CORPORATE-STARTUP COLLABORATION:

Potential and Opportunities for Innovation in Denmark

Dansk Industri

The Link

INDUSTRIENS FOND

Contents

Introduction

Corporate-Startup Collaboration (CSC) is a concept that refers to the various types of collaborative ventures between larger, established corporations and emerging startups to enhance growth and innovation.

Corporations and startups have a lot to offer each other. Corporations have a proven business model, an established network and customer base, and, not least, capital. Startups often lack many of these but are more agile and innovative in the development of new ideas and solutions that corporations need. It is easy to see why both may stand to gain from closer collaboration.

These kinds of collaborative ventures, of course, are not without risks or obstacles. There is always a risk associated with trying something new and innovative. However, Denmark needs innovation to spur and sustain growth.

This report was made in collaboration between Danish Industry (DI) and The Link. Working closely with corporations and startups daily, it seems clear to us that there is an underdeveloped and untapped potential for increased collaboration between corporations and startups in Denmark.

In this report, we have researched and condensed the many ways of doing CSC globally, presenting the what, the why, and the how in a brief overview. Separately, and perhaps most interestingly, we have explored the current landscape of CSC in Denmark, the types of collaboration currently used, and their prevalence among Danish corporations. This yielded some interesting results.

We hope that this report will convince and inspire more corporations and startups to collaborate in Denmark, and shed light on some of the obstacles that need to be addressed to achieve that.

Sine Linderstrøm
Director of SME's and Entrepreneurship
Danish Industry

Mette Hoberg Tønnesen
CEO
The Link

Key Takeaways

1. CSC is an essential driver for growth and innovation. This collaboration can take many different forms, such as Corporate Venture Capital, Venture Clienting, and Venture Building, depending on the needs of the company and startup.

2. According to our survey, 12 per cent of Danish companies engage in active collaboration with startups in various forms, while 67 per cent state that they have not yet considered it or find it irrelevant. This indicates an untapped potential for increased innovation in Denmark.

3. The most-cited benefits by Danish companies that collaborate with startups are the unique access to specific products or solutions and the promotion of a reinvigorated innovation culture internally in the company.

4. The most-cited pitfalls by Danish companies were that the solution or idea did not live up to expectations and difficulties in finding a suitable partner. For startups, these challenges were related to finding a suitable partner and securing sufficient long-term funding.

5. Pitfalls in CSC can be remedied, and benefits increased, by doing the right preparations in advance and being clear and realistic in expectations towards goals. We propose seven recommendations at the end of the report.

What Is Corporate-Startup Collaboration?

CSC refers to a wide range of ways that established corporations and upcoming startups can work together for mutual gain. The types of such collaborations can vary significantly, from loose partnerships to tightly integrated joint ventures, and vary in level of commitment and time horizon.

The various forms of collaboration

CSC comes in various formats, each with its own characteristics and strategic objectives. Understanding these forms is pivotal for both parties to align their collaborative efforts with their broader business goals. Although the different variations of CSC are manifold and can be mixed in many ways, this report will focus on three distinct categories representing different means, goals, and risks. These three categories are Corporate Venture Capital, Venture Clienting, and Venture Building. Each will be explained individually in the following sections.

Corporate Venture Capital

Corporate Venture Capital (CVC) involves established corporations investing directly in startup companies, typically at early or growth stages. This is usually done by establishing an in-house department that scouts startups, conducts due diligence, imake investments, and supports the startups once they become part of the corporation's portfolio. This department is referred to as the company's 'venture arm'. Unlike traditional venture capital firms, CVC prioritizes strategic benefits alongside financial returns, aiming to align investments with the corporation's objectives and foster innovation and synergies with existing operations.

Specific benefits:

- **Access to innovation:** Corporations gain new technologies, market insights, and potential acquisitions without internal R&D.
- **Financial returns:** Potential for significant financial returns for corporations as successful startups grow and scale, with risk mitigated by spreading investments across diverse ventures.
- **Funding and growth for startups:** Access to critical financial support for scaling.

