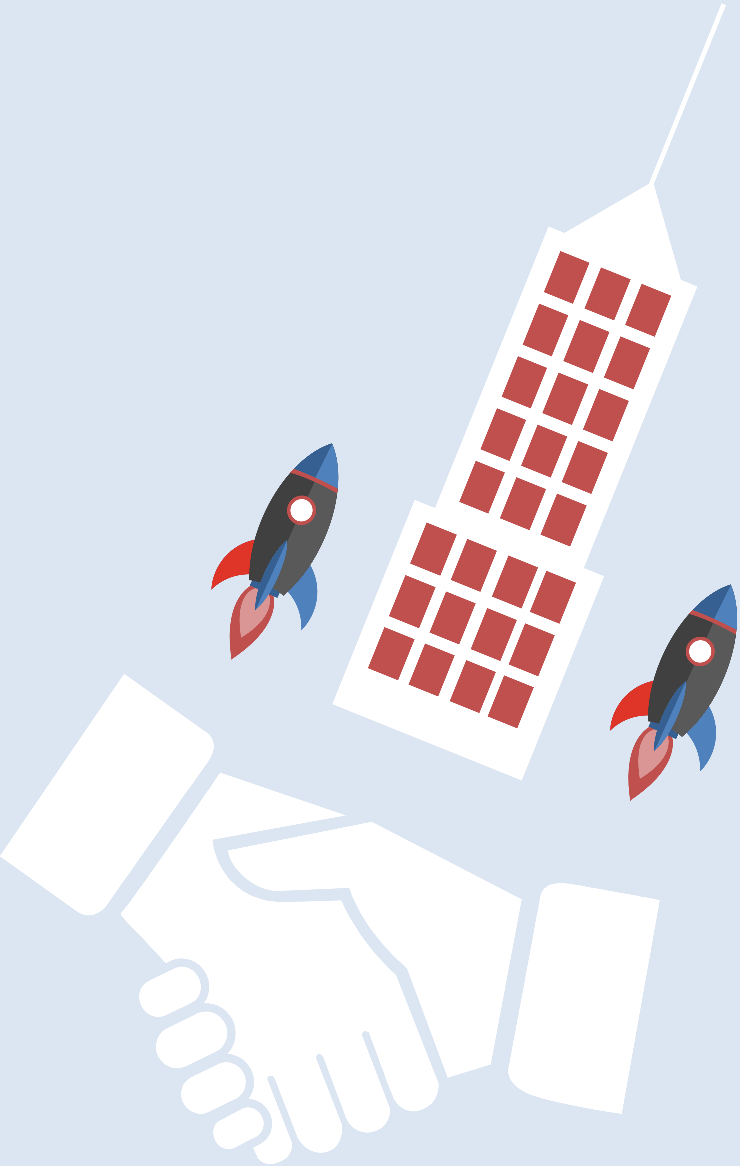
The Value Creation Observatory
an EIPM Laboratory



Time to **Partner With Start-ups**!
Purchasing is the key for success

Centre de Recherche en Gestion

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The source for Excellence

About EIPM

EIPM is at the intersection of the business and academic worlds, with an approach to education (grounded) established in the reality of business.
Currently, with branches in Geneva and Shanghai and partnerships in Brazil, Mexico, USA, Canada, the United Arab Emirates and India, the Institute has developed a complete range of solutions to meet the training needs of its large base of international clients in all sectors of industry and service.

About CRG

Founded in 1972 by the Ecole Polytechnique (France), CRG (Management Research Center) is the first laboratory dedicated to research in management to have been recognized by the CNRS in 1980. It is an active component of the Interdisciplinary Institute for Innovation - i3 - (UMR CNRS 9217) which includes teams from Mines ParisTech and Telecom ParisTech.
The unit is organized into four programs: Strategies of Innovation and dynamic systems design; Strategies, structuring and regulation of markets; Information Technology and Communication: Organizations, markets; and Creation, organizational and societal creativity.
CRG approach brings together theory and practioner's perspectives to seek solutions to problems faced by managers and organizations, putting knowledge into action.

The Value Creation Observatory

EIPM has embarked on a major Research project to measure the progress of the Purchasing profession towards Value Creation.

The ongoing research project consists of a series of surveys, workshops, case studies and publications.

