ALJABR

Bridging Startup Innovation with Corporate Ambition

For Corporate companies, Family Enterprises, Venture Capitalists, Governments and Academia

Volume I - Corporate companies & Family Enterprises

Dear Reader,

As the MENA startup scene is actively growing, ALJABR has been working closely with different stakeholders in the entrepreneurial and startup ecosystems in the region. Being a very active player in startup development throughout the past years, one of our main objectives is to accelerate startup innovation through corporate-startup collaboration. As we understand the challenges associated with that approach, we also recognize the tremendous opportunity that comes with it.

Our role is vital in reducing the gap between a corporate company's ambition and the agility and speed that the startup can bring to the table. When engaging both parties with the right tools and methodologies, we can set forth an innovative power that disrupts and lead industries towards the future.

From investments to partnerships and all the way to mergers & acquisitions, we are going to briefly explain in this whitepaper how corporate innovation works through global and regional cases.

We firmly believe that our region can be a leader in innovative products, services and solutions that make people's lives better, this whitepaper is our latest effort towards that goal.

Innovation & Partnerships Team,
ALJABR

Table of Contents

Executive Summary

The paper covers the understanding of corporate startup collaborations, taking into account that it is based on research and case studies from regional and global markets on the adaptation of collaboration and engagement with startups.

The first section focuses on the startup scene, moving on to how this comes by for corporates to engage and collaborate with.

The second section constitutes the various types and objectives that align with these engagements. Providing an interpretation for various types of corporates and organizations to collaborate with these startups.

The third section includes the best practices and approaches observed over years for corporates to take into account when working with startups.

SECTION 1

What this paper is about...

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Corporate Startup Collaborations,

taking into account that it is based on research and case studies from regional and global markets on the adaptation of collaboration and engagement with startups. The first section focuses on the startup scene, moving on to how this comes by for corporates to engage and collaborate with.The second section constitutes the various types and objectives that align with these engagements. Providing an interpretation for various types of corporates and organizations to collaborate with these startups.

According to a study done by 500 Startups

over 92%

companies engage with startups to gain access to new technology[1]

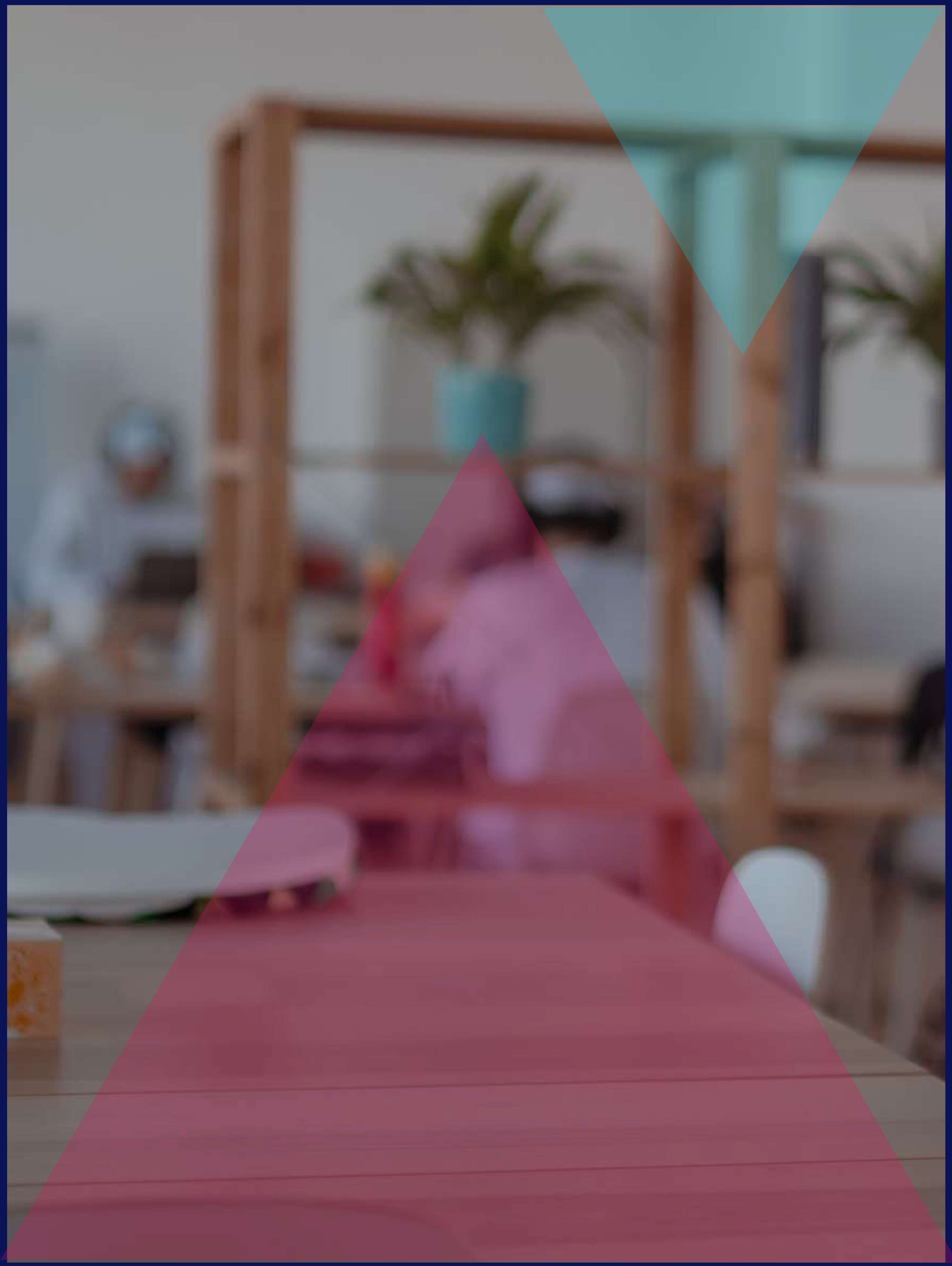
1 Unlocking Innovation Through Startup Engagement. - 500 startup report