Pitfalls:

- **Lack of strategic alignment:** Investing without strategic alignment can lead to missed opportunities and ineffective use of resources.
- **Micromanagement:** Resisting the urge to micromanage portfolio companies is crucial to allow startup founders and management teams to execute their vision effectively.
- **Cultural misalignment:** Ignoring cultural fit between startups and corporations can impede collaboration and integration.

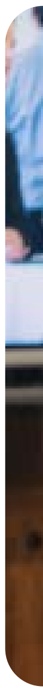
Example – AURA

AURA, a regional, shareholder-owned energy company with a century-old legacy, embarked on a transformative journey in 2022 by founding AURA Ventures. Committed to shaping a sustainable future in energy, mobility, and connectivity, AURA Ventures represents the company's strategic leap into corporate venture capital (CVC).

Navigating through the intricacies of the startup ecosystem, AURA Ventures has encountered several challenges, each offering invaluable lessons along the way. The demanding journey required dedication from a committed team and full backing from top management.

Since the establishment of AURA Ventures, the CVC unit has made four strategic investments, with Utiligize being the latest addition. Before establishing AURA Ventures, AURA took a head start on the journey of investing in Spirii as early as 2020. Notably, AURA Ventures recently exited Spirii, marking the culmination of a journey that began in 2020. This strategic exit underscores AURA's adaptability and resilience in an ever-evolving landscape.

Through the trials and triumphs, AURA has emerged stronger and more agile. By embracing the CVC model, AURA has not only gained access to groundbreaking developments but, more importantly, has been a part of accelerating solutions for the green transition.



Venture Clienting

Venture Clienting is an innovative business model where corporations act as customers for startups, engaging in commercial relationships instead of traditional investment or acquisition methods. Corporations identify specific challenges or needs within their operations and seek out startups with promising solutions, becoming paying customers to address these needs.

Specific benefits:

- **Access to innovation:** Corporations gain cutting-edge solutions without the need for extensive R&D or early-stage innovation risks.
- **Agility and competitiveness:** Enables corporations to stay competitive and updated with technological trends by tapping into the innovation ecosystem.
- **Revenue and validation for Startups:** Startups gain revenue, credibility, and validation for their products or services by securing corporate clients.

Pitfalls:

- **Procurement constraints:** Using standard procurement processes can be too restrictive and slow for the dynamic startup environment, hindering innovation.
- **Siloed approach:** Isolating Venture Clienting in silos inhibits cross-functional communication and collaboration across the corporation, limiting its effectiveness.
- **Lack of support:** Initiating ventures without strong management support and adequate resources undermines Venture Clienting success.

Example – BOSCH

Bosch, a renowned German multinational engineering and technology company, has been at the forefront of innovation by establishing a dedicated unit for venture clienting years ago. This initiative, known as Open Bosch, aims to foster collaboration between startups and Bosch's business units, ensuring significant business impact for both parties.

Open Bosch employs a systematic and scalable process, known as the Venture Client process, to facilitate these collaborations. The team assists Bosch business units in identifying potential external partners from the startup world, finding the right companies, and initiating first collaboration projects through pilots. These pilots quickly validate the technology and cultural fit for specific Bosch use cases, paving the way for successful partnerships or supplier relationships.

To streamline the process for Bosch teams, Open Bosch provides comprehensive end-to-end support. They facilitate partnerships with innovative startups, guiding the entire process from identifying opportunities to establishing sustainable partnerships. Additionally, Open Bosch accelerates startup collaboration through a standardized pilot process, enabling progress from initial contact to the start of the pilot within three weeks, including purchasing. The team also offers valuable resources, such as transparent process documentation, NDAs, and assistance with contractual issues.

Through these efforts, Bosch has successfully integrated external innovation into its operations, leveraging the agility and creativity of startups to stay ahead in the competitive technology landscape.

Venture Building

Venture building is a strategic approach involving the creation and development of new startup ventures within an organization or a dedicated entity. It differs from traditional venture capital or entrepreneurship by systematically building multiple companies within a structured framework, typically within larger organizations that have the resources and expertise for internal innovation.