We thank all the interviewees and the participants in our events who provided input for this observatory report

EIPM
Bâtiment Mont-Blanc 2
Rue Antoine Redier
74160 Archamps
France
Tel: +33 (0)4 50 31 56 86
Fax: +33 (0)4 50 31 56 80
www.eipm.org

AUTHORS

Romaric Servajean-Hilst, PhD

Romaric is an associate-researcher at the Management Research Center of Ecole Polytechnique and an entrepreneur. Specialist of innovation breakthrough management and open innovation management, he teaches, researches, consults and practices around these subjects. He began his career in LVMH group and further transferred to highly innovative BtoB environments the interest of building high quality relationships. The core of his research works, conducted together with entrepreneurs and with large firms, focus on three main questions: *How to industrialize collaborative innovation? What is the role of Purchasing in Open Innovation? What is the place of trust and interdependence in innovation cooperations?*
The specificity of his approach is its implication in the « how » and in the « what » of his missions. Based on an ethnographic approach, his work on Purchasing is rooted in his personal involvement in the Innovation-Purchasing of a multinational, scouting and integrating innovative organizations to their innovation processes and continuously developing new management methods based on these experiences. He was awarded best French doctoral thesis in 2017 for Purchasing, and best French academic work « Purchasing Trophy » by CDAF in 2016.

Hervé Legenvre, PhD

Hervé blends the best of the academic and practitioner thinking to create a unique learning experience and engaging articles. He continuously looks at the trends that will shape the business world in the future. He believes that the competitive edge of companies will increasingly be co-created with suppliers as innovation needs to be seized outside. He builds on his wide knowledge of invention, innovation and business excellence to create new tools and practices that help engage everyone on what counts most in a fast changing world.
Hervé worked for Renault Consulting where he transferred some of the first lean six sigma programs to Europe. He later joined EFQM where he led the latest major revision of the EFQM Excellence Model and the European Excellence Award. At EIPM, he was responsible for the EIPM Executive MBA since September 2011. Presently, Hervé acts as an assessor for the EIPM-Peter Kraljic Awards and is the Director of the Value Creation Observatory. Hervé is a regular speaker during in-company and public conferences, he is also the author of two books and he frequently writes articles and research reports

METHODOLOGY

The present report builds on the experience and past research conducted by the two authors. It is also the result of a large group exercise that took place during the 2016 EIPM annual conference. Following this, the case studies were collected through interviews.

TIME TO PARTNER WITH START-UPS!

Purchasing teams realize that they need to look beyond the obvious and search for new opportunities to contribute to their company's success. This sometimes includes working with Start-ups!

CONTENT

EXECUTIVE SUMMARY

Purchasing teams are increasingly realizing that they need to look beyond the classics and search for new opportunities to contribute to their Company's success. This sometimes includes working with Start-ups! Our Companies are now surrounded by dynamic ecosystems where Start-ups are gradually taking prominent roles.

Start-ups and large corporations want to work together and Purchasing teams can contribute to make these collaborations work. We have a role to play, an opportunity to grab.

Purchasing teams can contribute throughout the different stages of collaboration with a Start-up. To do so, they need to simplify our processes, we need to focus on the essentials and continuously learn from our experience.

We can help finding Start-ups by contributing to the mapping of business ecosystem and by joining other functions in scouting activities, when relevant. We need to be opportunistic but, at the same time, we also need some focus and it is important to explore these ecosystem with some "unmet needs" in mind.

Managing effectively the early exchanges with Start-ups is essential… . We need to find the balance between ambition and the attention to details. Complementarities and trust develop over time. We might need, in some instances, to protect the Start-ups from our cumbersome processes and to redesign our qualification process for them. We need to understand each one of them, to evaluate their true potential contribution and how much risk we are ready to take, if we work with them. It is important to early recognize differences while sharing the same goals.

Building and sustaining solid partnerships with Start-ups require focus on a small number of key-business and/or knowledge outcomes. Intellectual property issues need to be addressed through tough but fair and value sharing deals. It is best to operate through quick loops of validation and learnings, where clear feedback is shared on both sides. This process needs to be managed. We can help create the required transparency, clarity and visibility on goals, resources, actions and progress. Sometimes, we might need to protect the Start-up from our complexities, as their resources are limited.

