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# You can't buy love

Reimagining corporate–startup partnerships in the DACH region

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# Contents

# Highlights of our 2020 DACH report, “You can’t buy love”

This report on corporate–startup partnerships draws on our own extensive primary research and the experience of our McKinsey colleagues and engagements. Founders and leaders of 150 DACH-based startups across industries contributed to our survey. To understand the other side of these partnerships, we conducted more than 20 interviews with executives (up to C-level) of DACH’s largest corporates (average revenue of around EUR 50 billion) and analyzed in-depth case studies of their partnerships with startups.

**Prospering partnerships.** 75 percent of the surveyed startups consider partnerships with corporates very important today; however, only 27 percent of startups are completely satisfied with their relationships. Interviews with top executives from large DACH corporates confirm the importance of the partnerships, as well as some dissatisfaction with their current state. Though there is much room for improvement, our analysis suggests an overall positive situation and outlook.

**Commitment as currency.** Corporate money is not the main attractor or success factor. Success requires commitment and C-level (“A-team”) attention on both sides. These two relationship secrets raise the satisfaction level for startups by 93 percent and 86 percent, respectively.

**Minding the gap.** Cultural and technological differences need to be proactively managed before they become major inhibitors. Corporate executives see this as a key pain point of conflict, and so do 38 percent of the startups in our survey. Corporate leaders and their startup counterparts should openly discuss their preferred working style and assume a partner-centric mindset similar to a customer-centric one – because above all, mutual understanding and flexibility on both sides are key to developing a joint way of working.

**Finding the sweet spot.** In our interviews, corporate executives underline the importance of pilot projects being sufficiently large to be relevant while still being small enough to be realistic. Setting up a wide range of very small pilots is often perceived as meaningless for the overall business and a waste of potential. Essentially, right-sized pilots need to pave the way for scale-up.

**Rules of engagement.** Goals should be aligned up front and partnership-specific KPIs, which are likely different from the typical corporate KPIs, should be defined and continuously monitored for partnerships to stay on track towards value creation. A steady drumbeat is key: clear milestones and aligned timelines raise startup satisfaction by 38 percent and 59 percent, respectively.

**Individual over institutional.** Startups and corporates put more emphasis on and are more satisfied with individual and specific partnerships such as joint product development than general, institutional programs. This is mirrored by the trend of the declining importance of institutional programs: 84 percent of startups consider targeted, individual partnerships as the most important and 85 percent of startups are satisfied with their individual, more focused partnerships. Out of the remaining 16 percent of startups whose most important partnerships are institutional ones, only 57 percent are actually satisfied with their partnerships. To make institutional partnerships more successful, our interviews highlighted the need to clearly separate them from the corporates’ governance, running them independently instead.

# Introduction

Today's business world is changing faster than ever: digital technologies have been reinventing the way we live, work, and organize. Companies that are digital leaders in their sectors have faster revenue growth and higher productivity than their less innovative peers. This puts immense pressure on corporates, whose histories as incumbents aren't always characterized by technological innovation. [1] Obstacles include overcoming fixed structures and hierarchies, and making tough resource-allocation choices about the people and funds required to capture enough value to make a difference.[2]

Thus, huge potential for innovation lies in corporate–startup partnerships. Combining the reach and resources of incumbents with the creativity, speed, and technologies of startups, these partnerships have the potential to help European companies catch up with faster or larger global competitors, and so much more.[3,4]

While acquiring startups to secure access to intellectual property has long been common for corporates in some industries such as pharma and tech, the number of corporate–startup partnerships has skyrocketed across industries in recent years. For instance, today 29 of the 30 DAX companies have corporate venture capital programs, which proves just how fashionable corporate–startup partnerships have become. It seems

Text Box 1

### The COVID-19 crisis as a catalyzer for corporate–startup partnerships?

The COVID-19 crisis puts an additional level of pressure on corporates to carefully prioritize the most important topics, with no leftover cash for expensive "C-suite entertainment programs" (which partnerships with startups, if done wrong, sometimes seem to be). For most corporates, the COVID-19 crisis has led to a reprioritization of interests, with previously neglected topics making their way up the corporate agenda while other topics are deemed less important. For instance, the crisis led many companies to concentrate on their core business. Certainly, there are industry-specific differences: in the pharma and health industry, for example, many healthtech companies have prospered during the pandemic, and the sector's corporates show great interest in partnerships. In other industries, however, the health pandemic has brought immense pressure to prioritize. Take offline retail, for example, where work in some corporate–startup partnerships has been delayed significantly, or even completely stalled.

Nonetheless, the COVID-19 crisis is likely forcing businesses across industries to accelerate potentially neglected digitization initiatives putting immense pressure on them to innovate fast. Partnering with startups that have already developed relevant intellectual property might be a viable course of action – especially when considering that VC funding from January to May 2020 contracted by about 10 to 20 percent across major regions compared to 2019 potentially puts startups into a difficult financial position.[5]

1 "Navigating a world of disruption," January 2019, McKinsey.com
2 Daniel Cohen, Brian Quinn, and Erik Roth, "The innovation commitment," October 2019, McKinsey.com
3 Jacques Bughin, Eckart Windhagen, Sven Smit, Jan Mischke, Pal Erik Sjatil, and Bernhard Gürich, "Innovation in Europe – changing the game to regain a competitive edge," October 2019, McKinsey.com
4 Ilan Rozenkopf, Pal Erik Sjatil, and Sebastian Stern, "How purpose-led missions can help Europe innovate at scale," December 2019, McKinsey.com
5 "How can Europe step up to global tech leadership?", June 2020, Dealroom.co

almost mandatory for corporates to include "game-changing partnerships with innovative startups" as a chapter in their annual reports to signal innovativeness and trend awareness.