Specific benefits:

- **Structured framework:** Utilizes dedicated teams from various departments to develop and launch new ventures with access to the parent company's resources, such as funding, infrastructure, mentorship, and networks.
- **Long-term value creation:** Aims to build sustainable, scalable businesses that contribute to the parent organization's growth and competitiveness.
- **Supportive ecosystem for startups:** Startups are nurtured within a structured and supportive ecosystem, increasing their chances of success and growth.

Pitfalls:

- **Resource allocation:** Inadequate allocation of resources, including funding, talent, and time, can lead to the failure of ventures.
- **Micromanagement:** Micromanaging teams stifles innovation and creativity, hindering the venture-building process.
- **Lack of alignment:** Losing sight of broader organizational objectives can lead to misalignment and hinder long-term success.

Example – Aarhus Vand

Aarhus Vand, a venerable local water utility with a rich history spanning over 150 years, embarked on a journey of innovation in 2019 with its first venture building initiative. Collaborating with partners, they established Dryp, marking the beginning of their venture building portfolio.

As a public company, Aarhus Vand adheres to regulations limiting its ownership to a maximum of 40 per cent in joint ventures. However, their focus extends beyond mere financial gains. Aarhus Vand's venture building activities aim to foster innovation by creating solutions that benefit their core business. Moreover, these initiatives serve as a platform to empower employees with entrepreneurial aspirations, providing them with opportunities to test their ideas and skills.

Since its inception, Aarhus Vand has successfully launched five startups and joint ventures, each contributing innovative solutions to the water utility sector and beyond. Through Venture Building, Aarhus Vand continues to lead the way in driving innovation and creating value for both the company and the community it serves.

Mixing Strategies – Incubator and Accelerator programs

Most collaborations use a mix of financial and non-financial investments from the corporation into the startup with a varying degree of strategic alignment and cooperation. Examples of these include Incubator programs and Accelerator programs offered by established companies to selected startups, often combining elements of CVC, Venture Clienting, and Venture Building.

Incubator programs are usually aimed at early-stage startups and internal projects to provide a supportive environment. These programs may offer long-term support, including office space, mentorship from corporate leaders, access to the company's resources, and professional services. Corporate Incubators focus on nurturing new business ideas and developing prototypes that can eventually be integrated into the parent company's operations or spun off as independent entities. This closely resembles Venture Building but can involve entrepreneurial talent that may not otherwise be within the company.

Corporate Accelerators are aimed at startups that are further along in their development and ready to scale. These programs are more structured and time-bound, typically lasting 3 – 6 months. Corporate Accelerators combine seed funding, intensive mentorship, and access to the corporation's network of investors, customers, and industry experts. The goal is to rapidly accelerate the growth of the startups and prepare them for market entry or further investment.

Use of Corporate-Startup Collaboration in Denmark

The exact extent and nature of the use of CSC in Denmark have so far been overlooked. This, however, is important knowledge when evaluating the need to broaden this practice to more companies and sectors. To get a clearer picture of the use of CSC in Denmark, we conducted two surveys directed at both corporations and startups to inquire about their experience with CSC. The survey directed towards startups received 56 responses. These responses have been valuable as general indications of trends but are insufficient to infer conclusions about the general population.

Using DI's corporate member panel, the corporate survey received responses from a wide range of associated corporations. Along with other questions, 551 corporations from all sectors and sizes answered questions regarding their use of CSC, providing a unique picture of the experience most Danish corporations have with collaborating with startups.

