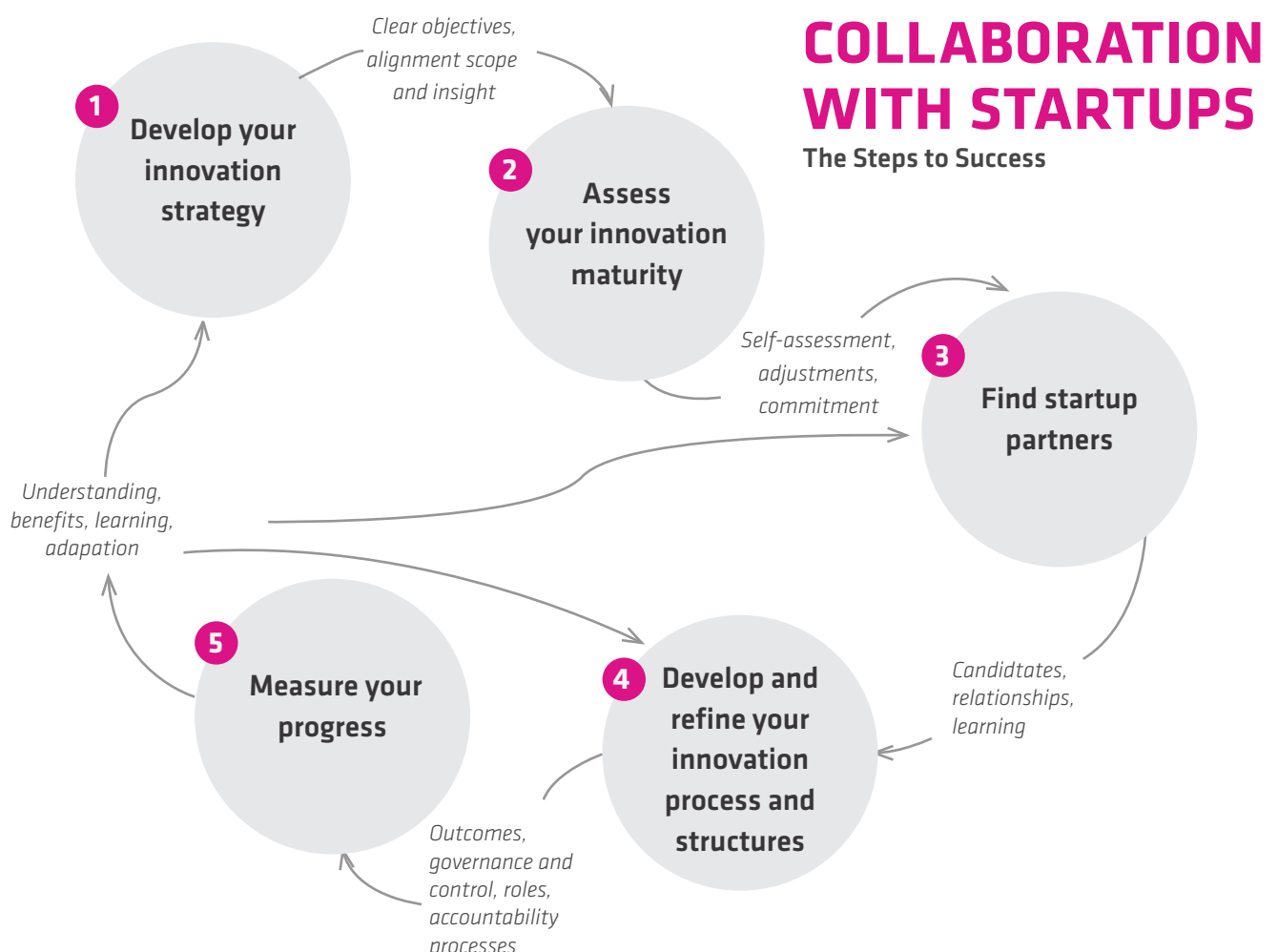
Accelerating learning: young companies, particularly from a university environment, often have little practical experience. An experienced company can provide fast feedback and help avoid mistakes and focus on what is important.

Finding clients: Working with an established firm allows a startup to use the existing network of a mature company to find pilot customers and new clients.

Providing resources: Established firms can share their infrastructure, prototypes, inventories and data with startups, who are then put in a position to more rapidly ideate, assess and test innovations.