## "Corporate–startup partnerships are sometimes a zoo for suits"

However, despite the growing number of partnerships and first signs of improvement, such as in Germany's mechanical engineering industry,[6] very few have become successful on a large scale. The truth is that many partnerships look nicer on paper than they are in reality. "Corporate–startup partnerships are sometimes a zoo for suits," one corporate interview partner told us. "We are exhausted by the number of partnerships that we seem to start but that lead nowhere – where is the value in that?" another interviewee told us. In addition, the COVID-19 pandemic has put corporate–startup partnerships through a further test, which has helped to clearly distinguish vanity programs from actual value-creating programs *(see Text Box 1).*

However, there is a silver lining, as all parties seem to also see the growing importance of these partnerships – but only under certain conditions. If done right, there is a lot of potential in corporate–startup partnerships, as the successful, albeit few, cases have demonstrated. So, how can a partnership between two players that are so different (a nimble, fast-growing startup and a large, established corporation) work well?

To explore this key question, McKinsey has launched a research effort *(see Text Box 2)* to:

— Gain insights into which factors are informing and driving the current partnership dynamics, as well as both parties' perspectives on their partnerships

— Provide and discuss important lessons that can lead to healthier "marriages" between corporates and startups.

Text Box 2

### How the insights of this article were derived

McKinsey undertook a 360-degree research effort at the intersection of DACH startups and corporates to:

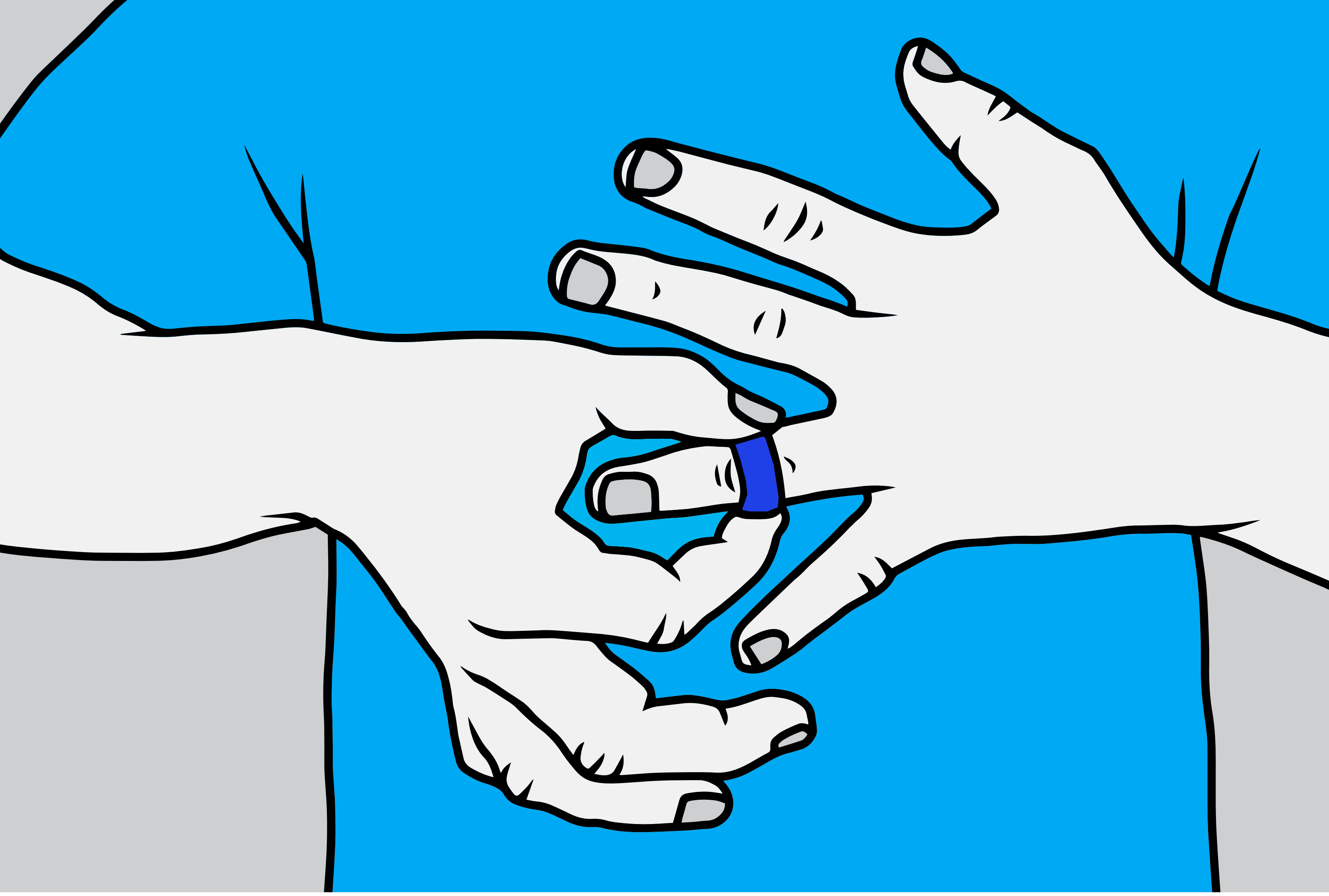
— Develop a perspective involving both startups and corporates on the satisfaction with and importance of corporate–startup partnerships

— Gain insights into the challenges faced by both startups and corporates and identify success factors for value-creating and effective partnerships

— Identify action items for startups and corporates to unleash the full potential of their current partnerships and pursue opportunities for future partnerships.