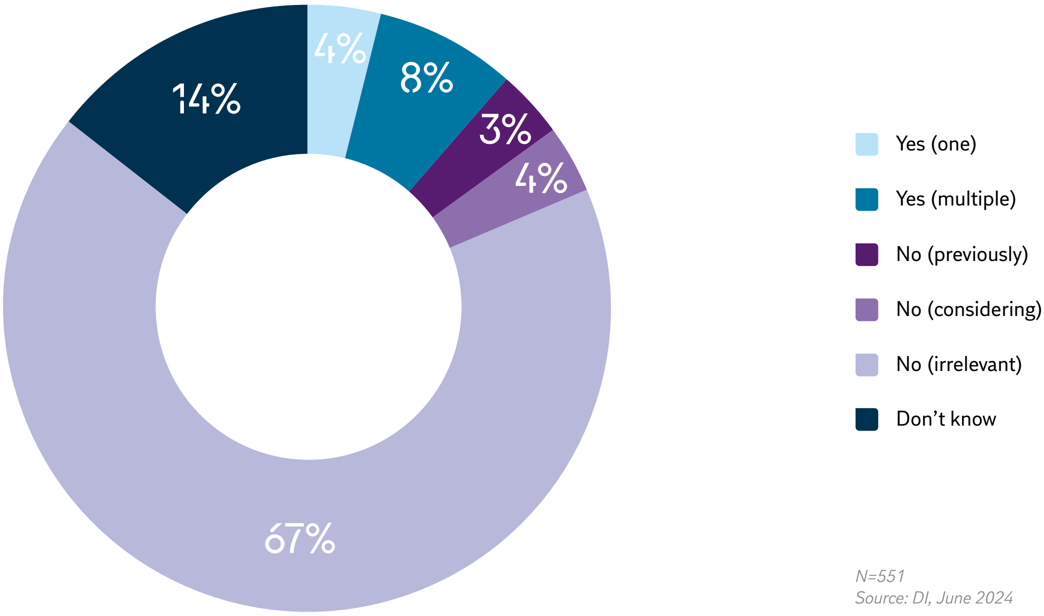
How many use Corporate-Startup Collaboration in Denmark?

In Denmark, many corporations already engage in a wide range of collaborations with startups, including implementing Accelerator programs and innovation hubs, which in turn contribute to attracting more innovative startups. Looking more closely at the largest members of DI, we see that at least 20 companies are investing in such programs and hubs, while many more have dedicated CVC arms focused on startups[1].

As seen in Figure 1, approximately 12 per cent of Danish corporations are currently actively engaged in collaboration with a start-up, with a further 3 per cent having done so in the past and 4 per cent considering doing it in the future. This shows that collaborating with start-ups is considered important or relevant by nearly one in five Danish corporations. However, two-thirds of corporations stated they did not find such collaboration relevant to their business, and therefore did not envision engaging in it. This might, in some cases, be due to a lack of focus on such collaboration or a lack of understanding of its benefits and different forms. This indicates that there might be potential for increased use of CSC in Denmark if the benefits and types were more broadly understood.

1 DI, 2024

Figure1: Do you collaborate with a startup?



N=551
Source: DI, June 2024

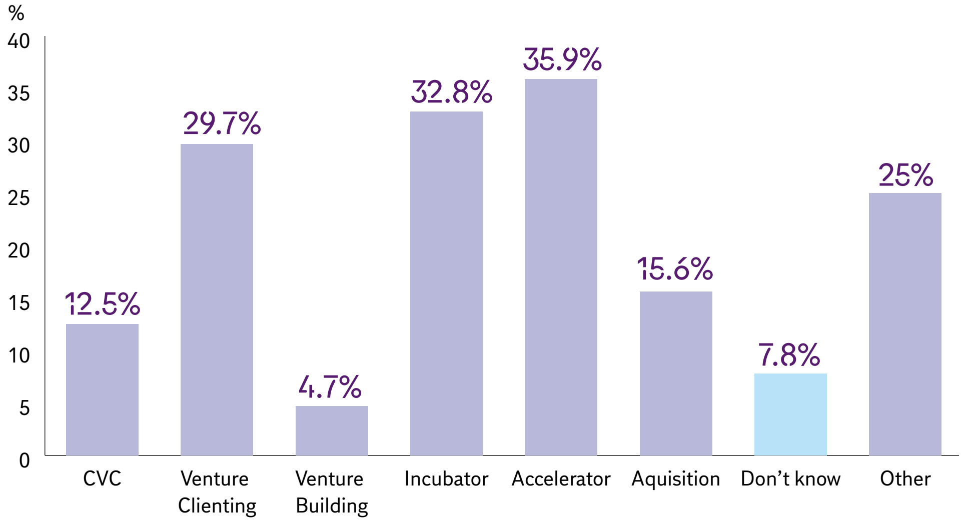
Which kinds of Corporate-Startup Collaboration are most common?