“In the long history of humankind, those who learned to collaborate and improve most effectively have prevailed” - Charles Darwin

A peek into the startup scene

“Startups represent a tsunami of disruption that is about to crash into your industry.” [2]

Startups are young ventures founded by one or more entrepreneurs who come together to develop a unique product or service to launch in the market. These businesses are know to run with minor budgets for operations, where funding would start from the 3Fs: Family, Friends and Fools.As a beginning, the main challenge that startups face is being able to validate their concept to investors and creditors. With that comes high risk which lies onto the founders and investors to endure. The objective of a startup is to grow and scale fast to cover different markets.In recent years, startups have been playing a significant role in social and economic development. These newly born ventures showcase the potential of transitioning local areas, and in certain cases transform entire economies towards progression and competence by enabling industrial transformations through new technologies and innovations.



2 Startup Engagement:Best Practices for Large Organizations

Is there a fine line between SMEs and Startups?

In reality, there is a huge difference between startups and SMEs. The main elements considered here is the amount of risks associated with startups, surviving in the market, scalability and fundraising. With that in mind, SMEs usually grow to reach a linear growth rate, when alternatively startups need exponential growth to be able to survive the market where they focus on scaling to grasp bigger market share continuously. That is achieved through growing to different markets or growing to seize wider customer segments.

It is usually expected from SMEs to be able to gain revenue and profit early on during their business life cycle, while startups are non profitable and have very low revenue early in their lifetime. This is what makes startups quite risky to invest in, however, the return if the startup succeeds are very substantial.

> “77 out of 100 of corporates have conducted pilots and partnership with startups.”[3]

3 Based on a survey conducted by 50 Startups for 100 corporate executives overseeing innovation in industries including CPG, healthcare, retail, and finance

How startups work .. Briefly.

For startups to accelerate their growth, they are usually tempted to join incubators: who are often associated with nonprofits and business schools to provide mentoring, support, office space and environment to nurture their growth. Some incubators also provide seed funding (early funding) to the startups. As for angel investors and venture capitalists, they are regularly on the lookout for great, promising startups to offer an investment in return for stake in their company. For that to happen, investors will need to assess these startups and understand the valuation of the startup based on the stage they are in. There are various methods of startup valuation in accordance to the criteria used, are viewed in the figure[4]:

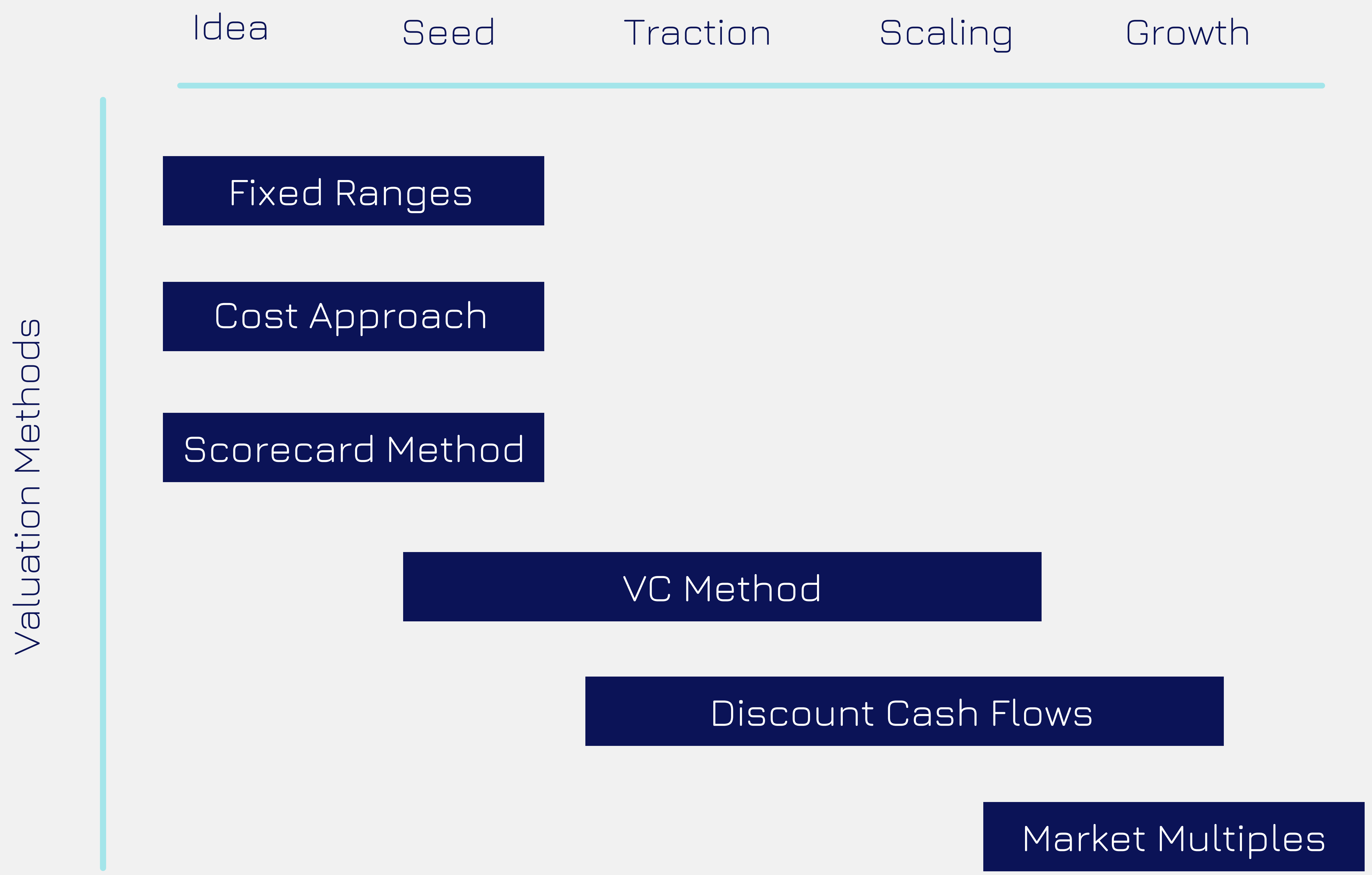
Figure 1.1: Characteristics and Startup Stages

	Idea	Seed	Traction	Scaling	Growth
Cash flow	NA	Negative	Negative	Positive	Negative
POC (Proof of Concept)	NA	NA	✔	✔	✔
Historical Financial	NA	NA	Limited	✔	✔
Financial Forecast	NA	Limited	Limited	✔	✔

4 Success factors in Corporate-Startup Cooperation, Antwerp Management School, 2020

To value startups, they require the consideration of the elements included in the previous figure (Figure 1.1) these are considered to be the methods known best to be able to value startups based on their stages:

Figure 1.2: Startup Valuation Methods [5]



5 Success factors in Corporate-Startup Cooperation, Antwerp Management School, 2020


COLLABORATE
WITH STARTUPS
SECTION 2

Why consider startup collaborations?