This effort draws on our own extensive research and the experience of our McKinsey colleagues and engagements. Founders and leaders of 150 DACH-based startups across industries contributed to our survey. To understand the other side of these partnerships, we conducted more than 20 interviews with executives (up to C-level) of DACH's largest corporates (average revenue of around EUR 50 billion) and analyzed in-depth case studies of their startup partnerships.

[6] "Gemeinsam stark – wie die erfolgreiche Zusammenarbeit mit Startups im Maschinen- und Anlagenbau gelingt," September 2020, VDMA.org (in German)



# Corporate–startup partnerships in the DACH region – where we stand today

## The tension between corporate innovation and startup growth

Both corporates and startups see great (and even growing) potential in their collaborations. Our research shows that partnerships between corporates and startups are perceived as increasingly important. 75 percent of the surveyed startups consider partnerships with corporates very important today. What's more, 63 percent of the survey participants anticipate even higher importance of such partnerships in the future. However, corporates and startups perceive these partnerships from different angles and take away different benefits *(see Text Box 3).*

Just like in a good relationship, a recipe for happiness (and value) is reciprocity: each partner brings something to the table that the other might be missing. While overall, it is safe to say that corporates seek innovation and startups look for reputation and future customers, the specific motives can vary significantly by partnership.

Text Box 3

## Corporate–startup partnerships: Examples of value creation

Here is an overview of value-creating partnerships between organizations hailing from a broad spectrum of industries, including robotics, software, pharma, healthcare, automotive, and finance/banking:

**Robotics and medtech.** A medical robotics startup and a midsized medtech codeveloped a modular robotic surgery solution. The corporate helped navigate regulatory approval processes and granted the startup access to its existing customer base and use of its distribution channels – assets that would have taken the startup years and large sums of money to build. The corporate gained access to a new technology platform that was significantly more versatile and inexpensive than its own solutions, enabling the corporate to address a larger audience of potential customers.

— *Success factors:* Attention from business management; reciprocity (technology from the startup for market access and marketing from the corporate); clear targets for codeveloping and comarketing the joint product

— *Archetype:* Joint product development ending in acquisition of the startup

**DevOps and automotive.** A DevOps startup in the autonomous driving space needed operations knowledge and proprietary sensor data in order to build and test its product. An automotive OEM was able to provide this critical information. In return, the OEM gained access to the DevOps tool and is now able to better shape the product development process.

— *Success factors:* A focused individual partnership; a clear drumbeat (timeline, milestones); attention from top management

— *Archetype:* Joint product development

**Fintech and banking.** A fintech startup aiming to quickly grow its customer base for its newly launched service partnered with a bank to utilize its large existing customer base and renowned reputation. With this partnership, the fintech increased its revenue and sent out a positive signal to investors and customers. The bank extended its service offering and thus increased its appeal, leading to new customers and higher engagement from its existing customers.

— *Success factors:* Attention from top management; reciprocity (new customers from the startup for market access from the corporate); a focused partnership with clearly aligned goals and KPIs

— *Archetype:* Reseller agreement with a high level of technical integration

### Motives for corporates

Interviews with corporates show that many see partnerships with startups as one key to faster innovation and product development. Through partnerships, corporates have the possibility to explore and shape the development of technologies and services in a very cost-effective and time-efficient manner, which would hardly be possible in their existing structures. In addition, partnerships enable corporates to gain early insights into new and potentially even disruptive technologies that might translate into a competitive edge. Furthermore, corporates can strengthen their market position by partnering with startups that are building products based on the corporates' existing products or services. Partnerships with startups also give corporate managers insights into new ways of working, like more agile work styles or more frequent releases. However, several corporates who were interviewed for this study also mentioned that startup partnerships seem almost mandatory these days, with corporates using them to signal innovativeness and trend awareness – where the goal might be less about actual innovation and more about the perception of being innovative *(Exhibit 1).*

**Motives for startups**

Startups, on the other hand, have high hopes that a corporate partner can help accelerate growth and boost their reputation, sending a positive signal to investors and customers. However, financial motives, like direct equity or debt financing, are not among the key reasons for startups to engage in partnerships *(Exhibit 1).*

Less-established startups (with under 25 employees or less than EUR 1 million in revenue) put a much stronger focus on partnerships than later-stage startups. This is likely because early-stage startups often lack a customer base and revenue and/or they are still exploring their product/market fit. Therefore, early-stage startups are more often hoping that the corporate partner becomes a future customer (83 percent versus 61 percent of later-stage startups) or that they receive industry and customer insights from the corporate (61 percent versus 43 percent of later-stage startups).