Among the Danish corporations that are actively engaging in collaborations with start-ups, we see that the most prominent types of collaboration are incubator or accelerator programs, with 32.2 per cent and 35.9 per cent of corporations offering these to startups respectively. We also see that most corporations engage in more than one type of collaboration with a startup. The third-most common type of collaboration between Danish corporations and startups in Denmark is through Venture Clienting, with 29.7 per cent of cases involving this. This shows that corporations in Denmark can find attractive and innovative solutions from startups that can help them improve their operations.

Corporations often use accelerators and incubators as part of a strategy to pursue excellence in innovation. By doing this, they offer the necessary facilities and guidance to a select group of early-stage startups, who are then able to continue developing their ideas and solutions. This may later be followed up by a more structured partnership between the corporation and the startup, where the corporation acts as a customer to the startup through Venture Clienting.

Direct investment below the 50-per cent threshold in startups through CVC is less common among Danish corporations, being present in only 12.5 per cent of cases. The wholesale acquisition of a startup by a corporation is slightly more frequent at 15.6 per cent

Figure 2: Which type of collaboration do you engage in?



N=105
Note: Total percentage exceeds 100 per cent as multiple responses are possible
Source: DI, June 2024

What are the benefits?

The biggest benefits that Danish corporations engaged in CSC see associated with working directly with startups are related to access to innovative solutions, ideas, or products, with 41 per cent of corporations stating this. The second-most important benefit according to the corporations is that working together with a startup promotes a renewed culture of innovation in their organization. Compared with larger and more established organizations, startups are often marked by their agility and entrepreneurial innovative working culture. This mentality can sometimes provoke a clash between work cultures in collaboration between startups and corporations, but it can also serve to inspire the corporation, which might have forgotten what it means to be a startup.

Table 1: Benefits of CSC stated by corporations

Gives access to specific products or solutions by startups	41.0%
Enables the adoption of innovative solutions, products, and/or processes	39.8%
Promotes a culture of innovation within our organization	38.6%
Allows us to expand into new markets or industries	31.3%
Gives insights in innovative business models and industrial trends	26.5%
Contributes to sustainability initiatives and green transition	24.1%
Gives access to a pool of talented employees	21.7%
Shapes potentiel future purchases	9.6%
Generates financial returns through investment	8.4%
Other	7.2%
Don't know	2.4%

N=83
Note: Total percentage exceeds 100 per cent as multiple responses are possible
Source: DI, June 2024

Challenges, Risks, and Preparation

Engaging in collaborations between startups and established corporations can be a promising avenue for innovation and growth. However, navigating these partnerships comes with its own set of challenges and potential pitfalls for both parties involved. Some of the challenges and pitfalls will be highlighted in the following section, so all involved can be aware of them.

Pitfalls for startups

Startups often find themselves in a precarious position when entering collaborations with established corporations. The power dynamics inherent in such relationships can leave startups feeling disadvantaged. The sheer size, resources, and experience of the corporate partner may overshadow the startup, leading to a sense of inequality.

But even before entering the collaboration, startups might get stuck in the first pitfall: who to contact in the corporations? If the corporation does not have an actual venture department, or if the venture department is not visible to external parties, it can be very difficult for a startup to know which department and which employee to contact for a startup, when they want to reach out and open a dialogue for collaboration.

After entering the collaboration, if the established corporation adopts a micromanagement approach towards the startup or their relationship, it can stifle the agility and innovation that startups thrive upon. Micromanagement can restrict the startup's flexibility and autonomy, hindering its ability to leverage its advantages, such as agility, to drive innovation.

Additionally, the bureaucratic nature of corporations can pose significant hurdles for startups. Navigating through layers of bureaucracy and red tape can consume valuable time and resources, delaying progress and innovation. Furthermore, cultural differences, including language barriers, may exacerbate the challenges faced by startups in communicating and aligning with their corporate partners.

