RESEARCH

Successful Startup Engagement and Corporate Venture Capital

December 2022

Sponsored by

MIT Corporate Relations

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Introduction

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Corporate-startup partnerships are now a key element of the world's most successful innovation ecosystems. But these relationships can sometimes be fraught, and full of misunderstanding.

Building on our earlier collaborations with InnoLead, MIT Corporate Relations is delighted to co-sponsor this new research, with the goal of supplying data and shedding light on how the world's top companies get value from their participation in the startup ecosystem, and how they practice corporate venture capital (CVC).

When seeking to become more active participants in the startup ecosystem, it's important for corporate leaders to ask — and get alignment — on the answers to several key questions.

They should first address "what" they are trying to get from engaging ecosystem stakeholders like startups; "whom" exactly they need to engage; "who" from their corporate side should be doing the engaging; and then finally, the "how" of that engagement activity, of which corporate venture capital is only one option. (This "What/Who/How" approach is drawn from a recent Sloan Management Review article by Professor Fiona Murray and Dr. Phil Budden.)

One of our key insights is that corporate venture capital is indeed a tactical tool, but one that corporates should consider using in line with their overall strategy for innovation, and for engaging ecosystem stakeholders. We therefore advise corporate leaders to pause before launching a CVC unit to great fanfare, and reflect on how that tactic best fits their strategy, alongside a range of other "venturing" options.

Introduction

“We hope this report will help you shape — or reassess — your strategy, and be a constructive and successful participant in your ecosystem.”

This report gathered data from 146 corporate leaders to understand what they do, how it is set up, and what challenges they face when plugging in to local or global startup ecosystems. The InnoLead team also conducted in-depth interviews and ran several interactive workshops to gather input on how corporate leaders overcome those challenges. They also created an infographic outlining the primary modes of ecosystem engagement that companies can choose from.

In the following pages, you will find advice and insights from real-world practitioners about how their startup ecosystem efforts fit into their wider corporate innovation strategies; which metrics they and their C-suite rely on; and how they set up their CVC teams for success, even as economic conditions darken. We hope this report will help you shape — or reassess — your strategy, and be a constructive and successful participant in your ecosystem.

In MIT’s ecosystem, we invite you to learn more about or connect with the Corporate Relations office, which runs two signature programs that offer companies access to MIT faculty and research (MIT's Industrial Liaison Program), and to MIT-connected startups (MIT's Startup Exchange program).

— David Martin & Dr. Phil Budden

Executive Summary

How can corporates successfully scout, collaborate with, and invest in startups —in a way that creates value for both parties?

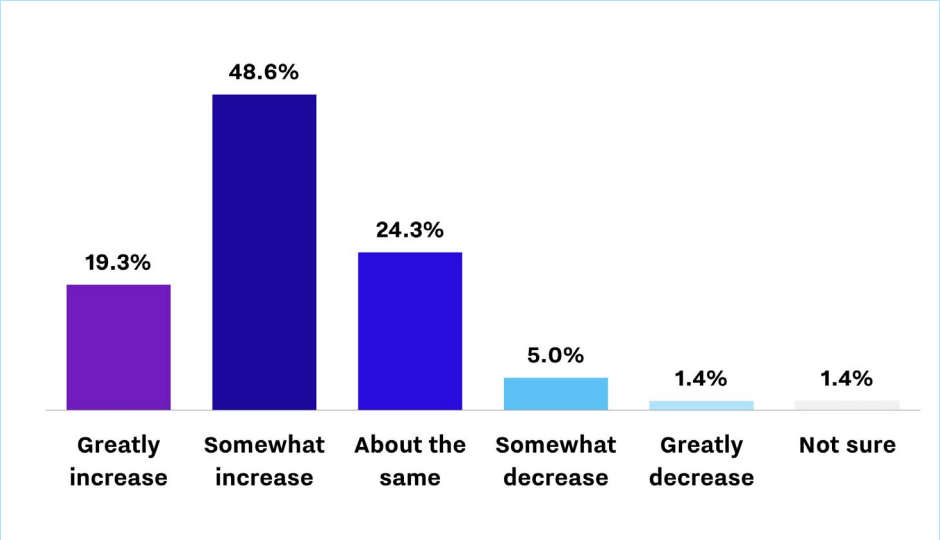
This report addresses that very big question, with support from quantitative survey data, gathered in the second half of 2022, and qualitative interviews with leaders at organizations like JetBlue, Johnson & Johnson, TDK, and Coca-Cola.

Here are five key insights that emerged:

1. Activity is increasing. Nearly 70 percent of our survey respondents said they expect their level of startup engagement to increase in 2023, compared with 2022. (See chart at right.) Almost half of our respondents say they have more than 10 collaborations or investments with startups already in place. Fifty-six percent of our respondents have a corporate venture capital group in place, and of those groups, one-third have been created within the past three years.

2. Startup engagement requires a clear focus. Taking meetings, holding pitch events, and participating in accelerator programs can be an enormous waste of time if there isn't internal agreement on what problems the organization is seeking to solve, or which new opportunities it is hoping to address through startup collaborations or investments. Even better: having pathways already established for running pilot tests and potential deployments with promising startups. Key business units and functions should be kept apprised — and have skin in the game, in terms of allocating budget and time to support that activity.

How do you expect your company's level of engagement in the startup ecosystem to change from 2022 to 2023?



When it comes to investing in startups, our survey respondents told us that their top priority was finding “enhancements to existing product lines or operations,” followed by “new solutions that will open up new markets or customer segments.”

3. The top challenge (remains) getting internal buy-in. Convincing other internal decision-makers to engage with a startup was the challenge at the top of our survey respondents’ list, as it was last year. Differences in operating speed and expectations also repeated as challenges #2 and #3 this year.

4. Putting “living bridges” in place is essential. To make it easier for startups to test new technologies with groups inside the corporate — or with outside customers or business partners — several of our interviewees mentioned the importance of having people at the corporate who can serve as “living bridges,” helping the startup navigate the corporate hierarchy, required contracts and security checks, and decision-making. (That phrase comes from Michal Preminger of J&J.)

5. Nothing works without long-term commitment. Startups don't instantly learn about a new initiative created by a corporate, and traditional venture capital firms may not know about, or trust, a new corporate venture capital team just getting onto its feet. Of our survey respondents who have set up a corporate venture capital group, almost 47 percent say that it has been in place for five years or more.

Steve Taub of JetBlue Ventures said, “One of the problems with corporate venture has been that a lot of corporate venture groups tend to have a short lifecycle — they get in at the top of the market, they lose their money, and then they’re out. That makes companies and other investors hesitant to work with them, which means that you don’t see the best opportunities… It's a vicious cycle.”

Neither startup engagement strategy nor corporate venture capital investing is a switch that can be simply flipped on. Reputation, trust, momentum, organizational learning, and financial upside accrue over years. It's important to communicate that to senior leaders at the outset, and to approach this work as if you are building a spacecraft that will need to survive a long journey, rather than folding a paper airplane for a trip across the room.