Incorporating Open innovation – 'the worldview that expects that organizations should utilize external ideas just as internal ideas, and interior and outer ways to advertise' – has gotten significant for some organizations who perceive the constraints of 'shut' internal Research and development. The leading forward thinking corporate companies know that the leading ideas do not always come from the internal aspect of the organization . Instep they are setting powerful examples of how working with and investing in new ventures can offer in maintaining and growing market position.

New ventures and large corporations bring each other great opportunities that one could capitalize on through partnerships, where utilized efficiently, create win-win contingency for both.In this present reality where innovation, as opposed to unadulterated productivity, is the vital driver of long haul achievement, working with new ventures permits corporate companies to create and test new innovations and service solutions with less expenses and risk to their core business activities. New startups are likewise a wellspring of new talent and thoughts that can help revive corporate cultures.

> "Innovation is changing; big corporates are waking up to the fact that startups, especially digital and tech businesses, are disrupting whole industries from the bottom up. Forward looking corporates see startups not as a threat, but as potential partners to create more value for their company, consumers and sectors." [6]
>
> Giuseppe Zocco, co-founder of Index Ventures

Corporate-startup collaboration

There are various types of corporate-startup relationships and partnerships; the general picture lies in corporates being able to apprehend into startup innovators' agility and share contacts and connections amongst each other.

Choosing the right collaboration between a corporate and a startup would be the critical ingredient to determine the success of the collaboration. Some types of collabs based on recent trends in the market incorporate the following:

01

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Corporate Accelerators

In recent years, Corporate Accelerators have been trending in the recent years where research has found that close to one-third of accelerators run in Europe were in association with corporates. That is, either carried or supported by them in 2015, where numbers are exponentially growing around the world.

02

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Corporate Venture Capital (CVC)

Corporate Venture Capitals have been blooming since 2014, with Germany being the fireball of CVCs in Europe, around half of the continent's biggest 100 companies have accompanied investment related activities within their organizations. Having said that, a growth rate of 86.5% and 59% in value and number of CVCs witnessed that year, respectively. With a total number of 1,735 deals closed worth $48.5 billion and exits valued at $84.2 billion.

03

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Mergers & Acquisitions of Startups

Corporates and large businesses focusing on technology have been keen on startups creating a flourishing opening for startup acquisitions and mergers throughout the recent years. An analysis done for Europe's largest 130 corporates in the technology, ICT and digital sector, said that 80% of them have chosen to focus on startup acquisitions compared to market players who have been well established.

According to KPMG's research in 2015 on Corporate Startup Collaborations: almost 90% of corporates required startups to enable them to innovate.[7]

"Innovation is changing; big corporates are waking up to the fact that startups, especially digital and tech businesses Forward looking corporates see, startups not as a threat, but as potential partners to create more value for their company, consumers and sectors."[8]

04

Corporate Hackathons

Hackathons are usually competition-based events taken place in 48 hours time period, normally over a weekend, to solve a corporate challenge. With programmers as main participants who come together to work rigorously to create prototypes on new solutions in order to solve that specific challenge.

05

Family Corporate Startup Collaborations

This type of collaboration aims to incorporate innovation into family based businesses in order to expand and grow. As this type of businesses operate as corporates, the mentioned objectives and collaboration types take into consideration that they are included in that. Nonetheless, the concepts of corporate-startup collaborations, open innovation and engagement programs have just as big of an effect on Family Corporate businesses.

7 On the road to corporate startup collaboration NEW HORIZONS 2015

8 WINNING TOGETHER - A GUIDE TO SUCCESSFUL CORPORATE-STARTUP COLLABORATIONS

As the mentioned types of corporate-startup collaborations mentioned in the previous section, these programs should be aligned with the objectives the corporate would need to reach. Here is a heat map on how well each program type would work with the proposed objective.

Figure 2.1: Corporate Objectives and Engagement Programs Types[9]

Corporate Objectives

Corporate-startup Engagement Programs Types

	Intrapreneurial corporate culture	New products, services & partners	Solving challenges	Leading the way into future industries
Hackathons	HIGH	HIGH	MEDIUM	LOW
Sharing knowledge & resources	MEDIUM	HIGH	LOW	LOW
Accelerators & incubators	HIGH	HIGH	MEDIUM	MEDIUM
Partnerships / POC programs	MEDIUM	MEDIUM	HIGH	MEDIUM
Investment & Corporate Venturing	LOW	LOW	MEDIUM	HIGH
Acquisitions & on-boarding	MEDIUM	LOW	HIGH	HIGH

