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COLLABORATION BETWEEN CORPORATES AND START-UPS: BENEFITS AND RISKS ANALYSIS

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Abstract

Collaboration between start-ups and large corporates is a key for fostering innovation. It is done to benefit both sides. It helps corporates to gain hands on latest innovations in the market and help start-ups to gain customer base and infrastructure requirements. If the new strategy is carefully implemented by both startups and corporates, the collaboration would turn out to be a win-win solution not only for both parties, but for the industry and the entire entrepreneurial ecosystem too.

Successful collaboration depends on each side learning to understand the interests, expectations, incentives, culture and work ethics of the other. It depends on the two parties identifying the most appropriate proven collaboration model for their situation – which could be incubation, acceleration or partnership – and clearly defining roles and responsibilities.

This paper attempts to find out how start-ups and corporates can work together, by improving their mutual understanding of the risks and challenges each side faces. It identifies the strengths of either parties to utilize it for each other's benefits and overcome their weaknesses.

Keywords: *Collaboration, Start-ups, Corporates, Innovation.*

The business landscape is changing, making it hard for big firms to innovate quickly enough to meet the market requirements alone. Hence, more and more corporations are looking forward to collaborate with start-ups. Take hospitality company Hilton, for instance, It has been in existence for almost 100 years and it has approximately 838,000 rooms in 103 countries and a market capitalization of $25.1 billion (Source: Forbes.com). However, in just 10 years, starting from scratch, Airbnb has surpassed Hilton's market capitalization, with quadruple the number of managed rooms. In parallel, without it owning a single car, in just nine years, Uber has exceeded the market capitalization of BMW, which began 102 years ago.

Achieving the goals: a win-win partnership

If the new strategy is carefully implemented by both startups and corporates, the collaboration would turn out to be a win-win solution not only for both parties, but for the industry and the entire entrepreneurial ecosystem too.

We have seen in the past, how Microsoft and Bill Gates got the OS business with IBM. It was this that changed the course of technology, opening the door for Microsoft to become a dominant technology company of the PC era, and also giving IBM the OS they needed – A win-win partnership for both!

If the process is well organized and structured, the collaboration produces tremendous results for both the corporations and startups involved. Corporations get to rebuild their organizational structure and startups get the opportunity to scale up using the infrastructure provided by the corporates.

Both the parties can therefore benefit from the strengths of each other and help overcome their individual weaknesses.

	Strengths	Weaknesses
Corporates	Ample of resources. Larger influence on the market and industry. An established corporate has less to prove. Their current business model is assumed to be viable if they still exist in the market. Already established Brand image and reputation. Less threat to "die if they don't deliver".	Indirect Information sharing. Training the corporate employees on latest technologies becomes difficult, time consuming and costly too. Tends to be conservative in sharing ideas and know-how. High-level approach is followed with lots of meetings and processes.
Start-Ups	Free to move- less or no hierarchy. Less process oriented, exchanges can be quick and informal. Flexible-Easy to implement changes. Still in the process of refining and finding their business models. That's what makes them startups. (Could be a weakness too). Attracts young and dynamic talents. Knowledge and experience are easy to be shared. Experiments can be done easily to validate what works best.	Fragile. High amount of risk. Lack initial capital. Responsibility is vested in the hands of few people. Reputation and brand image is yet to be established.

Benefits of Collaboration to Start ups

Easy source of initial investment:

Corporates provide initial investments to the start ups and hence no external financing is needed. Corporates also help start-ups to reach their BEP soon.

Customer Base:

Corporates help start ups in identifying their first customer. They themselves act as an ideal target customer for the start-ups.

Easy Internationalization:

Collaboration enables start-ups to easily expand into other countries by partnering with the corporate's local subsidiaries.

Exploitaion of unused assets:

Collaboration enables a start-up to exploit unutilized corporate assets and create new business opportunities.

Easy market penetration:

With Corporates, it becomes easy for start-ups to penetrate into the market with already available resources.

Benefits to Corporates

Knowledge of latest technological innovations in market:

Corporates get to know about the market shifts caused by innovations and technology changes and this helps them to secure future competitive advantage.

More focus on customer needs:

Start-ups generally innovate the product close to market/ customer requirements. Collaboration with them hence helps to serve the customer better and prevent loss of clientele to other companies.

Openness to changes and Intrapreneurship

New revenue streams:

Through collaboration, corporate can offer new and creative product/services to existing clients.

Risks associated with Collaboration

Every coin has two sides. With benefits come some risks too. Before collaboration, it is important to understand the risk it would come along so that the issues can be addresses in the interests of both the parties.

Risks for Start-ups

Limited source of revenue:

Through collaboration, start-ups are only dependent on corporates for their funding. External financing can't be done and hence, they end up with limited time and resources to continue their operations.

Distraction in developing a universal product:

Focusing on single large corporate client may distract the start-ups in developing a universal product.

Delay in projects:

Various departments in corporate tend to formulate different requirements for the relationship between a startup and a business, this often leads to delays.

Losing the start-up spirit:

Too much dependency on corporate decision-making may risk the start-up in losing its spirit of a start-up.

Risks for Corporates

Reputational damage:

If the newly invested start-up fails, it may damage the brand and reputation of the corporate.

Investment loss:

Loss of investment is more in start-ups as compared to other usual investments. They might also face shareholder dissatisfaction due to collaboration.

Resistance of employees to adapt to changes:

As Corporate employees are trained to follow old processes, they might feel threatened by the new unfamiliar culture of start-ups.

Unpredictive future results:

Since start-up entrepreneurs and team are new in the market, the resuts of marketing with them are difficult to predict.

Reasons why collaboration between them fail so often?

- Difference of interests and inability to match them in the favor of both the parties.
- Lack of commitment from one party.
- Loss of information.
- Economies of scales: because of lower volumes and initial investment costs, there's often a mismatch between the expected cost per unit a corporate has in mind and the one the startup can actually offer.
- There's always a risk associated with a start up and large organizations are risk averse.
- Difference in approaches to work and make decisions.
- Failure to build trust.

Recommendations and Conclusion

Innovation is a key to sustainable success, and one way to accelerate innovation is through collaboration. Successful collaboration depends on each party learning to understand the interests, expectations, incentives, culture and work ethics of the other. It is important to identify the most appropriate proven collaboration model for a situation– which could be incubation, acceleration or partnership – and clearly defining roles and responsibilities. If it's done smartly, the partnership provides capital structure that can help the startup grow faster, as well as help the corporates speed up innovation and get a hands on to where technology is heading. To be truly mutually beneficial, both the parties should focus on what you they can do for each other, and not on what they can get out of it.

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