Additionally, startups with B2B products or services regard corporate partnerships as especially important (79 percent versus 60 percent of B2C-focused startups). Here, the startups' main objective is often to gain industry or customer insights through the codevelopment of products or services – the startup tests or codevelops a technology using the corporate's data. This is supported by our survey results: 65 percent of B2B startups seek corporate partners to acquire industry and customer insights, whereas only 32 percent of B2C startups have this motive in mind. Another key motive for B2B startups is that the corporate will become a future key customer – after codeveloping a product, the corporate becomes the lead user of that technology. 87 percent of startups consider this more or highly important. Lastly, our survey indicates that B2B startups are less interested in a financial investment from their corporate partner

Exhibit 1: Motives for startups to partner with corporates

## Why partner in the first place?

### Startups' motives

Percentage (n=150)


### Corporates' motives

**1**
Gain access to **faster innovation** and product development

**2**
**Gain early insights** into new technologies and previously untouched customer segments

**3**
Gain insights on new **ways of working**

**4**
**Gain access to top talent**

**5**
**Receive a financial ROI**

than B2C startups (47 percent versus 71 percent). One explanation for this could be that a strategic investment from a corporate often comes with exclusivity agreements, which prohibits B2B startups from selling their products and services to a corporate's competitors.

## On the surface, both parties seem satisfied – but digging deeper, there's room for improvement

On their websites or in their annual reports, corporates talk about successful relationships with startups, noting key achievements such as faster product development cycles, access to new markets, and insights about new ways of working. However, some digging beyond this marketing jargon reveals a different picture – that it's far from smooth sailing. In our interviews, corporates were rather honest with us *(see Exhibit 2 for quotes from our interview partners)* and revealed many challenges. The three most common ones were:

— Cultural and technological clashes between corporates and startups, driven by different working styles and conflicting technical infrastructures

— Lower-than-expected impact, driven either by the expectations of top management being too high, or by internal bureaucracy slowing down the process

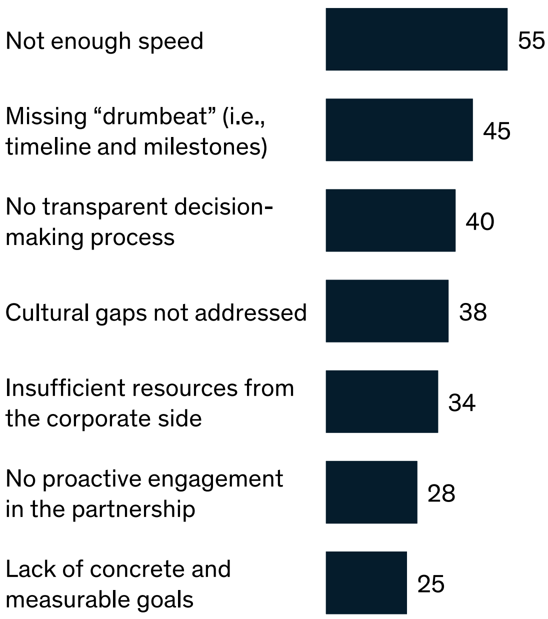
— High administrative effort, since integrating external partners sets up multiple hurdles and requires the involvement of multiple decision makers.

Exhibit 2: Startups' satisfaction levels with their corporate partnerships

### Partnership challenges from startup and corporate perspectives

### Challenges from a startup perspective

Percentage of survey respondents citing the challenge




### Challenges from a corporate perspective

**"Partnership management generally involves high effort, which takes resources away from other projects."**
*—German online retailer*

**"After entering the partnership often comes the culture shock – the ways of working and communication style of startups are just too different from ours."**
*—Financial services player*

**"Startups are not aware that they cannot easily plug their solution into our systems, as our infrastructure is not API driven."**
*—Manufacturing company*

**"Low impact is a key issue: some partnerships were ended because we did not see the results that the startup communicated or that were expected from the C-suite side."**
*—Logistics company*

There is good news regarding the overall satisfaction of startups – 28 percent of those surveyed are completely satisfied and 52 percent are relatively satisfied with their corporate partnerships. The remaining 20 percent are either somewhat or fully dissatisfied. However, this implies that for 72 percent of startups, there is still room for improvement. Similarly, only 26 percent of the surveyed startups perceive that their corporate partner creates the most possible value with the partnership.

The key pain point perceived by startups is a lack of speed and drumbeat, which is caused by too much bureaucracy and missing support (manpower) on the corporate side *(see Exhibit 2).* These factors slow down data requests or hinder quick decision making, among other things. Interestingly, B2B startups have less of a problem with speed and drumbeat in their partnerships with corporates than B2C companies do (40 percent less with speed and 84 percent less with drumbeat). In addition, B2B startups agree 40 percent more often that clear goals are defined in their partnerships. A possible reason is that founders of B2B startups often bring years of industry experience that helps them avoid or bridge cultural gaps.

A lack of transparency in decision making is another pain point, caused by more complex hierarchical structures in corporates and the involvement of multiple decision makers. Further challenges are insufficient financial and labor resources. Several startups stated that throughout their partnerships, resources were not available as agreed up front, or not at the time they were needed, which slows down the process significantly. For example, if there is no clear responsible business owner who can push data requests within the corporate, it takes the startup more time and bureaucratic effort than planned.

**72%**

of startups are not fully satisfied with their partnership

## From institutional partnerships as expensive, top-management marketing campaigns to individual partnerships with clear focus and commitment

Based on where the main rationale for a collaboration lies and how broad the appetite for partnership is, there are several archetypes for how partnerships can be set up, including as incubation, corporate venture capital funding, or joint product development *(Exhibit 3).* The archetypes can be roughly structured along two dimensions: the type of relationship and the degree of institutionalization. Each of these dimensions is dependent on the corporate's key objectives for partnering.

Each setup has its merits, but when deciding on the type of relationship, corporates have to ask themselves which new capabilities they want to gain from the partnership, how operationally involved they want to be, and how urgent the topic is for them *(see Drivers 1, 2, and 3 in Exhibit 3).* The answers to these questions determine whether they should establish a rather loose supplier relationship with the startup or become actively involved in business building. For example, if there is high urgency, but the corporate does not want to be actively involved in the startup operation, a supplier-type relationship might be the most suitable choice.