Overcoming scalability challenges is one area where Start-ups can benefit from our help. On one hand we can help manage internal expectations, on the other hand it is also possible to help the startup access the right resources and network to manage its ramp-up. We, Purchasers, have the right tools and networks to help Start-ups make this work.

So it's time to partner with Start-up! Purchasing can be more than a key for success.

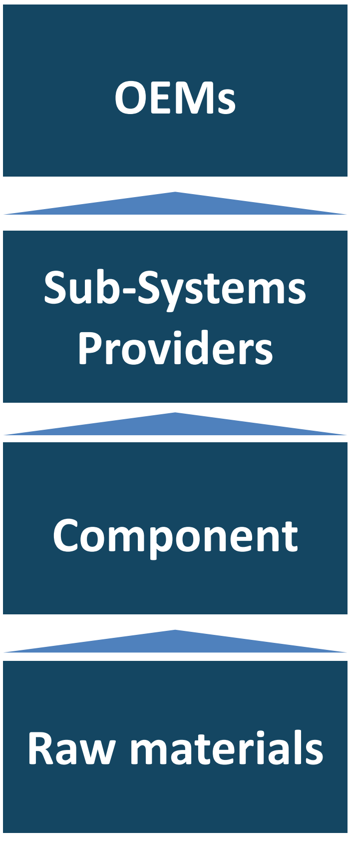
1. THE RISE OF DYNAMIC ECOSYSTEMS

Companies are now surrounded by dynamic ecosystems of organizations that simultaneously collaborate and compete against each other. Within these Ecosystems, Start-ups are taking prominent roles.

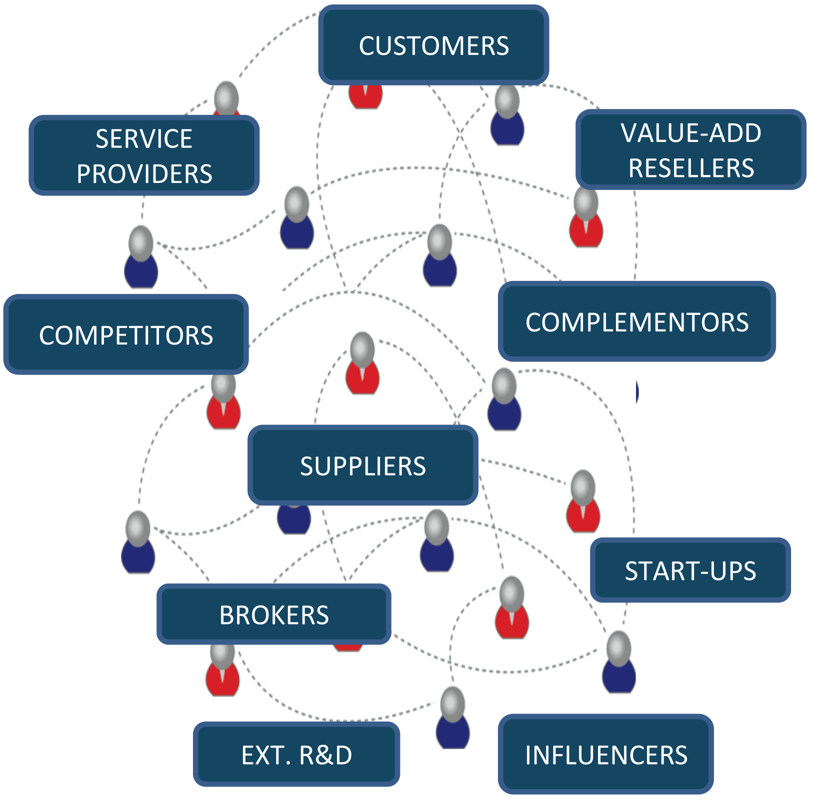
TRADITIONAL VALUE CHAINS ARE BEING REPLACED BY DYNAMIC ECOSYSTEMS

IBM used to be a vertically integrated company capable of transforming sand into algorithms. Today IBM is one layer within a broad ecosystem of companies and innovators. Thirty years ago Industries were depicted as a chain of players with sequential inputs and outputs. Today these giant economic silos have merged, recombined and interpenetrated each other. Innovation is everywhere and continuously accelerating. Combination is the key; Complexity the motto.
As the result, traditional value chains are shaken. We now have dynamic ecosystems of organizations that simultaneously collaborate and compete against each other.