9 On the road to corporate startup collaboration NEW HORIZONS 2015


CORPORATE
APPROACHES
SECTION 3

Best Approaches for Corporates

Having looked at the types of engagements for corporates and the objectives associated with each, how would corporations make use of this paper? Here are recommendations on best approaches for corporates to consider:

01

Incorporating Innovation within Corporate DNA

This would definitely not be an easy task; for corporates to take in new products, change the business and constantly develop and market new business models. However, this amount of commitment from the corporate as a whole is crucial in order to be able to comprehend and embrace innovation into its DNA. This does not mean the organization/corporate to create a separate department or innovation team, as it will not be the most effective way to trigger innovation.

02

Map Out Experiments and Pilots

Execution is the essence of innovation. In order to evaluate any potential solution, a corporate/organization should find the shortest way to a demo in order to test the minimum viable product. Preferable, the corporate and the startup, together, work on finding and financing a pilot as soon as possible. Then, test and conclude the minimal viable product on its value and quality. In the beginning, the appointed team will have been allocated a budget in order for to experiment and run the pilot instead of the organization using internal resources to issue case-by-case budgets. A quick plan is drafted on the back of a napkin, which will be enough to use at the moment and later iterate based on the outcomes of the experiment. Nevertheless, identifying and analyzing a business model early on is of utmost priority. This will help in clarifying whether the collaboration would be based on a client-supplier association with a fixed price or a partnership with revenue share model.

“Almost 90% of corporates required startups to enable them to innovate.”
– KPMG New Horizons 2014

03

Be honest and Straightforward with Startups

The project timeline for a startup on average is 3 weeks, the time it would take a corporate to find a free slot for a corporate! To avoid the founder having to call up the next day to follow up on the next steps and scheduling multiple meetings coming up next, be as concise and clear feedback on spot. This helps the startup understand their customers, markets and validate their products to find the right market fit. With that said, corporates should sketch a clear image for the startup on whether the product offered is a promising project to collaborate on; starting off with providing a scheme of what the next steps are, the expectations and an overview on how the process works. Doing this allows both parties to have a clear understanding, therefore a more successful approach.

04

Establishing the Connecting Link

Now that innovation is going to be incorporated within the corporate DNA, someone needs to bring all of this together. That is, a point of contact who brings both sides of this collaboration into a union. This link could be an individual or a team who would sufficiently have a strong network internally, within the corporate, and externally with various players in the ecosystem. Having an in depth understanding of the challenges faced within the corporate and able to deploy startup solution to the pain points into the organization.

"To keep startup engagements on track, corporations need to align stakeholders, objectives, and resources early and often."
- KPMG New Horizons 2014

05

Assess Your Startup Documentation Process

Normally, corporates and large organizations' General Terms and Conditions are intended to serve when dealing with other corporates and large organizations. We cannot expect that this type of documentation implementation and maturity would be seen with startups. This concept is quite crucial for corporates to grasp. An example for this would be payment terms, any payment term beyond the standard 30 days will be destructive for the startup. Nonetheless, corporates should start considering a more efficient approach for this collaboration. These include comprehending the basics: Non-Disclosure Agreements (NDAs), Letter of Intent (LoI) and client-supplier terms which will take into consideration startup methodologies.

"Big companies are lately waking up to the fact that their industries are disrupted by the innovations led by startups. Instead of thinking 'some incumbents are gonna lose, some startups are gonna win', startups should be seen as potential partners. Partners to create more value for your company, more value for the consumer, and for the whole industry."

Giuseppe Zocco, co-founder of Index Ventures

In a Nutshell

The conclusion

Having large organizations incorporate innovation within their businesses could be considered easier said than done. However, for corporates to be able to sustain in highly competing markets and technological advances, collaborating with startups is a mean used to be able to reach that goal.

With a wide difference on how SMEs operate compared to tech startups, the high growth and high risks associated with startups do encourage more future returns. This allows investors and partners to invest efforts into them where valuation methods for startups would vary according the stage they are in.

These collaborations can vary from Corporate Hackathons, to Accelerators, Incubators and other types of collaborations based on objectives the corporate would achieve. Be it to incorporate innovation culture, solve challenges, branch out to new industries or launch new products and services with partners.

Nonetheless, corporates are to consider the aspects associated on how to establish these collaborations, starting from being clear, concise and honest with the objectives in mind, to understanding how the policies and processes would work.