To choose the right degree of institutionalization, corporates need to ask themselves whether the topic of partnering is core to their business or more explorative, whether they are interested in a specific technology or rather in the broad field, and how deeply the startup should be integrated into their current business *(see Drivers 4, 5, and 6 in Exhibit 3).* Roughly dividing these dimensions, one can distinguish between targeted or individual collaboration initiatives and broad or exploratory programs (e.g., accelerators, corporate venture capital funds, incubators).

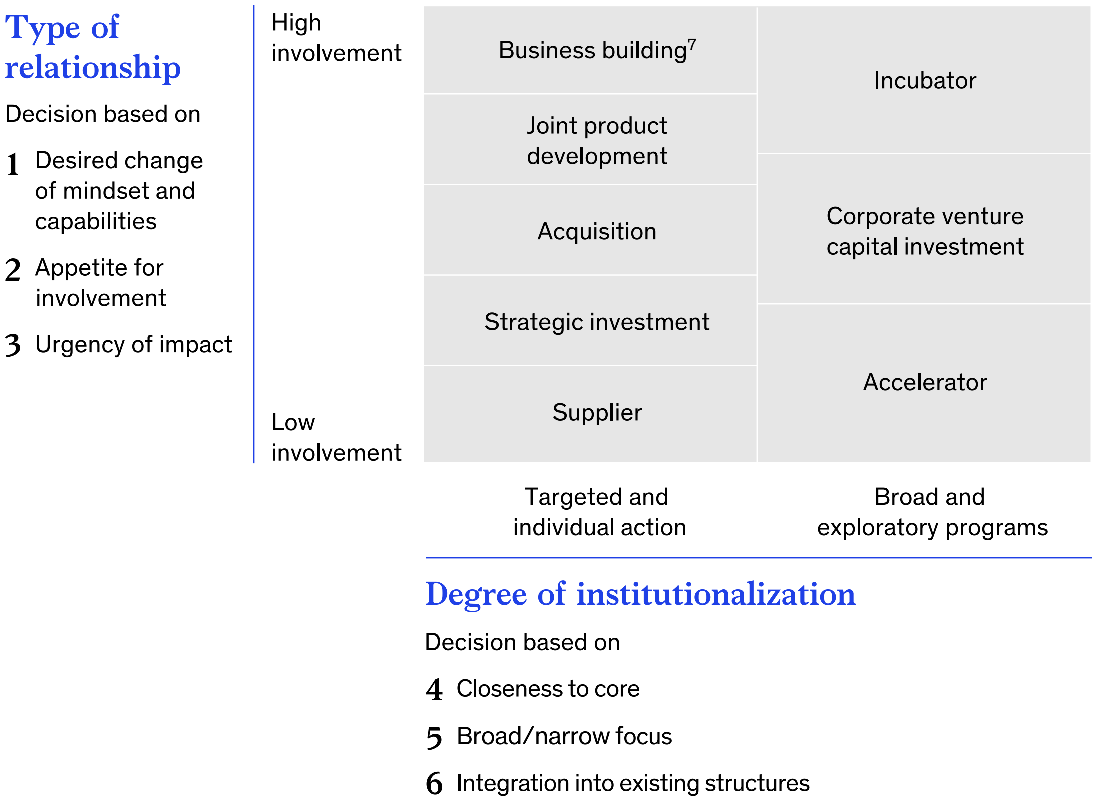
**Individual initiatives.** These collaborations between corporates and startups are set up based on a very specific need for innovation and are derived from a specific business goal. Individual initiatives aim at a joint project and a specifically selected startup instead of curating a network of startups to explore potential on a wider range of topics. While some partnerships are based on a simple contractor relationship, corporates also set up exclusive joint ventures with startups. Thus, these partnerships are often chosen with a well-defined rationale in mind and are meant to extend or complement the core business of each partner.

**Institutional programs.** In this model, a corporate sets up a program in order to interact with a wider group of startups. These programs can range from a “digital factory” or ”creative garage,” which provides a physical working space and perhaps mentoring, all the way to an investment unit that operates just like a traditional (corporate) venture capital fund. In general, the goal is to get in touch with multiple startups at once and foster innovation across a broad set of topics while helping the startups grow. Thus, institutional partnerships are usually broader in scope and more adjacent to the current core business of the corporate.

Of course, hybrids are possible: individual initiatives can be anchored in corporate programs and institutional partnerships can allow for individual relationships.