From Value Chains

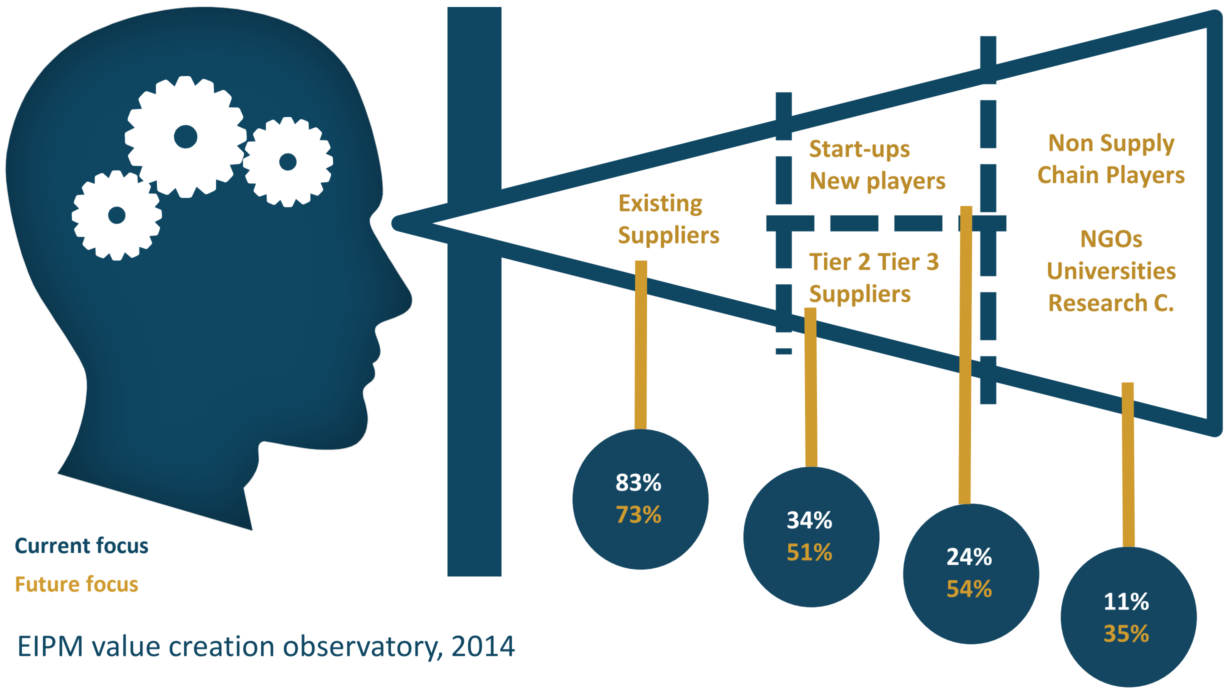


to Ecosystem



Today - as the final consumer has regained power thanks to the internet, as sustainability forces us to reinvent our performance equations, as value is shifting from components to algorithm, as the internet of things and digitalization offers new opportunities, as valuable knowledge pops up where you don’t expect it - these ecosystems are going through rapid transformation. All our companies try to escape the commodity trap and to regain differentiation by harnessing open innovation and external opportunities

Purchasing teams have realized that they need to look beyond the obvious and search for new opportunities that can bring performance and differentiation to their company. And as shown by data collected in 2014 by EIPM, this includes working more with start-ups.



EIPM value creation observatory, 2014

This calls us to rethink Purchasing organizations, processes and skills. We expect more out-of-the-box solutions from existing suppliers and we need to search for new opportunities beyond them. We expect an increased focus on finding relevant external opportunities. The following three practices should become more common in the future:

Fishing in the neighbourhood

The buyer secures preferred treatment from existing key suppliers. This ensures access to opportunities coming from existing industry players

Shaping future fishing grounds

The buyer creates access to existing and new players. He ensures the company is perceived as an attractive player for start-ups and newcomers within the ecosystems

Fishing in unknown territories

The buyer foresees where innovation could come from. Together with business partners he uses his networking skills and open innovation capabilities

All actors within dynamic business ecosystems need to know how to work together, how to co-innovate and how to address a broad range of intertwined stakes and uncertainties.