If you, our dear reader, are interested in how to incorporate these practices into your business, do join us in our journey at ALJABR on how we can together achieve it.

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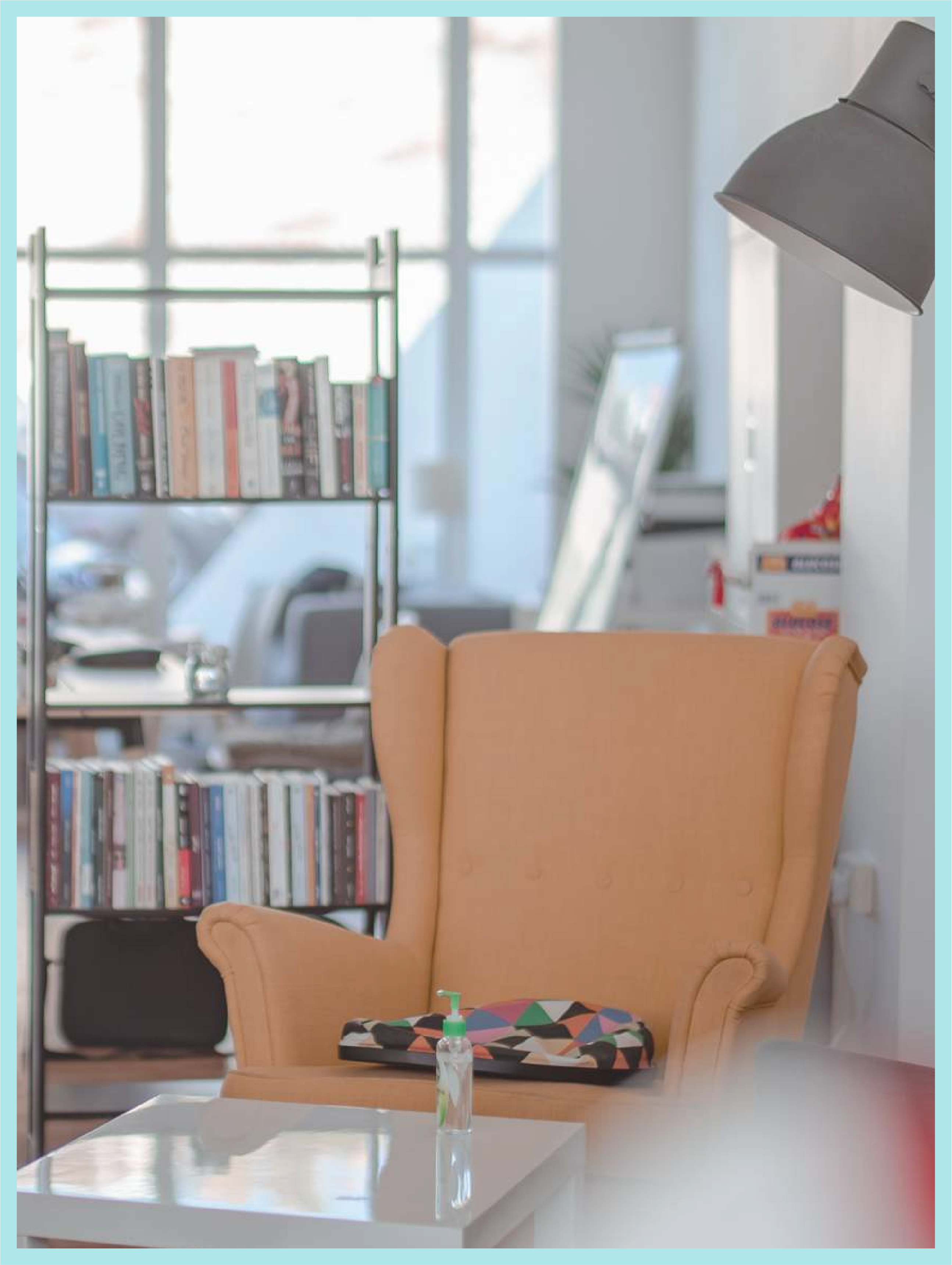
About ALJABR

AlJABR LLC is a Omani company focused on startup development and corporate innovation. We specialise in building entrepreneurial programs that help bridge startup innovation with corporate ambition, giving access to financial, human and intellectual capital. Our aim is to build a regional hub for startup development. This includes working alongside corporates, startups and investors to achieve that.



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