We’re grateful to everyone who contributed their time and perspective to this project, and to our sponsor, MIT Corporate Relations. We wish you luck in putting these ideas into practice in your organization!

Engagement in Startup Ecosystem

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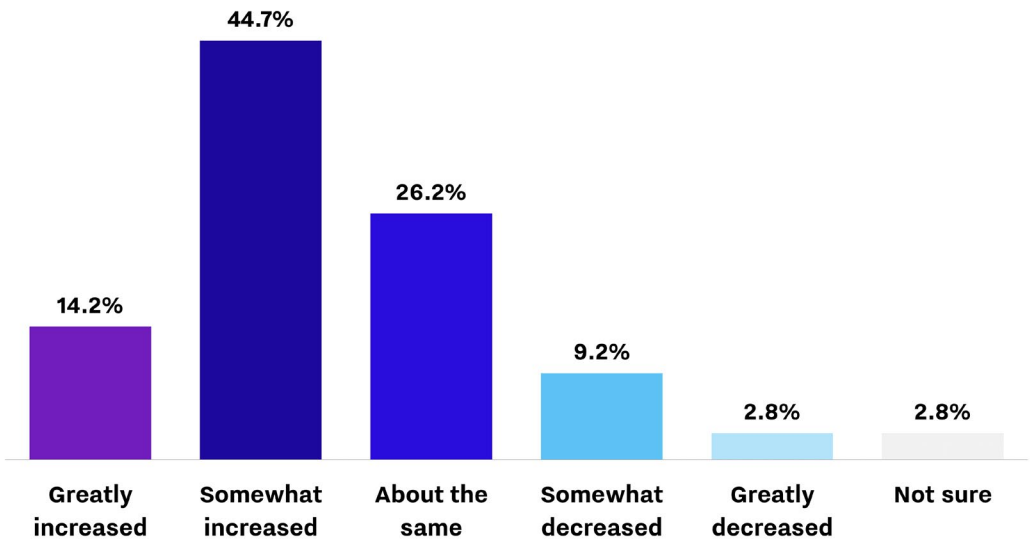
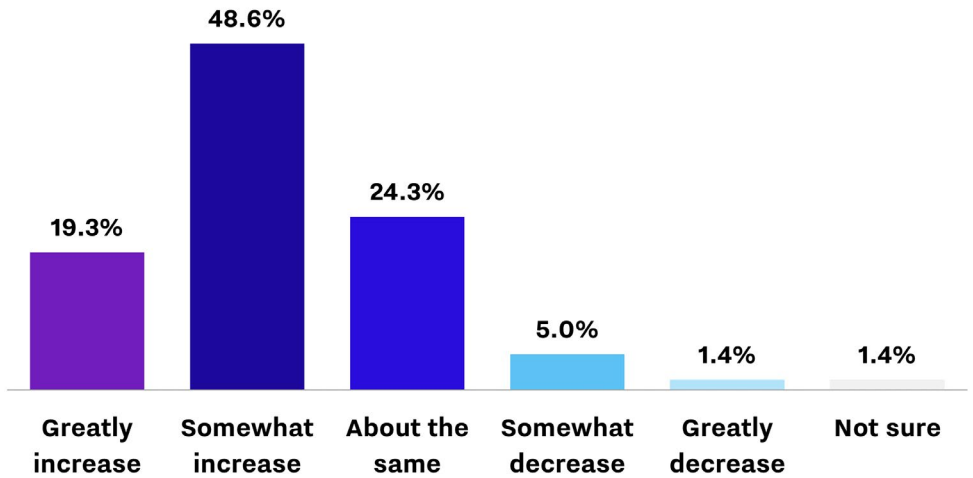
How has your company's level of engagement in the startup ecosystem changed from 2021 to 2022?



How do you expect your company's level of engagement in the startup ecosystem to change from 2022 to 2023?



Our respondents are increasingly active in the startup ecosystem, and it appears this trend will continue into 2023. Well over half reported they were more active in the startup ecosystem in 2022 compared with 2021. Engagement activity is still rebounding from the 2020-2021 period, when 20 percent said activity had decreased, and 36.8 percent said it was stable.

Startup Ecosystem Engagement: Approaches

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How does your company engage with the startup ecosystem?

73.4%	We attend conferences (either virtual or in-person) within the startup ecosystem.
60.8%	We have our own staff that does technology scouting.
55.9%	We have a corporate venture capital group (making direct investments).
48.3%	We access databases to scout relevant startups of interest.
42.7%	We sponsor a startup accelerator, or mentor with an accelerator.
37.1%	We run open innovation challenges or hackathons to attract startups.
28.7%	We work with other companies to mutually invest in startups.
27.3%	We invest in outside venture capital funds.
25.9%	We are often an early customer for startups.
16.8%	We don't currently have a coherent strategy for engaging with startups.
7.7%	We are considering or are in the process of setting up a corporate venture capital group.
1.4%	Not sure.

Startup Ecosystem Engagement: Other Responses

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7.0%

Other

We asked the question:

"How does your company engage with the startup ecosystem?"

Seven percent described **approaches to engagement** that were **not** among our defined choices. Among them...

- "We've got a startup mentorship program."
- "We collaborate with startups to build their technology/products. We also teach them technology."
- "We often put startups in front of our larger corporate community, mostly to inspire those from the larger companies."
- "We work with consultants to scout for startups in a specific problem-solving domain."
- "We host a shared innovation space for startups."
- "In Brazil, we are part of CUBO Agro, the biggest open innovation hub in Latin America. From this experience, we are expanding around the world, with four open innovation managers distributed [around] the region to engage and connect the customer and business needs with the solutions [that] startups can provide."
- "We provide special discounts on our products for startups."
- "We manage a program of intrapreneurs [who] develop ideas internally as well as externally."