2. DAVID AND GOLIATH ARE READY TO WORK TOGETHER

Start-ups and large corporations want to work together. This is good news and an opportunity to grab.

WHY START-UPS & LARGE CORPORATIONS WANT TO WORK TOGETHER

In this changing world, there is one relationship that crystallizes all the potentials and challenges of creating new ecosystems: the couple formed by one large firm and one start-up. This couple is such a hype at the moment that the Purchasing function is too often put aside at the time of engaging with start-ups. Maybe, it is one of the reasons why so many relationships between start-ups and large firms are failing.
Nevertheless, there are reasons why start-ups and large corporations might want to work together which are different from classical relationships. We have outlined a few underneath:

The Start-up Agenda

- **01** Get important and stable clients and markets
- **02** Obtain references; reputation enhancement
- **03** Cash
- **04** Accelerate growth
- **05** Mature idea / Technology with client

The Corporate agenda

- **01** Early access to new ideas, skills, talents and business models
- **01** Follow the trend ; Image and brand enhancement
- **03** Access to new markets
- **04** Get a shot of Entrepreneurship culture
- **05** Test innovation outside the firm's boundaries

Partnering with Start-ups can offer great opportunities to bring disruption and to speed up transformations in large corporations. And start-ups need to build ecosystems where they can survive and grow, and these include some large firms. A key success factor in such collaboration is the compatibility of their agendas. Both parties should either commit to doing business together for some time or agree on a set of clear benefits they could harvest from a short-term collaboration.

3. ROADBLOCKS AHEAD!

Collaboration between Start-ups and large firms are challenging but Purchasing can contribute to make them work.

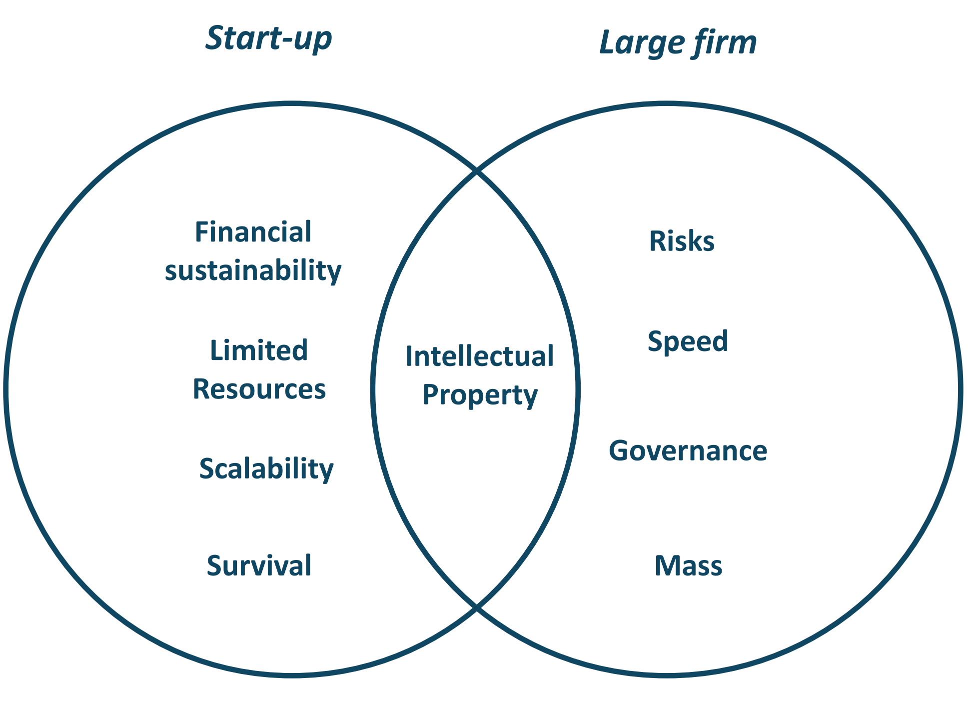
WHY IT IS SO HARD TO REALIZE

Even when a start-up and a large firm want to work together, the two sides are generally painfully experimenting their cultural and organizational differences. They approach innovation and risks with different appetites. The start-up is born to innovate, dealing with uncertainty is its only routine. It searches for a viable business model by going quickly through a series of experiments. The large firm is organized to best exploit its existing capabilities; its processes and routines are here to minimise risks – even when "innovation" is its main headline. Time does not have the same signification for them; they decide and act at different speeds.

