

## What every start-up should know about big corporations

This document is targeted at start-ups who are considering forming a partnership with a large, technology-intensive firm, and aims to give a flavour of the characteristics and operations of such firms.

### ***Technology and innovation***

#### **R&D and NIH**

Historically, most large companies have performed R&D activities in-house. The largest companies might even have had a central R&D facility in addition to R&D units located in each of several product divisions. These R&D units would be fiercely proud of their own innovative capabilities, leading to what became known as the NIH syndrome - or 'Not Invented Here', a distrust of (or even subversive opposition to) any new idea imported from elsewhere. Such groups would develop their own version of a particular technology, believing theirs to be superior.

Real or imagined technological superiority is however only one dimension of product innovation success, and there are several notable examples of 'superior' products which were market failures.

#### **Closed and open innovation**

Such faith in internal R&D might have been justified when the pace of technological change was rather more modest than it is today. Recent increases in the intensity of technological change and global competition have meant that many companies no longer have the time or the capability to develop everything in-house.

This has led many companies to move from a 'closed' model of innovation to a more 'open' model, in which external links are cultivated rather than distrusted.<sup>1</sup> In the 'open' innovation model, firms actively seek external sources of new products and technologies, whilst at the same time exploring external applications for under-utilised technologies developed in-house. This in turn has created a market for

technologies based on inward and outward licensing or technology transfer.<sup>2</sup>

#### **Disruptive technology**

A particular challenge for large companies is the issue of so-called 'disruptive' technologies, which have the potential to change the basis of competition by offering a new value proposition to a new or redefined market. Established companies often cling to their own technologies and business models in the face of radical alternatives until it's too late (e.g. film v digital photography).<sup>3</sup>

#### **Corporate venturing**

Many large firms look to the flexibility and dynamism of start-ups and attempt to bring a flavour of entrepreneurial behaviour within the large firm corporate structures. Some have come to realise that the dominant corporate culture may be incompatible with entrepreneurship and have turned to one or more forms of corporate venturing. This may take the form of incubation and spin-out of technologies developed in-house, but not related to the core business, or investment in external businesses, particularly start-ups. These investments may be purely financially driven as with corporate venture capital (CVC), where cash is invested via a fund which is administered by a separate legal entity, or they may be more strategic, where corporate funds are invested in start-ups whose technology may be of direct or indirect interest to the company. In some cases, such investment might subsequently lead to outright acquisition.

#### **Corporate organisation and culture**

There is no single way to organise a large company. This is in part due to the inherent conflicts which arise between organising by function, by product line or by geography. This problem is compounded by the fact that many large companies have grown by acquisition, and have inherited a number of outposts each with its own history, culture and desire for

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<sup>1</sup> Chesbrough, H. (2003) *Open Innovation*, Harvard Business School Press

<sup>2</sup> See for example [www.yet2.com](http://www.yet2.com)

<sup>3</sup> Christensen, C.M. (1997) *'The Innovator's Dilemma'*, Boston: Harvard Business School Press

independence. As a result many companies engage in a continual process of reorganisation, an adjunct of which may be high levels of staff turnover.

### **Multiple projects**

At any given time, a large company will have a portfolio of R&D activities, ranging from exploration through to near-market product development. The process is often likened to a funnel in which a relatively large number of new ideas are investigated, the unpromising ones are filtered out and a relatively small number get through to the product development pipeline.

It is quite likely that this process is dominated by ideas relating to the company's core business (as per the 'innovator's dilemma'), with rather less time devoted to novel technologies or markets. Many companies will have some form of product roadmap plotting the evolution of markets and technologies along with the corresponding product offerings.

Innovation is an inherently uncertain process, so it makes sense for a large company to have a portfolio-based approach to new technologies and applications. Investigation of and investment in a start-up's new technology is the equivalent of taking an option on future market opportunities. If the opportunity turns out to be of low interest, the option is simply not exercised.

### **Lines of authority**

Corporate wheels often appear to turn slowly. Many people are time-slicing between several different projects. Issues have to be discussed across the functional divides and up the lines of authority. Meetings may be scheduled rather than event-driven (e.g. monthly meetings, quarterly reviews etc).

For a start-up, trying to find the 'right person' to talk to in a large organisation may prove difficult. The initial contact who recognises the opportunity may not have the authority to make investment decisions, and the team who enthusiastically conduct the initial investigation may in time hand over to a less enthusiastic operational team for whom the project is just one among many. Moreover, a relationship may flourish as long as the

original product champion is in place: if this person moves on for any reason, the relationship may suddenly become insecure, especially if the logic of the deal is unclear or not widely communicated in the larger company.

### **Reasons for working with start-ups**

Large companies have established infrastructure, product range, markets and customers. These have taken many years to build up, and are not easily replicated from scratch. In many cases, these market positions can only be maintained through a stream of innovative new products, some of which might occasionally be relatively radical. Whilst the large company will have in-house capability in product development based around existing technology, it may have little or no capability in peripheral or emergent technologies.

For their part, start-ups are often pioneers of these emergent technologies which by definition are yet to enter the mainstream and which represent potential commercial opportunities.

As has often been remarked, the complementarity is obvious. To the large firm, the sea of start-ups represents a 'gene-pool' of opportunity which can be sampled and harvested, often at relatively low cost and with relatively low commitment. By adopting a portfolio approach, risk can be reduced. If one project comes off, all well and good; if one fails, it's not a disaster (for the large company).

Working with a start-up may permit the company to enhance or expand its current product range, or may represent an option on some as-yet un-commercialised technology which could open up completely new lines of business. Investment could also be a way of promoting a technology ecosystem around a new product family or business model.

In the case of strategic relationships, a logical development may be acquisition of the start-up (whether anticipated or not). For some companies (e.g. Cisco), this is a fundamental part of corporate strategy.

*Tim Minshall, Letizia Mortara & Pete Fraser, 2006.*