Biggest Challenges of Startup Engagement

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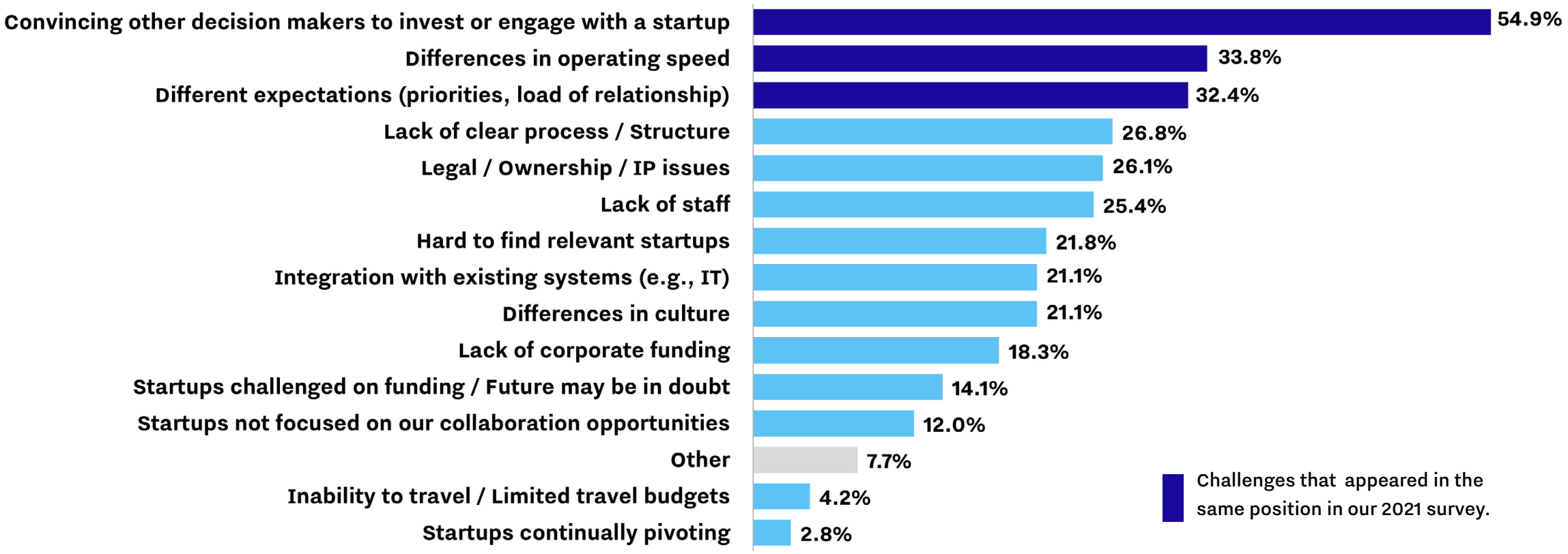
What is the biggest challenge or constraint on your startup engagement activity in 2022?



Biggest Challenges: Other Responses

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Other **7.7%**

We asked the question:

"What is the biggest challenge or constraint on your startup engagement activity in 2022?"

Nearly eight percent described their **biggest challenge** as something **other** than our defined choices. Among them...

- **"PhDs thinking they can get everything from a book."**
- **"Startup stability/relative maturity."**
- **"Time."**
- **"Developing internal processes."**
- **"Strategic and operational integration."**
- **"Mismatch between internal interests and market forces/startups."**
- **"It's challenging to reach beyond [our] traditional geographic sites to collaborate with startups in specific domains."**

Number of Active Startup Collaborations

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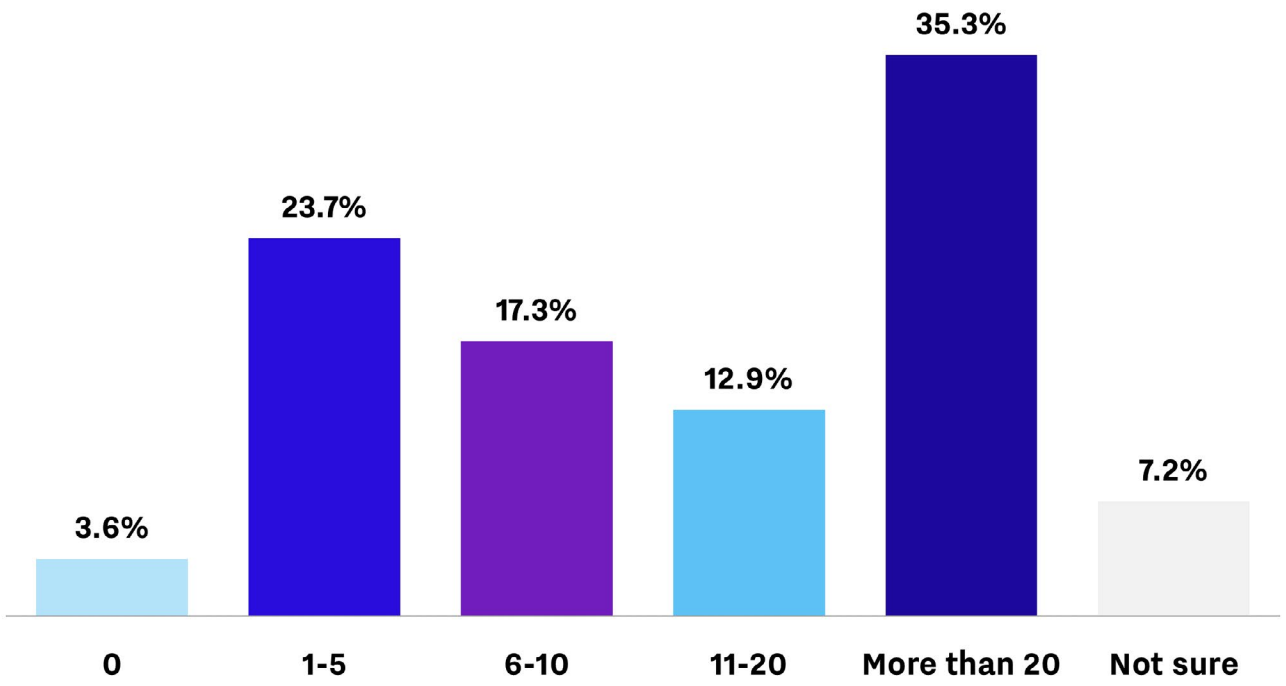
How many active startup collaborations or investments does your company have today?



Our respondents are an active bunch: more than one-third say they currently work with more than 20 startups as a partner or investor, and nearly 50 percent of the respondent set has more than 10 collaborations or investments. We found that the larger the company, the greater the number of collaborations or investments. Among companies with 25,000 or more employees, 54 percent say they have greater than 20 active collaborations or investments. Companies based in Europe were slightly more active, on average, than those in the US, and much more active than those in Asia/Pacific.

Nearly one-quarter of respondents are in the “just getting started” category, with between one and five active engagements with startups.