Their ways of working are dissimilar. Flat and flexible organizations don't get along with hierarchies and complex governance mechanism. A start-up often offers a single point of contact while in the large firm, multiple layers of hierarchies and an army of functions need to be involved all the time.

Scales can mean something very different. A start-up can be quickly overwhelmed by an order of 20 products when in the large company, projects are seen as relevant only if they can quickly reach a critical mass. Start-ups are concerned about the end of the month and their cash position, while large corporations focus on rapid return on investment.

Main collaboration challenges to deal with

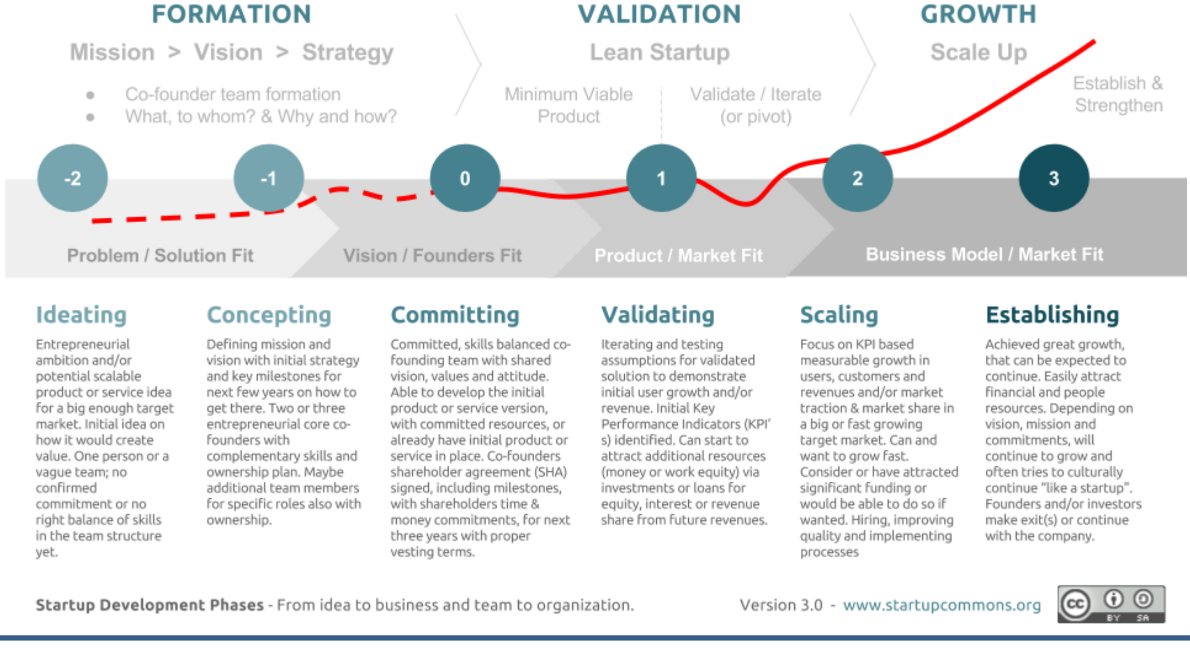


For the start-up, it is quite difficult to find the door to enter into the large firm, and then to find its ways inside the labyrinth of processes and organizations. With the proliferation of Open Innovation actions such as hackathons, corporate venture capital structures, incubators,… the dead ends are multiple. The time consumed for pitching such a dedicated program is often lost in trying to convince a future client.

From the point of view of the large firm, it is hard to evaluate the real maturity of an innovation brought by a start-up. It is impossible to evaluate the solidity of a new firm with no references and a shaky business model. For some managers it can be hard to understand that the start-up doesn't have an office in China, while in fact, its sole office is a maid's room in London.

And when they agree, the worst decision can suddenly be taken. The large firm and the start-up can fear intellectual property discussions. At this stage they tend to loose sight of the shared vision! Large firms tend to carry a long and painful history of failures on Intellectual property deals while start-ups tend to ignore how to deal with it. They don't know what should be kept confidential and how to secure future business. They are quick to see large companies and their layers as big bad wolves who want steal their intellectual property. Both don't know how to beat these fears through open discussions and contracts.