Table 2: Biggest obstacles to collaboration stated by startups

Challenges in finding suitable corporations to collaborate with	33.9%
Challenges in achieving or maintaining long-term funding	30.4%
Risk of loss of confidential information or intelectual property	25.0%
Internal challenges in our startup due to lengthy decision processes, compliance, or other legal restrictions	23.2%
Lack of internal ressource allocation	23.2%
Collaboration issues due to different corporate cultures	21.4%
The product or idea is not realized	16.1%
Too high a risk associated with delivery reliability/volume	8.9%
Lack of clarity about roles and responsibilities between our startup and the corporation	8.9%
Resistance to the collaboration within our startup	7.1%
Other	16.1%
Don't know	7.3%

N=56
Note: Total percentage exceeds 100 per cent as multiple responses are possible
Source: DI and The Link, June 2024

According to Danish startups themselves, the biggest challenges associated with collaborations with corporations are related to finding a suitable corporation and, secondly, to securing and maintaining the long-term funding needed for the implementation or development of a product or idea.

Pitfalls for corporations

On the other side, established corporations encounter their own set of pitfalls when collaborating with startups. Startups are known for their agility and ability to make quick decisions, traits that often clash with the slower pace and bureaucratic processes inherent in large corporations. This misalignment in pace can lead to frustration and inefficiencies for the corporate partner.

Moreover, integrating startups into the compliance structures of large corporations can be challenging. Startups may lack the resources to meet the stringent compliance requirements expected by corporations, posing risks to the corporate partner's reputation and operations.

Identifying the right startups to collaborate with can also be a daunting task for corporations. The sheer volume of startups in the ecosystem, coupled with the need to find the perfect fit for their strategic goals, requires careful consideration and due diligence.

Furthermore, operating a CVC or similar internal venture arm entails significant effort in terms of persuasion and stakeholder management within the corporate hierarchy. Securing ongoing support from top management and maintaining positive relationships with other departments become critical, as the success of the venture arm hinges on their cooperation and assistance.

Like startups, corporations also grapple with cultural differences and language barriers when engaging in collaborations, adding another layer of complexity to the partnership.

Table 3: Biggest obstacles to collaboration stated by corporations

Solution or idea doesn't live up to expectations	49.0%
Challenges in finding suitable startups to collaborate with	31.7%
Internal challenges in our startup due to lengthy decision processes, compliance, or other legal restrictions	17.3%
Risk of loss of confidential information or intelectual property	16.3%
Challenges in achieving or maintaining long-term funding for projects	14.4%
Collaboration issues due to different corporate cultures	14.4%
Lack of clarity about roles and responsabilities between our company and the startup	13.5%
Lack of internal ressource allocation	9.6%
Too high a risk associated with delivery reliability/volume	9.6%
Resistance to the collaboration within our company	4.8%
Other	6.7%
Don't know	12.5%

N=104
Note: Total percentage exceeds 100 per cent as multiple responses are possible
Source: DI, June 2024

According to the Danish corporations that either have or have had an active collaboration with one or more startups, the two biggest obstacles or risks to a successful collaboration with a startup are that the solution or initial idea did not reach expectations to fulfilling the needs of the corporation (49.0 per cent), or that they simply could not find a suited startup to collaborate with (31.7 per cent). This shows that, while both startups and corporations both see challenges in finding a suitable partner, corporations are far more concerned about the product not living up to expectations.

In conclusion, while CSC holds immense potential for driving innovation and growth, both parties must navigate various pitfalls and challenges to ensure successful partnerships. Hopefully, by being aware of these pitfalls and challenges, collaborating parties can mitigate them, creating successful collaborations. In the following section, recommendations for mitigation of pitfalls will be provided and highlighted.

Recommendations

Here we have gathered some best practices to prepare for collaboration, foster the right mindset for successful partnerships, and make it easier to avoid pitfalls.

1 **Make underlying motives and expected benefits clear.** Understanding the underlying motives and benefits of corporate-startup collaborations is essential for both parties. What are our objectives? What capabilities do we bring to the table? What are our mutual goals? By aligning on these aspects, corporations and startups can ensure that their collaboration efforts are focused and strategic, minimizing the risk of misalignment or misunderstanding. Corporations should articulate the purpose of their corporate venture initiatives and activities, emphasizing the value they bring to the organization's innovation and growth strategies. Similarly, startups should grasp the significance of engaging with corporates, recognizing the opportunities for scaling their innovations and accessing resources they may lack independently.