STEPS TO SUCCESS FOR CORPORATIONS

Working with startups offers opportunities and potential advantages, but there are no guarantees. Indeed, these relationships can be challenging and there may be uncertainty and some reluctance on both sides. Whilst each relationship will be unique, there are a number of challenges which will be common to all. If an established firm wants to begin the journey towards more dynamic innovation and collaboration with startups, the following steps are particularly important.



1. Develop your innovation strategy

Some companies have an articulated innovation strategy, but few have a clear, enterprise-wide long-term strategy on working with startups. Such cases often depend on an individual staff member and things are decided on a case by case basis. This makes them vulnerable to staff changes, reduces their chances of success and restricts the full organisational benefit. Because startups are usually even less clear on how to work with larger firms, there is great scope for confusion, misunderstanding and escalation of frustration. A clear strategy with budget allocations, measurable goals and governance processes will greatly increase the chances of success as well as encourage goal setting on the part of the startup.

Some of the questions that a company should typically ask itself include:

- ✎ What problems do we need to solve?
- ✎ Who are the key stakeholders?
- ✎ What are our objectives and how strategic is this for us?
- ✎ How urgent is this, how much pressure are we under?
- ✎ What risks and threats do we see?
- ✎ Do we have the cultural and managerial will and capability to make this work?
- ✎ How much do we want to invest?
- ✎ Have we done this before?
- ✎ How much value can we get out of this?

Once these questions have been answered, a strategy for open innovation with startups can be developed. This strategy needs to become accepted, legitimated and articulated throughout the organisation to establish a standard mode of operation. And you should have answers to these questions before you start in order to justify and sustain the legitimacy of the approach within the organisation:

- ✎ Can we push forward with innovation on our own at an acceptable speed?
- ✎ Will a partnership allow us to drive innovation faster, cheaper and better than on our own?
- ✎ Can startups introduce us to new application areas, customers, business models, products and services?
- ✎ How high are the transaction costs of dealing with a startup?
- ✎ Will this approach boost our internal innovation capability and competitiveness or will we become too dependent on suppliers for innovation?
- ✎ What does this mean for our internally-focussed innovation, such as R&D and new product

2. Assess your innovation maturity

Organisations need to prepare their organisations well to maximise the chances of success. A self-evaluation of its own internal capabilities will help organisations make decisions about their readiness to participate in such partnerships. Some of the following attributes for example will facilitate collaboration with startups:

- ✎ A strategic repositioning of the firm – new markets, business growth, new brand or new business models for example
- ✎ Clear executive management support and involvement
- ✎ A focus on shared value and not just a need for a supplier to provide defined services
- ✎ Line management capability and motivation to make it work



- ✎ An organisational ability to absorb new knowledge and make the most of it
- ✎ Organisational awareness and mindfulness of what is going on in the firm
- ✎ An ability to cope with ambiguity and uncertainty
- ✎ An absence of a culture of “not invented here” and risk aversion
- ✎ A healthy tolerance of failure
- ✎ Appropriate management performance criteria

Organisational culture is a key capability for any open-innovation undertaking. An organisational culture in which norms of openness, tolerance, risk taking and creativity are present will have more chance of successfully executing and integrating the outcomes of open innovation projects than conservative, risk-avoiding, inward-looking companies. The research into breakthrough innovation shows that mindset can be a key factor: employees may have a fear of change or failure and managers may continue to apply conservative decision making processes which they perceive to be in the best interests of the firm. The consequences will be deliberate or unconscious resistance.

Overall, it is a good idea to take an honest look at oneself and conduct an objective assessment of your organisation’s innovation maturity. Depending upon the outcomes of such a review, a change management process may be required to introduce behaviours and norms conducive to innovation and collaboration.

3. Find startup partners

Startups often have no public profile and may be difficult to locate. Firms have several options in this search: they can utilise a seed or startup accelerator, which organises cohorts of startups with a focus on a particular industry or technology sectors; advertising or word of mouth in the appropriate media is a possibility, or they can employ a scout or venture-capital firm to find startups on their behalf. Some examples of criteria for selecting and investing in a startup include:

- ✎ The startup is active in a new market area, with no existing competition or addresses the needs of a new class of consumers
- ✎ The startup consists of an entrepreneurial, creative, well-balanced team
- ✎ The startup possesses advanced technological knowledge

But be aware that there will be fundamental differences in your conventional assessment of a sub-contractor or supplier and the typical situation of a startup: where a company normally expects its suppliers to have a track record, customer recommendations and be financially stable, the reality is that many startups have no finished product details, little experience with large companies, and live from hand to mouth. And of course, unlike many conventional suppliers, a startup has an independent vision of where it wants its products to go. This may be precisely what you need!