Start-ups go through different stages of development. Sometimes it can be useful to spot them and to start shaping their strategy at early stages. Sometimes it can also make sense to wait till they have reached a certain stage to interact with them. The following diagram outlines the stages of development of a start-up.



THE COLLABORATION LANDSCAPE

Being hype, the start-ups - large firms collaboration leads to the proliferation of events and means to engage such relationships. It is hard to find one big firm that has not organized or yet taken part in such event or organization. …and a start-up who never pitched behind them.

Type of engagements	Corporate venturing teams	Innovation team	Procurement team	Communication team
Hackathon and crowdsourcing		✔	✓	✔
Pitch competition		✔	✓	
Incubator		✓		✔
Corporate Venture Capital	✔	✓		
Accelerator		✓	✓	✔
Publicly funded research projects		✔	✓	
Innovation partnerships / co-development		✔	✔	
BtoB meetings		✔	✓	
Procurement		✓	✔	

✔ *Natural involvement*
✓ *Random involvement*

Nevertheless, the majority of these new forms of engagement leads to communication successes rather than business successes. This can be explained by three main factors:
- the over-focus of large firms on market intelligence and communication
- the lack of maturity of start-ups that oversell their innovation
- the lack of knowledge on both sides on how to build up and manage such innovation partnerships

It is also important to consider different sectors of activities. If you are a Hardware company, there will be very few start-ups that will offer great value to you. So don't expect them to bang at your door. You will need to spot them and to start working with them at very early stages of development. At the other end of the spectrum, start-ups who dream of reinventing banking are legions. They should not expect Banks to have their doors wide open as they need a swift and solid process of pre-qualification that takes into account the value offered, the fit between the players and other risks.

4. THE COLLABORATION FRAMEWORK

Purchasing can contribute throughout the different stages of collaboration with a start-up. To do so, it needs to adapt its processes and practices to make it work.

PURCHASING INVOLVEMENT IN SUCCESSFUL START-UP RELATIONSHIPS

At the very first stage of the relationship between a large firm and a start-up, the main challenge is to establish the best connections amongst the two players. Purchasing here can help everyone on both sides to reach a common understanding on a few critical points:

First, they can help clarify the resources and capabilities that both players can bring to the table outlining where complementarities exist and where challenges can be foreseen. What the start-up brings, needs to be unique. If something similar exists on the market, don't make your life more complex than needed. By adopting a facilitator role, they can ensure that transparency exists and that no issue is hidden under the table. This is a cornerstone for future trust and a good collaboration.

Second, they can help achieve clarity on who does what and eliminate some of the roadblocks that come in the way of the collaboration. They can also keep an eye on the overall value of the relationship. It is part of Purchasing's job to manage external relationships.

Third, when contracts need to be drafted and signed; they can prevent some frequent mistakes from happening. Managers who love to be on the forefront of trendy business practices, engage with start-ups and they sometimes rush to partner without clear objectives.

Purchasing needs to be involved at early stages to prevent adding a project to the graveyard of fantastic innovations that faced too many problems at the time of industrialization. Involved at the right time, their practices and tools can help to eliminate such mistakes. Their experience with sourcing committees and make-or-buy processes enable them to create internal alignments and to communicate effectively about the need to work in partnerships and to establish trust with a start-up. They can help develop and share and rather stable vision that can be presented and discussed with the start-up.

Thanks to Purchasing, a company can create a clear basis for negotiation when it is time to elaborate a contract with a start-up. Negotiation for the start-up, is a sign of interest and seriousness from the large firm, but some difficulties can arise. By providing clear objectives and limitations, Purchasing can facilitate the overall process of establishing a contract that reflects ambitions and commitments from both sides. This is also the right time to investigate what could be the right business models to use. Buyers can help the start-up look at alternatives to a product focus model and investigate service models where some industrial challenges can be eased.

Beyond this role for each project, more can be done to simplify the Purchasing process for start-ups. This can include early prequalification and online self assessment, light RFI and short contracts, rapid feedback to the start-up and regular lessons learned on working with start-ups.

5. SOME TIPS AND TRICKS

At every stage of a relationship with a start-up, some basic tips and tricks can be useful to help all of us improve our practices. The following pages can also form the basis for a rapid assessment of where you are in terms of practices.