Exhibit 3: Overview of partnership types

**Partnership archetypes depending on objectives**




[7] With or without an existing startup

## “Spray and pray” satisfies neither corporates nor startups

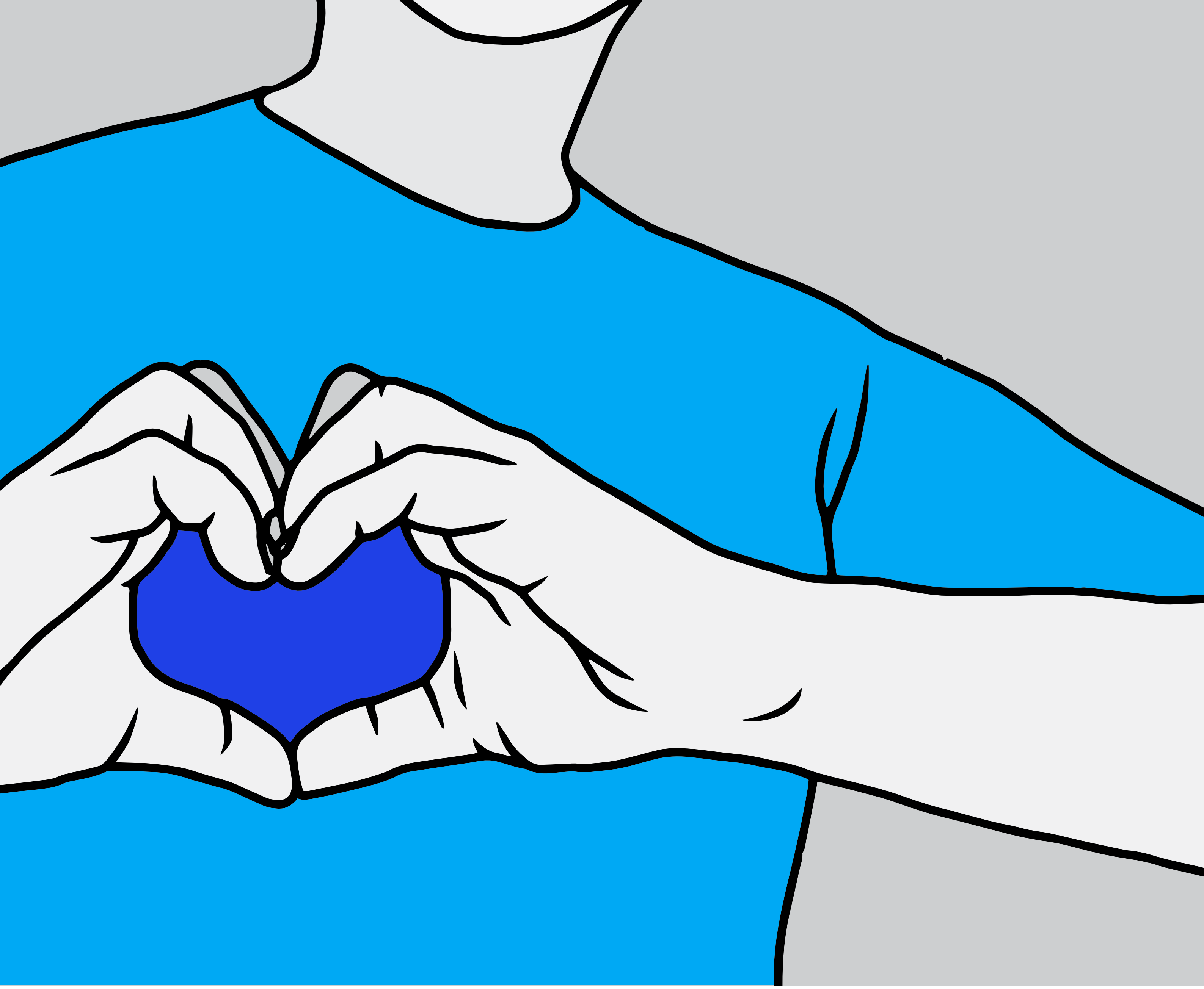
In view of the specific options represented by these archetypes, our research indicates that both startups and corporates benefit more from individual, topic-specific partnerships instead of institutional programs; this also explains why they are increasingly looking for these kind of partnerships. Already today, 84 percent of startups consider a targeted, individual partnership as their most important partnership *(see Exhibit 4)*. This indicates that startups see value in corporate partnerships that go beyond capital investments or strategic guidance – benefits they can also get from other partners such as venture capital firms. Instead, a corporate partner is valued for a specific topic-related purpose that only it can provide, such as facilitating market access, becoming a future customer, or codeveloping a solution by building on its existing assets.

In addition, satisfaction is higher for startups that have individual, topic-specific partnerships – 84 percent of startups with individual partnerships are somewhat or completely satisfied with their partnerships compared to only 57 percent of startups with institutional partnerships *(see Exhibit 4)*. One reason is that topic-specific partnerships generally have higher engagement and commitment from the corporate. Accordingly, 37 percent of startups believe that corporates create the most possible value in individual partnerships, while only 14 percent of startups think this is true in institutional partnerships. This could be because topic-specific partnerships often address problems that corporates have as well, creating a mutual benefit for both partners and thus increasing engagement on the corporate side. As a result, 56 percent of startups with individual partnerships have achieved their financial goals (e.g., sales targets or project financing), while only 29 percent have achieved them with institutional partnerships.

Our interviews with corporate executives also revealed that corporates perceive partnerships working best if they target a specific, predefined topic instead of a general, unspecific outcome. 74 percent of startups in individual partnerships agreed on common goals in collaboration with the corporate; only 43 percent of startups in institutional partnerships had a similar experience. This indicates that in institutional partnerships, startups tend to have less say in the goals of the partnership.

Exhibit 4: Importance and satisfaction of partnership types

### Individual vs. institutional partnerships



# Five recommendations for managing and improving corporate–startup partnerships

Based on the survey results, the findings from our corporate interviews, discussions with startups from the McKinsey startup network, plus our experience, we have derived five recommendations that corporates and startups should consider to improve their partnerships.

## 1. Corporates, bring your A-team to the game

Given the high importance of corporate–startup partnerships, attention from top management is key. "This is a topic for the CEO, not only the CTO," stated one interview partner from an insurance company. Our survey shows that attention from top management significantly increases partnership satisfaction – startups are almost twice as satisfied when it is given, with their overall satisfaction increasing from 47 percent to 88 percent. However, only 40 percent of startups say they are currently fully satisfied with the level of attention given by top management.