2 **Secure firm top management support.** Securing support from top management is paramount for the success of corporate-startup collaborations, especially within a large corporation. Leadership endorsement not only provides the necessary resources and authority to pursue collaborations effectively but also sends a strong signal of commitment and alignment with the organization's strategic priorities.

3 **Establish a dedicated corporate venture department.** Establishing a dedicated corporate venture department and allocating resources specifically for engaging with startups is crucial. These activities often demand a different approach and mindset compared to traditional corporate operations, necessitating specialized attention and expertise. By centralizing these efforts, corporations can streamline their collaboration processes and enhance their responsiveness to startup opportunities.

4 **Adopt a long-term perspective.** Both corporations and startups should adopt a long-term perspective when engaging in collaborations. Recognizing that the benefits of such partnerships may not materialize immediately, stakeholders must exhibit patience and persistence. Building sustainable relationships and nurturing innovation takes time, requiring ongoing commitment and investment from all parties involved.

5 **Account for cultural differences.** Cultural differences in structure, pace, and language can pose challenges in corporate-startup collaborations. Awareness of these differences is key to fostering effective communication and understanding between partners. Corporations should acknowledge the agility and speed of startups while startups should recognize the constraints and processes inherent in corporate environments.

6 **Be realistic about possibilities and constraints.** Partners should maintain realistic expectations about each other's capabilities and constraints. While startups may excel in agility and innovation, they may lack the resources or infrastructure to meet all compliance standards. Conversely, corporations may face limitations in adapting to the rapid pace of startups. Open dialogue and mutual understanding of these realities can prevent friction and facilitate smoother collaborations.

7 **Know where to find the right match.** It is important to be visible and accessible to your counterpart if you want to engage in corporate-startup collaboration. Very often it is difficult for startups to find the right entry point in corporations. Having a venture department as a corporation makes it much easier for startups to know where to make contact. For both parties, it is important to participate in events, to be on lists/overviews (such as HeyFunding and TechSavvy's 'The Guide'), to be active on social media, and to be present in news media, to make themselves known and accessible to others. There are many opportunities both parties can engage in, such as TechBBQ, Slush'D, Townhalls, LinkedIn, and TechSavvy.

In conclusion, by adhering to these recommendations and fostering the right mindset for collaboration, corporations and startups can navigate potential pitfalls and maximize the success of their partnerships. Clear communication, strategic alignment, and mutual respect are essential ingredients for building sustainable and impactful collaborations in the dynamic landscape of corporate-startup interactions.

Press contact, Danish Industry

Sine Linderstrøm
Director of SME’s and Entrepreneurship, Danish Industry
Sili@di.dk
+45 2098 9913

Press contact, The Link

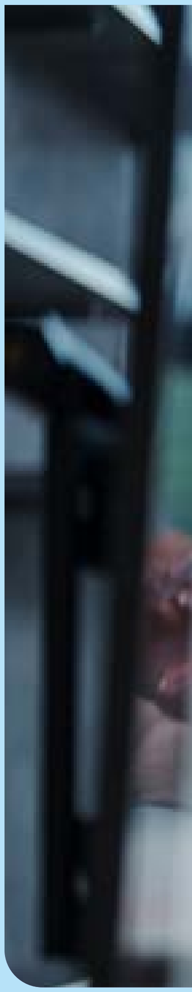
Mette Hoberg Tønnesen
CEO, The Link
Mette@thelink.dk
+45 6138 3028

Contributors to the report:

Christian Stoltze, Consultant, Danish Industry
Mette Haugaard, Head of Corporate-Startup Collaboration, The Link
Jonas Bech Nielsen, Student Assistant, Danish Industry

Funding disclosure

The Link received funding from Industriens Fond for their work on Corporate-Startup Collaboration.



Dansk Industri

The Link

INDUSTRIENS FOND