4. Develop and refine your innovation processes and structures

In practical terms, management policies, processes, roles and responsibilities will be needed to guide innovation with startups. Research tells us that the absence of innovation discovery, incubation and commercialisation competencies, insufficient resources and unsupportive organisational structures stand in the way of successful open innovation. Established firms have high division of labour and complex networks of groups, managers, performance indicators and lines of reporting: startups may have only embryonic roles and responsibilities.



A company needs to establish transparent structures, roles and management processes and provide clear interfaces and contact points to the startup. Therefore a company may even wish to set up separate independent management systems and organisational structures to support open innovation and provide an interface between innovation activities and the mother organisation.

- ✎ Set up a governance structure, such as a steering committee, consisting of influential and authoritative managers who can guide open innovation projects in an appropriate way and provide organisational backing
- ✎ Formalise responsibilities such as contact persons, budgets, reporting and so on – perhaps even a special team or organisational grouping
- ✎ Define procedures for communication and work, project management and communications, including how the entrepreneurs will be selected.
- ✎ Formulate clear contracts and agreements and establish a framework describing the duration, content and scope of the partnership.
- ✎ Have a clear framework to manage the phases of discovery, incubation and acceleration and the transition between them.
- ✎ As necessary, try and change norms, attitudes and behaviour towards open innovation to be positive and embracing.

5. Measure your progress

It is important to put in place measurement programs that monitor the success of working with startups. You can measure input and output conditions for collaboration with startups and get an idea of the efficiency of your innovation efforts. Input capabilities and resources include:

- ✎ The level of support in the organisational culture, allowing time for innovation, nurturing the motivation to do so, rewarding success and allowing failure.
- ✎ The maturity of the processes and structures to support innovation
- ✎ The management effort to work with startups and the number of people engaged
- ✎ The time taken to move from idea to implementation.
- ✎ The cost and resources allocated to the startup projects.

It is crucial to measure and quantify the benefits to the firm in terms of innovation outputs. Measurable outputs might include:

- ✎ Innovations created or the increase in internal entrepreneurial activities.
- ✎ The tangible payoff the organisation is getting in terms of savings, revenue, decrease in cycle times and so on.
- ✎ Non-tangible benefits such as organisational learning, changes to organisational attitudes to innovation and culture arising from working with startups, or the attractiveness of the firm to new talent.
- ✎ The innovation maturity of your organisation using standard scales, for example from “Basic” to “Optimising.”

Combining input and output metrics will also give an idea the efficiency of the process in generating the desired outcomes.

CASE STUDIES OF SUCCESSFUL OPEN INNOVATION WITH STARTUPS

Coca-Cola

Coca-Cola ran a hackathon with Pollenizer and 50 external entrepreneurs and data scientists with 50 employees to solve supply chain problems. A designer, a truck driver and a call centre operator solved a key payment problem for deliveries to small businesses. Another group used big data to automate when the business refills vending machines across Australia and has already saved 15% on costs. So successful was the program that the business now looks to startups to co-create new businesses as well as their normal tendering process.

Mondeléz

Mondeléz ran a Mobile Futures (<http://www.mobilefutures.com.au/>) program with Pollenizer to pair startups with brand managers to find new ways of innovating in retail using mobile technologies. Brands such as Cadbury, Philadelphia and BelVita collaborated with startups to navigate customers to stores and around them once they got there. Other ideas found ways to sustain the relationship with a customer outside of traditional advertising channels.

Australian Federal Government

The Department of Prime Minister and Cabinet under the Australian Federal Government runs the Datastart program with Pollenizer to point startups at the massive data assets that the government continues to grow. This incubator forms new startups to bring new value propositions to the market in 3 month cycles.

Simplot

Simplot are “changing the future of food” with Simplot Ignite (“<http://simplotignite.slingshotters.com/>”). This collaboration with the Slingshot Accelerator funds external startups to discover areas of new growth in the food business. The program runs in parallel to an internal startup innovation process that the company runs with Pollenizer, with a close interaction and learning pattern across the programs.



NEXT STEPS FOR CORPORATES

Pollenizer is a new breed of consultancy, born from startups, run by entrepreneurs and specialising in helping the world's largest companies to find new growth through startup science.

Edith Cowan University's Centre for Innovative Practice is a research centre integrating current innovation knowledge combined with a focus on practice-