Corporate Venture Capital Groups Aren't New

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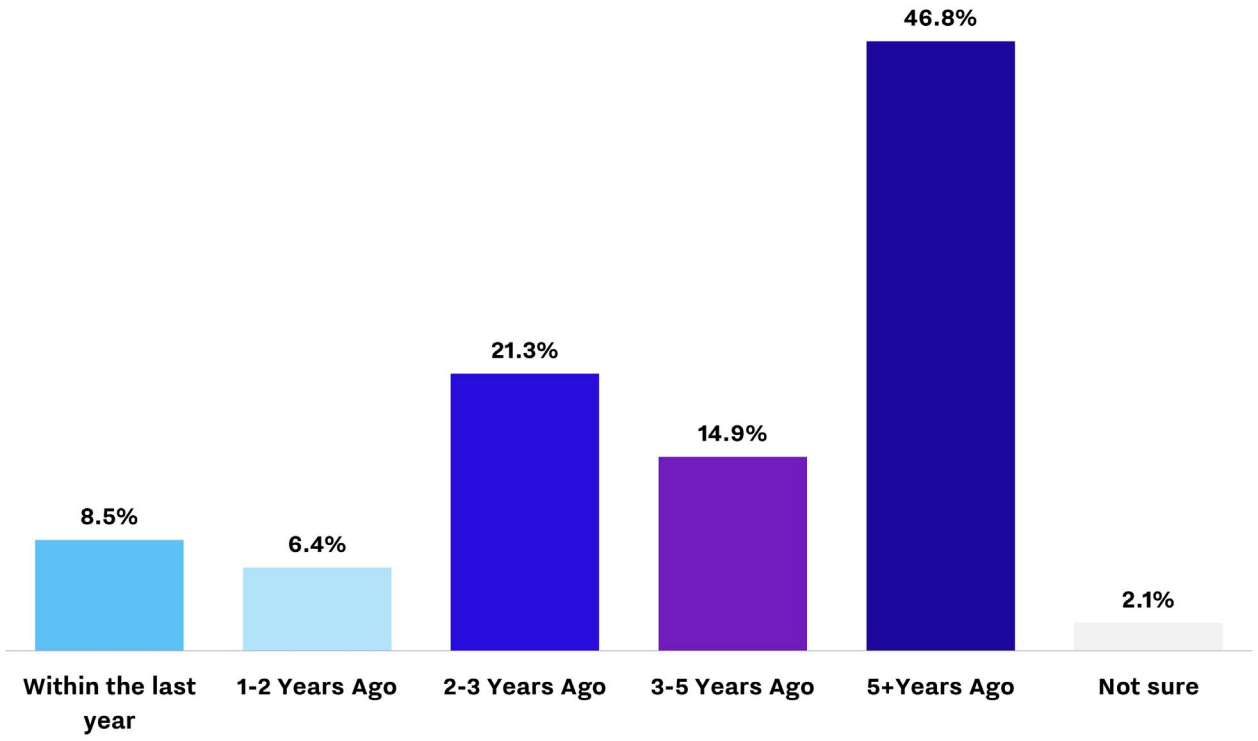
When did your company start a corporate venture capital group?



Surprisingly, almost half of our respondents with corporate venture capital groups said that they have been in place for at least five years. In North America, 62.5 percent of respondents had hit that milestone, and in Europe, 64.3 percent had. Just over 14 percent of respondents in Asia/Pacific had marked their fifth anniversary.

CVC Groups: Reporting Relationships

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To whom does your CVC group report?

The plurality of our respondents with corporate venture capital teams say those teams report to someone in the C-suite (46.8 percent); just 14.9 percent say they report to a leader of research and development or innovation.

Among companies with older CVC groups (five-plus years in existence), just 38 percent report to the C-suite, with 19 percent reporting to either a corporate development or strategy leader, and another 19 percent reporting to an R&D or innovation leader.

Among the "other" responses: VP of Investment, CFO & CTO (joint reporting relationship), and "we are run as an independent management company."

We sought insights from David Martin, a Program Director at MIT's Office of Corporate Relations, on some of the issues that emerged from this research initiative. Before joining MIT, Martin was a Vice President at Altran, a provider of engineering and R&D services, and a Vice President of Product Development at Windmill International, a New Hampshire-based defense contractor.

Q. We found in our research that the biggest challenge in corporate-startup engagement is getting buy-in internally, with the right parties. How do your members surmount that issue?

A. Getting buy-in is certainly a big challenge, but so is measuring success, progress, and the effects of this activity.

If you create success measures that are relevant and applicable to other groups in the company — that will help them achieve their goals — that is an effective way to get others bought in to this activity. Are you connecting with startups that can help reduce costs or create efficiencies, or bring new features to an older product line? You certainly need to focus on strong personal relationships within the organization, but you also need a focus on what the finish line of this collaboration could look like, and what benefits it will deliver. Then, make sure you have the right resources in place to help the startup get to that finish line.

Q. Another issue is different operating speeds. What's your advice about how corporates and startups can find ways to move these projects ahead quickly — with the right checks, balances, and controls for the corporate side?

" ...You also need a focus on what the finish line of this collaboration could look like, and what benefits it will deliver. Then, make sure you have the right resources in place to help the startup get to that finish line."

A. Corporate venture groups need to be provided with the pre-approval to secure deals, within corporate limits. The majority of what they do should fall within their existing "bubble of internal approval" so they can work fast within those lanes. You only want to require additional buy-in for situations that occur outside of these limits. And, if the approval process for deals that exceed that core approval bubble is very clearly defined, then building, presenting, and getting a decision on a situation that exceeds those should be well known and understood – and a priority for the more senior, approving level of the organization.

With startup partnerships that don't involve making an equity investment, it can be a real accelerant to have a dedicated pool of funding to run pilot tests — rather than having to hunt for that money on an ad hoc basis. Often, companies source that funding from business units or functions that are participating in those pilot tests.

Q. What do you see corporates doing to identify the most relevant startups — and startups that are high quality?

A. The important first step to finding relevant startups is making sure you've clearly defined what you're looking for — what problems you are trying to solve, or what "white space" opportunities for growth exist. On quality, our data from the InnoLead/MIT Corporate Relations research in 2021 suggests that having built prototypes; having already worked with pilot customers; and having built an experienced team are important factors for corporates when they're assessing which startups to work with.

We can also tout the fact that, while the US Bureau of Labor Statistics says that about 20 percent of all new businesses fold within two years, we have found that 80 percent of MIT-connected startups remain viable after five years. This is where the Industrial Liaison Program and the Startup Exchange can provide a valuable service to our ILP Member companies. We can introduce them to startups within that higher-quality group, in a curated way.

Q. What do you expect will happen with corporate VC activity in 2023?

A. If we were to redo this survey today, I do think the feelings might be a bit more pessimistic, given the decreased overall VC funding activity we've seen this year. But it's encouraging to see that the corporate leaders in our data set are not stepping back — nearly 70 percent say they will increase startup engagement activity in 2023. And overall, data suggests that companies that continue to innovate through downturns tend to greatly outperform companies that don't. There are more companies today that are leveraging external innovation, and corporate VC can play a major role in that. I suspect that companies that continue to invest and plan for the future will outperform those that simply "hunker down."

Portfolio Size

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What is the size of your overall portfolio of investments?

Determining how much a privately-held startup is worth is always a squishy process, and so is calculating the value of a portfolio of startup investments.

In 2021, new unicorn companies (valued at over $1 billion) were being created daily. This survey was conducted at a time when startup valuations were falling, but it's difficult to know whether respondents had done a recent assessment of portfolio value.

Our respondents with the most valuable portfolios ($250 million and up) came from the financial services, energy & utilities, chemicals, and pharmaceuticals & life sciences sectors. They said they typically invest in companies at the seed stage and beyond.