From startups, we hear that corporate top management is often excited and involved at the beginning, but rapidly loses steam during the process. To maintain the excitement and involvement levels of top management throughout the whole process, startups should establish frequent and regular points of interaction with management.

But it's not only top management that has to be on board; business units who are accountable for the partnership with the startup are also required on an operational level. Many startups complained that there are no clear contact persons or dedicated teams within the corporate – so all decisions, data requests, etc., take a lot of time (and as a result, 55 percent of startups complain about a lack of speed, and 34 percent complain about insufficient resources on the corporate side). And it's not just financial resources; manpower and involvement from the corporate side are particularly important for the success of a partnership. A startup's satisfaction with its partnership increases significantly with greater speed and sufficient involvement from the corporate. Corporates should, therefore, ensure that business units regard the partnership as a priority and that they are deeply embedded in joint teams with frequent interaction.

→ **It's not just financial resources; in order for a partnership to be successful, it must be high on the (corporate) agenda and true commitment must be shown through deep involvement and regular interaction from (C-level) management. Both startups and corporates should have an honest and convincing answer to "How does the partnership help us achieve our most important goals?"**

## 2. Build bridges between conflicting cultures and technologies

In the beginning of a partnership, there is usually a "culture clash" between startups and corporates. For example, corporate employees are surprised by the agile, fast-changing way that startups work. On the other hand, startups are taken aback by the complexity and bureaucracy of some corporate processes, such as the fact that decisions involve a large number of stakeholders and several committees, which takes time and limits flexibility. These clashes lead to friction in the relationship and should be addressed early on.

Our survey results show that satisfaction increased significantly (from 67 percent to 88 percent) for startups that stated that cultural gaps had been addressed and managed. Open communication as well as the right partnership setup are crucial in this process. Corporate leaders and their startup counterparts should openly discuss their preferred working styles and assume a partner-centric mindset similar to a customer-centric one – especially because mutual understanding and flexibility on both sides are key to developing a joint way of working. In our corporate interviews, we heard that startups also need to show more flexibility and learn how to efficiently collaborate with large corporates to make their partnerships a success.

However, clashes exist not only on a cultural level but also on a technical one: startups' API-based and -designed technologies are not usually easy to plug in to corporates' complex, legacy IT infrastructures. Typically, the older and more traditional the corporate, the bigger the challenge; younger or more digitized corporates struggle less with their startup partners' technologies. Problems like these should be identified early on and addressed by both sides so that they can collaboratively work on the best solution – and legacy corporate IT systems should be addressed in any case.

**Actively discuss potential cultural and technological clashes upfront (e.g., API-based and -designed startup technologies versus complex, legacy corporate IT infrastructure). Reframe potential clashes into opportunities to learn from each other, like corporates adopting startups' frequent product release cycles.**

## 3. Know where you are heading – align on goals and KPIs to avoid "partnerships for entertainment"

The degree to which expectations around measures of performance are laid out varies widely across corporate–startup partnerships. On one side, there are corporates that manage their startups like independent venture capital firms with strict KPIs. On the other side, some corporates that we interviewed reported that partnership success was based on "how much money was burned."

Many startups state that no clear KPIs or milestones were agreed upon at all in their partnerships: only 30 percent of startups fully agree that they have concrete and measurable goals, and only 21 percent of startups fully agree that a drumbeat, i.e., milestones and a timeline, were established.

Our survey strongly suggests the importance of explicit and specific goals and KPIs: satisfaction with the partnership increased significantly (rising from 63 percent to 86 percent) when goals were aligned and specified beforehand. Additionally, corporates agree that clear goals and KPIs increase the effectiveness of partnerships.

KPIs supporting the success of partnerships need to be different from standard core business KPIs (e.g., EBITDA, ROI) to account for the specific goals and time horizons of such partnerships or investments. Unmet and unrealistic expectations from leadership (such as quick financial benefits) – which should never have existed anyway – may obscure a partnership's actual successes. The right set of KPIs depends on the specific type of partnership and the business models of both the startup and the corporate. Aligning up front on a set of KPIs is central to the success of a partnership, because once the partnership enters rough waters (such as the COVID-19 crisis), it is too late.

Typical KPIs that are used by successful corporate–startup partnerships measure:

- Product development speed such as the percentage of technical development milestones reached in time
- Innovativeness such as reaching regulatory approval (e.g., in the context of drug development) or the number of granted patents
- Customer growth and retention such as monthly, weekly, or daily active users, customer satisfaction levels, percentage of customers repurchasing a product, daily or weekly leads, and lead conversion rates
- Revenue such as weekly revenue or monthly recurring revenue
- Cost impact such as realized cost savings, e.g., through process digitization.

**Define a set of three to five KPIs that measure success for both the startup and the corporate. Focus solely on improving or meeting these KPIs on a weekly or monthly basis. Act swiftly and forcefully if KPIs are not met.**

## 4. Find the right size for your projects: large enough for scaling but small enough so as not to be scary

One problem that was raised often in our interviews and surveys is that a partnership starts with a small pilot (e.g., the startup tests its minimum viable product with the corporate's customers or data) but does not scale up or move on to an implementation phase afterward – it gets stuck in the "pilot trap." This is largely attributed to the idea that either scale-up was perceived as too risky given the limited insights from the pilot or no clear "gateway" had been defined up front that would signal when it was time to move forward.