TIPS AND TRICKS

This final section provides a series of tips and tricks to make start-up collaborations work. It is structured around four themes:

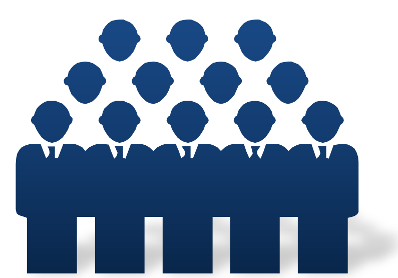
- Finding start-ups you can work with
- Managing effectively the early exchanges with start-ups
- Building and sustaining solid partnerships with start-ups
- Overcoming scalability challenges

These four dimensions and the items described for each of them can be used to assess and review your current experience managing relationships with start-ups.
You can look at each item, ask yourself about its importance in your context and then rate yourself from 1 to 5 depending on your maturity (from Ad Hoc experience to Systematic and Excellent)

Finding good Start-ups

Early Exchanges

Scaling up



Solid Partnership

5 TIPS TO FIND START-UPS YOU COULD WORK WITH

1. Chance favors only the prepared minds. So start searching with an opportunity for business differentiation, a pain-point or a problem to solve in mind.

2. Be opportunistic! When you look beyond your existing supplier base, take the time to connect people from the start-up with the right people inside. Be patient, as only one time out of hundred something will come out of it.

3. For a clear need, be systematic in your search. Map ecosystems by looking at key trends across the industry, by identifying who could collaborate with whom in the future. Use Market intelligence tools.

4. Occasionally, scout together with other functions. This will help you to better understand their pain points and to identify who could be the right partner for them.

5. Look at intermediaries and events that can help you access start-ups. There are many hackathons, incubators, accelerators, platforms, awards and influencers that can connect you with the right people.

5 TIPS TO MANAGE EARLY EXCHANGES WITH START-UPS

1

Make sure to provide clear and reasonable expectations. Be ambitious but go step by step, don't ask for new features all the time.

2

Look at the world through the eyes of the start-up. *Are you their partner of choice? What would it take for your company to be their partner of choice?*

3

Make sure that your company and the start-up's goals are compatible and mutually supportive. Ask yourself the questions: *How will they help you grow your business? How will you help them grow their business?*

4

Understand their business and technical capabilities. Take into account the network they can gain help from. See who has experience with working with large companies within their extended team.

5

Acknowledge differences and potential challenges right from the beginning. But always look at the risks in the light of the potential benefit and value your company can get out of the relationship.

5 TIPS TO BUILD AND SUSTAIN SOLID PARTNERSHIPS WITH A START-UP

1. Make sure that the collaboration focuses on the real customer or business pain-point and on the expected business/technical outcomes. Don't increase the wish list every time you see a new prototype.

2. Prototypes and help to test hypothesis, to fail fast and to rapidly perform validations. They allow you to test the quality of the relationship. But don't get blinded by the magic of prototypes and by the relationship honeymoon.

3. Implement, internally and externally, a crystal clear process to manage and take decisions. For the scope of work, leave space for exploration but manage the process.

4. Sometimes you might need to protect the start-up from the internal complexities and the heterogeneity of views. Pay attention to the human network, if someone leaves, ensure that continuity is maintained.

5. Create contracts that grow the overall cake and offer both parties opportunities to grow and develop. Develop fair IP and value sharing deals – do not block the start-up's access to other markets than yours.

5 TIPS TO OVERCOME THE SCALABILITY CHALLENGE

1. Manage internal expectations so a safe ramp-up can be secured. Communicate about the stage of development of the start-up and about what can be expected right from the early days of collaboration.

2. Educate the internal business partners on the nature and scope of the collaboration, its challenge AND its benefits. Explain the maturity gap. Turn diversity into an advantage in their eyes.

3. Provide the startup with a letter of intent to help the start-up open new doors. Offer them to become a reference. Support them with your own testing, sourcing and development capabilities.

4. Consider multiplayer collaborations. Pair your suppliers with start-ups to benefit from their combined expertise. The business case needs to be clear for both of them. Follow-up on the quality of their relationships.

5. Open your network in other sectors to the start-up in order for them to be able to get scale effects and secured return-on-investment made for you.

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