Fund Size & Typical Investment Amount

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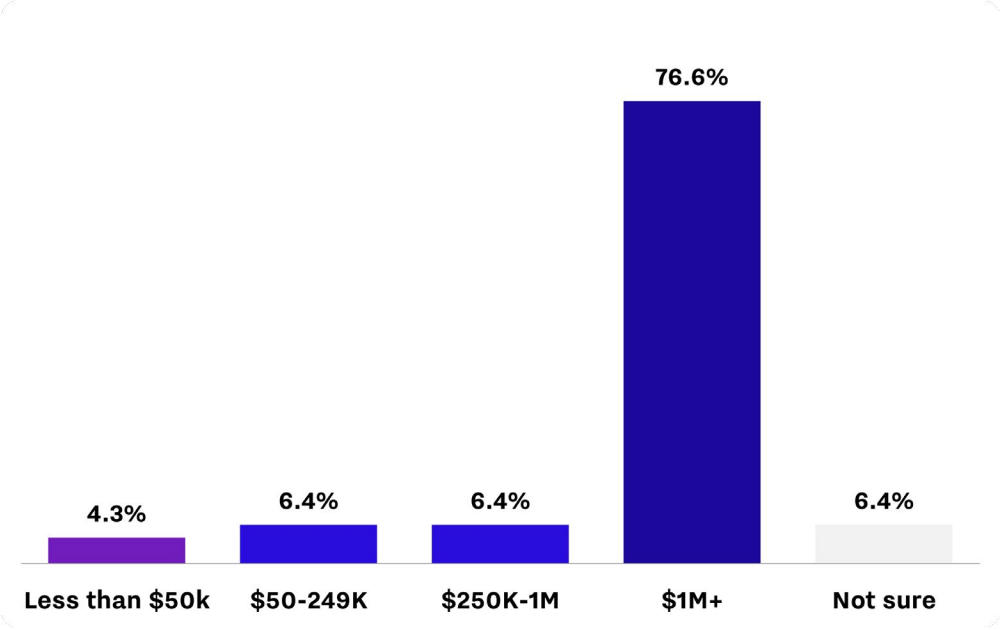
What is the size of your overall fund?

What is your typical investment size?



Investment Focus

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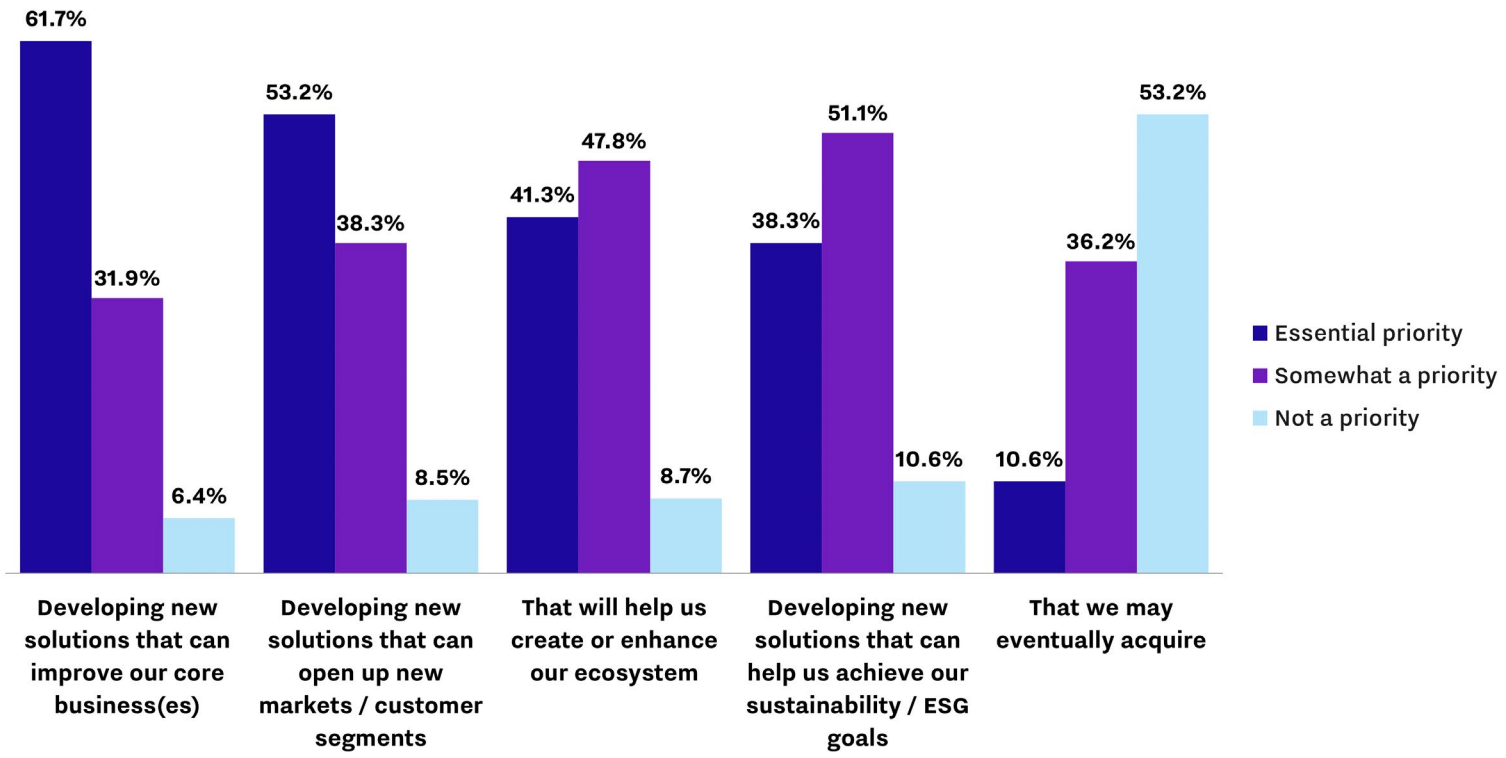
"Our CVC group invests in startups..."



Most corporate venture capital investors say their startup investing is not driven by the desire to ultimately acquire the company; rather, they are looking for enhancements to existing product lines or operations, or new solutions that will open up new markets or customer segments.

Of note, scouting technologies and solutions to help achieve sustainability goals is considered a priority by nearly 90 percent of respondents.