Both of these situations are, at least in part, a result of pilots that are too small and lack a pathways for scaling. Corporates and startups should think of pilots as sufficiently large projects and establish pathways for scaling. Instead of setting up several small pilots, where insights are almost certain to be limited or signals of success very faint, they should embark on a C-level-sponsored pilot whose scale is large enough to show real results, making further scale-up an obvious next step if clear success criteria are met.

The key is to find "the sweet spot": a project still small enough to not cause any harm (in order to mitigate concerns regarding reputation, data access, customer access, etc.), but large enough to be regarded as representative, deliver solid results, and serve as a clear case for scale-up or implementation. However, since these pilots require larger involvement of both parties, startups and corporates should be more diligent in determining with whom they partner.

Another reality that hampers the process of scaling is that scaling often involves a larger resource commitment from the corporate side. Releasing resources usually involves a large number of previously uninvolved stakeholders and a high amount of bureaucracy. This process takes time and the whole partnership can lose traction. To address this problem, startups and corporates need to start a conversation with all stakeholders early on regarding how the pilot can be scaled up and which resources are needed.

→ **The key to a successful partnership is to find "the sweet spot" in terms of size: a project still small enough to not cause any harm (in order to mitigate concerns regarding reputation, data access, customer access, etc.), but large enough to be regarded as representative, deliver solid results, and serve as a clear case for scale-up or implementation.**

## 5. Be focused and individual – set up targeted partnerships

Both corporates and startups are happier with individual, purpose-driven partnerships than with broad institutional partnerships. Topic-specific partnerships have higher engagement and commitment from corporates, more effectively address specific problems, and thus create mutual benefits. Startups are less interested in getting money thrown at them; they want focused and purpose-driven partnerships that give both sides the feeling that they are jointly working towards a common goal.

In contrast, institutional programs often lack this purpose-driven approach to partnerships. They are managed along the principle of early-stage venture capital funds: "spray and pray" – without the enforcement of hungry financiers. Thus, institutional programs frequently lack commercial impact beyond pure marketing or "entertainment" for management. One corporate interview partner even expressed that visits to the incubator by top management feel less like a meet-up between collaborators and more like a trip to a museum or circus, where the startup team is "on display" and simply there for the corporate's amusement. To make institutional partnerships more successful, our interviews highlighted the need to separate them from corporate governance and run them independently from the corporate core instead – a trend that we see in many successful institutional corporate programs. Among other things, this limits the risk of culture clashes (e.g., too many corporate processes being forced upon the startup) and increases the level of individual attention towards the partnership.

Therefore, when looking into starting a partnership, corporates should think carefully about what they really want to get out of it. Many corporates have set up a dedicated "scouting program" to look for partners. While this is a step in the right direction, interviewees reported that this setup can also be contradictory, as corporates risk "outsourcing" the partnership search away from the core business. On both sides, teams involved in innovation, operations, and strategy processes should be directly integrated in the search efforts to ensure that the right partner is approached with a clear partnership proposal in mind. On the other side of the relationship, startups also need to consider their objectives when searching for corporate partners – being part of an accelerator or incubator may sound fancy, but it might not be conducive to the partnership goals that startups hope for.

→ **Seek out and establish individual and purpose-driven partnerships that solve a specific business problem and can be measured with specific KPIs (see Recommendation 3). If setting up or entering an institutional program, be clear on the rationale for this choice (e.g., broader network building) and be vigilant about the program's setup (typically, separated from the corporate's governance).**

# Outlook

Corporate–startup partnerships have become increasingly important in recent years because both startups and corporates are in a position to offer assets that the other so crucially needs. And the COVID-19 crisis has only highlighted some of these needs. With the crisis' sudden and drastic impact on consumer behavior, such as the light-speed acceleration towards the acceptance of digital offerings, the business environment for many established corporates has fundamentally changed. This will increase the importance of corporate–startup partnerships even further (as more than half of the surveyed startups indicated), because corporates will need access to fast innovation and startups will need access to growth resources.

On the one hand, the current crisis has increased the pressure on corporates to innovate and has revealed the internal challenges they face in the process of reinventing their business models, product offerings, and customer journeys. Moving from offline to online customer journeys can take corporates many quarters, if not years. To emerge strongly from the crisis and not lag behind, a faster speed of innovation – which is unusual for most corporates – is required. This is where partnering with startups can help: instead of innovating in house, a corporate can innovate quickly with the help of a successfully executed startup collaboration.

On the other hand, the European startup ecosystem is facing existential challenges because startups' operating and business models are dependent on growth and financing, which are scarce these days.[8] Partnerships with corporates could fill this void by providing access to the required tools and knowledge to scale quickly (e.g., a far-reaching distribution network) without the need to build up these capabilities from scratch in house (which can be particularly cumbersome when it involves building trust with a large number of stakeholders such as distributors or sales agents).

Given the scarce resources in terms of time and capital, now is definitely the time to focus on truly value-adding projects. Anything that does not add value will likely be cut – including mediocre corporate–startup partnerships that satisfy neither of the partners. Companies that are already in a partnership should evaluate it based on the metrics outlined in this report. This "diagnostic" should be conducted jointly and include top management from both the startup and the corporate. They must identify individual pain points and create an actionable plan for how to tackle them. Now, more than ever before, is the time to get it right.

8 Karel Dörner, Max Flötotto, Massimo Mazza, and Tobias Henz, "How EMEA start-ups are dealing with COVID-19," May 2020, McKinsey.de

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