Investment Stages

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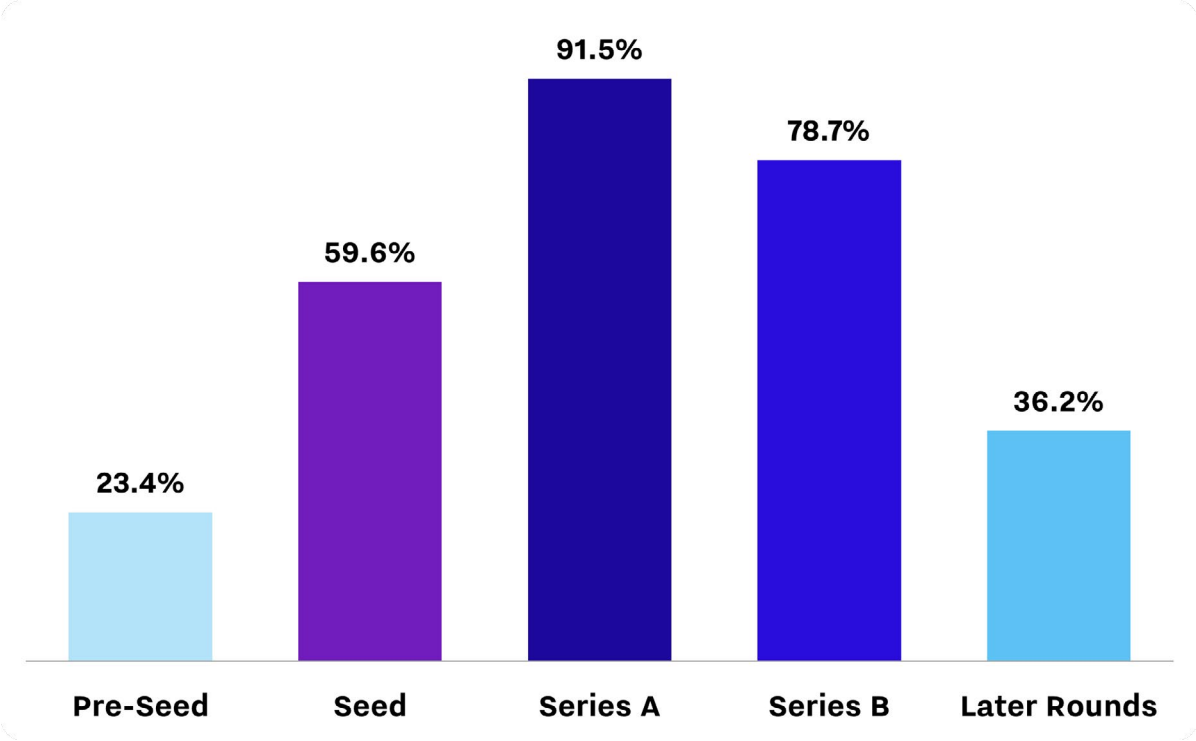
What stage companies do you invest in?



Survey respondents were invited to indicate all of the stages at which they invest. Among our more seasoned respondents, who said their CVC groups had been in place for five years or more, they tended to focus less on pre-seed and seed stage companies, and more on companies at Series A, Series B, and later rounds.

Interview: TDK Ventures

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Anil Achyuta
Managing Director
TDK Ventures

Anil Achyuta is Managing Director for the corporate venturing arm of the Japanenese electronics manufacturer TDK. He focuses on investments in energy, Industry 4.0, healthtech, and mobility.

Our focus. TDK Ventures is the corporate venture capital arm of TDK Corporation, which is a Japanese multinational conglomerate that has been around for over 80 years. TDK Ventures, however, has been around since 2019. I have been here since the beginning, with two of our other co-founders. Our focus areas are specifically in deep technologies… We always invest in companies that have a physical layer to the world… we've not yet made a software-only bet. Our first fund was a $50 million fund, and that fund is fully deployed. [TDK Ventures raised a second fund, $150 million, in 2021.]

Building strategy. We're like Intel Inside — we're everywhere. If you're wearing headphones, the neodymium magnets inside come from us. If you're using a laptop, the batteries come from us. … It's practically impossible to design strategy for a company like this, so what you want to do is go in and work with the companies that are going to change the world, and you want to ride along with them. If you invest… in the right exploratory manner, you not only make financial returns, but you also get the strategic value. We're of the belief system where you cannot, as a CVC, do just one or the other. You will fail. … We wanted to do both at the same time.

Putting entrepreneurs first. What is it that you stand for? If you stand for the mothership getting value [from the startup], then it's a win-lose opportunity. That's where most corporate ventures lose; they get terrible deal flow. You get amazing deal flow [and] the greatest entrepreneurs want to work with you [if] you believe that you're [putting] entrepreneurs first.

KPIs and metrics. My first KPI that gives me my bonus every year is called Net Promoter Score from the entrepreneur. …Many entrepreneurs come to me and say, "You're the first [VC I've met] that has an accountability metric for the entrepreneur." For me, I don't care about making the entrepreneur happy; I want them to be successful. Sometimes that means giving them tough feedback; sometimes that means giving them hope; and sometimes it means giving them real value. Our "true north" KPI is whether the entrepreneur is willing to make an introduction to another entrepreneur that they trust. If they don't do that, then we've not done our job. Every company we invest in, it's almost literally that they're my customer. I tell people I work for 12 companies [11 startups that I've invested in, and TDK].

We get 'upside' like a traditional VC. It makes no sense for someone like me or my associates — who are rock stars — to stay in a fund like this if they're [just] paid a salary and a bonus. It never works. If you are putting entrepreneurs first, it works really well, because my success is directly related to their success. … We call them CVC 2.0s — Schneider Ventures, TDK Ventures, Orbia Ventures. There are a bunch of us — we're designed in a similar way. That's why you don't see churn [among their investor teams.]

Using two teams. We have two teams. One is the investment team; the other is the engagement team. The investment team is startup-facing; the engagement team focuses on bringing the TDK mothership to the startup. We have dedicated people who have incentive to help the startup.

That's one part of our criteria on how to select [startups]. If we can't bring value to the startup through TDK technology, why invest in them? Then, I'm no different than a financial investor. … We say, "Here's the value we can bring." … Or sometimes, we lead [an investment] and say, "We can lead this, because we have a ton of expertise and unique insights in the space" — like the battery recycling space, the battery technology space. …

The bottom line is, the engagement team is truly responsible to build that synergy together, and that differentiates us from many other CVCs, who start off with the investment director or investment principal or partner. There's just one person, and that person is supposed to do the board work; that person's supposed to do all the value-add work; that person is supposed to do the business unit [connection] work at the end. But when you do that, they become a single point of failure. What we're doing is giving the startup an opening in the organization— so I'm not the only person holding all the cards and holding them close to my chest.

Interview: Goodyear Ventures

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Chris Varley
Principal
Goodyear Ventures

Chris Varley is a Principal at Goodyear Ventures, which invests in startups developing technologies related to mobility. Goodyear Tire & Rubber is a $17.5 billion company based in Akron, OH.

Why the venture group was created. Our industry is being impacted by several major trends. And they're causing some shifts in what our businesses — plural — are. We started, in a formal structured way, a little over a decade ago with an open innovation group called External Science and Technology. That group was designed to help bring in ideas from the outside and get them introduced to our R&D teams and make marriages happen where they made sense. I was part of that group; I helped structure it.

We made the decision that open innovation had been embraced so well by our R&D groups, that we would move that out into the functions rather than keeping it as a standalone operation.

A couple years ago, we decided to take the next natural step, which was to set up a venture group. … It gives us a chance to take that open innovation approach one step further. What are we going to be able to learn better, faster, and cheaper through an investment in a startup than we could by trying to build it on our own? … We are looking at it as an extension of our R&D efforts.

A learning exercise. For us, from the investment standpoint, it's a learning exercise. We don't invest in companies with the idea that we're going to buy them and turn them into divisions of [Goodyear]. The goal is… helping us to learn the trends that we're being impacted by. The acronym we use is FACES: fleets, autonomous vehicles, connected vehicles, electric vehicles,

and sustainability. We need to adapt and change how we do business, to better meet the changes that are happening in the marketplace because of those forces. Some of those we can do best in-house. Some of those are best done by finding people who know things we don't know, investing in them, and learning.

Insights into autonomy. We invested in two autonomous truck companies — Gatik and TuSimple — not because we have any desire to become an autonomous truck company, but because we believe that an autonomously controlled vehicle is going to impact tires differently than one driven by a human being. In order for us to [access data related to that], we have to have a close relationship with companies that are in that business, and the investment allows us to… do all sorts of tests that we couldn't otherwise do.

Progress report. We've made about 15 investments so far [in 2022]. The size of the checks we're writing are getting a little bit bigger; the size of the companies we're investing in are getting a little bit smaller in some cases. We understand enough about the growth phases of the startups that we can now judge at an earlier stage whether it's something we want to get into. It might [at first have been] B round, C round companies. Now, it's A and B round companies, and some seed-level companies, if we see an exciting enough idea.

No reason for market gyrations to cause a scare. Given the recent gyrations in the market, [companies] should not be scared off… The valuations were getting kind of lofty, as they do on a cyclical basis. This is probably one of the best times to get in, because deals are going to be more realistically priced.

Whenever the economy is uncertain, deals take longer to close. People are much more cautious and careful about valuations, deal terms, and runway for the startups. We're already seeing this, and would expect it to continue into 2023. And since most CVCs don't lead on deals, they are somewhat at the mercy of financial VCs with respect to the pace of deals. But CVC activity remains high, and I would expect it to remain so in 2023 – though the total number of deals completed and capital deployed may decrease somewhat.

I also expect that the overall quality of deal flow and investments will improve – there will be less FOMO [fear of missing out] around "hot" deals, and more of an emphasis on companies that demonstrate good product-market fit and a solid go-to-market strategy.

Interview: JetBlue Ventures

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Steve Taub
Managing Director of Investments
JetBlue Ventures

Created in 2016, JetBlue Ventures invests in startups focused on sustainable travel, aviation operations, customer loyalty, and hospitality, among other areas. Managing Director Steve Taub joined in 2022, after working at GE Ventures and In-Q-Tel.

Understanding venture capital. Corporate venture has been around for a long time, and it's growing. There [are] more and more companies that are doing it. I think people have learned from the past about what works and what doesn't. If you went back 10, 15 years ago, a lot of corporate venture groups would ask for a lot of special terms around [things] like commercial deals, or rights to acquire the company they're investing in.

I think people have learned that… it's more important for the corporate venture team to understand venture [capital practices] than it is to understand the corporation. … I think making those kinds of non-market asks was reflecting that people didn't really understand venture. But I think it seems like companies have realized that they need people who have an understanding of how venture capital works, who have deal flow that they can bring to the table, and who have relationships with other investors. That's crucial to success.

How CVC stacks up with traditional VC. It's hard to get access to [a corporation's] resources — candidly, [everyone] has a day job. I think what [CVCs] can really offer is access to technical and market expertise. That's hard to buy. We can offer the prospect of revenue, of commercial relationships. [A traditional VC that has] a platform team, they can make connections, but they can't actually sign a contract. I think those are things that we can lean into.

Attracting the right talent to CVC. I think talent is crucial, and this is one of the reasons that you're seeing a little bit of a trend of corporate venture arms that are being structured as single LP funds, rather than as subsidiaries of the parent. It's because that structure gives the team some equity upside, and it gives them more autonomy. And ultimately, a lot of the people that you really want running your corporate venture group, don't want to be your employee [in a traditional sense].

The people that you really want to hire — the people who have deal flow; the people who've got that network — they have alternatives. In order for the job to be attractive to them, they want to see that there's an opportunity for them to get some upside from their investing.

Autonomy in CVC. People don't want to just want to be executing deals that somebody else told them to go do. I think they want to have some level of autonomy. Most of the corporate people that I've worked with, they're super smart people, but… they really don't have a feel for, "Okay now, which are those companies are going to be successful?" I think the corporate venture teams really bring a useful lens on how to identify successful companies. It's more than just, "Oh, do they have the best patents in the space?"

"The best way to ensure that the platform has longevity is to be making money, because, ultimately, corporations are about making money."

Avoiding a 'short lifecycle.' One of the problems with corporate venture has been that a lot of corporate venture groups tend to have a short lifecycle — they get in at the top of the market, they lose their money, and then they're out. That makes companies and other investors kind of hesitant to work with them, which means that you don't see the best opportunities; you don't get the best market intelligence out of it. It's just a vicious cycle.

The best way to ensure that the platform has longevity is to be making money, because, ultimately, corporations are about making money. The things that kill corporate venture groups are turnover in senior management and financial troubles at the parent [corporation]. So if a new senior management group comes in and they [see], "We've got this corporate venture group, and look, they're actually doing really well and making us money," then that's going to be helpful.

Interview: Johnson & Johnson

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Michal Preminger
Regional Head
Johnson & Johnson Innovation
East North America

Michal Preminger helps the Johnson & Johnson Innovation team curate and cultivate the most promising, early-stage healthcare innovations, spanning the pharmaceutical, consumer health, and medical device sectors.

How we're staffed. In our innovation center in Cambridge, we have more than 30 people, and our focus is partnerships for product development, venture investing, and startup incubation through our JLABS program. We have subject matter experts who represent the science and discovery and development capabilities at J&J; we call them TA leads for the therapeutic areas. They do our reporting in to R&D. They say, "This [startup's product] really could fit in well." We have early innovation partnering people, and also people who handle contract negotiations. Those people usually come from the local ecosystem. They know the people here. We have financial and legal people, our JJDC venture capital investors, and communication and activation people. We [act as] a living bridge from the ecosystem to the depth of our corporate organization. In every organization, there are parts that embrace [external innovation] more, and parts that are more hesitant.

Finding the best startups. We may organize large events locally to draw a crowd… but when we're looking to really identify companies that are extremely relevant and the highest quality, we combine outreach and crowdsourcing with very sophisticated curation tools. We may start with a landscape overview, using [various] data sources, webcrawling, scouting tools, or QuickFire Challenges [open innovation challenges focused on a particular scientific area or patient need], to help think about what we may have missed, and to make known we are interested in a certain

area. But most of the eventual deals come from relationships we invest in extensively. At almost any one of the acceleration programs or incubators locally, we have somebody who is an advisor, who judges pitch competitions, who mentors.

Longevity matters. Our corporate venture capital arm, JJDC, is celebrating its 50th anniversary this year. J&J Innovation has its 10th anniversary. But it's not just sticking around for a long time that makes a difference – it's sticking around in a mode where you're participating, and you're investing. You're investing not just your money – it's your expertise, your time. You are part of this effort to develop the ecosystem. You mentor, you share.

When we look back at where our deals come from, the huge majority over the last 10 years was from some personal relationship on our team. It was someone who invested in an innovation network, whether it's VCs or accelerators or individuals. If you don't have that long-term view, you don't have it. Writing a check only gets you so far; we have good examples where we have not put the biggest check on the table, but we have prevailed.

Treating everything as one pipeline. [We take] a joint view of the portfolio. When we do a pipeline review, we don't say, "This is internal" and "This is external." We say, "This is our pipeline," whether it was born at J&J, brought in, or is still kept outside through investment or other means. It's treated as part of the portfolio.

Connecting corporate leaders to the ecosystem. It's not enough to have a team on the ground that is committed; you have to have involvement from R&D and from corporate. When a young company needs to choose between several bidders that want to partner with it, they will not choose based on the local team only. They'll choose based on… how committed [the R&D department] is to the program, and what they will bring to the table. You can't just have marketing people doing the ecosystem work.

The first thing that I did when I showed up here was to ensure that every therapeutic area, every R&D area within J&J, gets a VIP day in Cambridge. They come here — as frequently as every few months — and have one-on-one meetings and networking receptions. They get to know people, and get to share their vision with people in the ecosystem here.

Interview: Coca-Cola

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Molun Zhang
R&D Senior Manager
Experimentation &
External Technology Acquisition
Coca-Cola

Molun Zhang leads open innovation at The Coca-Cola Company, where she helps source and assess external solutions from startups, universities, accelerators, research consortia, and incubators.

Startups have what corporations don't. To the outside world, we may look all peachy — we are large; we have the money; we've got the manufacturing; economies of scale, and so on. But we have to acknowledge that large companies are also disadvantaged when it comes to being fast and agile and nimble. We are very locked into our day-to-day thinking and our operational excellence and driving business value [and] stakeholder value. Sometimes, we're so focused on that that we cannot be distracted by something completely different and novel. That's why we like to work with startups. They see the world from a different angle than we can.

Tools to help keep an organization apprised. We have designed a tool, and we call it... the KO External Opportunity Tracker. What we do is we log onto this platform, which is available to the entire organization. [It tracks] every startup engagement — who did we sign an NDA with? Who did we sign a MSA with? Who do we have ongoing engagement with? What type of experiment and pilot [are] we running? When, where, how? This is really to avoid [conflicts]. For example, if I sign an NDA with a startup here [in the US], and someone in Japan does not know that we have something going on, how do we ensure that this information is retrievable across the globe, within the organization and different functions?

Staying aware in the ecosystem. When it comes to working with startups, it's about being structured. In the world of startups today, there's no lack of technology. There are several startups that offer very similar products. So how do you keep track of which one is better?

Which one has more likelihood to succeed? … You need to find a way to structure and capture all this information, because it gets overwhelming quick. …

Be aware [of] where are the hubs? … Where can I find the best startups in this specific field? [It's about] being plugged in with how technology is advancing… and what is truly emerging.

When you're really plugged in, it helps you to tell the pseudoscience from the real science — because, unfortunately, we do have a lot of startups that are amazing at pitch decks, at raising funds. But when push comes to shove, the gap between what they say they can do and what they can physically do is always there. The question is, how big is that gap?

Advice for partnership newbies. I would say just try. Don't even carve out a whole team to do it; just assign a few people and say, "Hey, 20 percent of your time, you're going to focus on finding the solutions outside. You'll get a small budget to test it out." Startups are so flexible and easy to work with. Just test it out, and you'll see that it will be a positive return on investment from your end. Build from there. There's no need for the dramatic re-org or restructuring to know how to work with the external ecosystem. Your current pool of talent [is] capable of working with them. You just have to shift their focus from internal to external.

Shifting that focus. The biggest challenge [in shifting focus from internal to external] is you're so focused about your processes and your limitations, and people know only what they know. If you've been in, let's say, internal innovation, you're too focused on, "It must fit this, and it must fit that, and I must have that volume and it must be at this cost." So when you shift your focus to external, you have to shift your units of measurement. Cultivate a culture where failing with external innovation is not a big deal. It costs barely nothing to just try.

Changes in the startup world over the past several years. I think startups have [an easier time raising] money than they used to. I think there is a trend, as well, that startups attract better talent today. It used to be not so cool or hipster to work for a startup. But nowadays… it has become something that's pretty cool. There's a huge competition to attract those bright minds, and with quality of talent, you have quality of startups. So I think startups have higher chances to succeed, just because they are able to attract better candidates.

Interview: CareQuest Innovation Partners

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Kirill Zaydenman
VP of Innovation
CareQuest Innovation Partners

Kirill Zaydenman focuses on partnerships with startups and tech innovators to improve health equity, experiences, and outcomes. CareQuest Innovation Partners is a for-profit subsidiary of the CareQuest Institute, a Boston non-profit focused on oral health.

Deciding against internal incubation. We made a decision that we weren't going to focus on internal incubation. Instead, through our philanthropic [and] business activities, we were going to stimulate external innovation. The reason why we leverage startups and engage startups is because we're looking for those transformative ideas and those inventions, and we were looking for great teams and people to bring those to market and scale them.

I think it's expensive and risky to incubate internally. One of the roles that we see ourselves playing is convening and catalyzing the market and the ecosystem to create, validate, and ultimately scale transformative ideas. We see an ecosystem that is out there, but needs somebody like [CareQuest] to help convene and catalyze it.

Considerations for an accelerator program. We thought long and hard about what our [SMILE Health] accelerator would look like. … We thought hard about what kind of challenge we put out there, what the tracks were that we were looking for [the startups] to align on. [The SMILE initialism stands for Simple, Minimally Invasive, Integrated, Low-Barrier, and Equitable.]

Then, we thought about how we [should] design the program. What's worked really well for us is that we focused on validating startups and helping them understand and remove barriers to scale. We did it through our validation studies. We were very purposeful and thoughtful

about who made it into the SMILE Health accelerator — the top 5 percent of the applicants — and then we thought about for which corporate partners out there in our ecosystem might this solution be attractive and meet a need — either stated or unstated? A lot of times, that need was unstated. We approached our partners, and we said, "What are your priorities?" In exploring those, we would tease out things that were needs — [corporates] weren't actually working against [these things], but know that they need solutions for them and that they are pain points.

Selecting the best startups. We focus on impact potential at the end of the day. We think about impact from sort of a balanced scorecard perspective, and thereare three components. There is social impact, there is strategic impact, and then there is financial impact.

Then, we look at things like, do they have the right team to to realize that potential? We think about the product or the solution. Is it truly differentiated? Is it truly novel? Is it truly patient- or customer-centric? We think about the business case; we think about the market; and ultimately, their business model — how are they actually going to make money? Is it realistic? Is it reimbursable? Are they going to be sustainable and profitable? And then we think about their ability to manage risk, and [do they] have a realistic understanding of how they will work with the existing ecosystem and how they'll overcome the barriers to scale. … We first align on that net impact from a balanced scorecard perspective, and then we look at [the startup's] team, product, business case, and risk management.

[One big goal for the accelerator is to help] remove barriers to scale, but also [to form] foundational partnerships. (The SMILE Health accelerator has a number of partners — including Colgate, Cigna, DentaQuest, in addition to CareQuest — that work with the chosen startups.) [Those partners] essentially become first customers to our early-stage startups, and make them more attractive to investors.

Interview: Danielle Cohn

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Danielle Cohn
Former VP of Startup Engagement
Comcast

Danielle Cohn, the former Vice President for Startup Engagement and Head of LIFT Labs, an accelerator program, collaborated with and invested instartups in order to bring new technologies to Comcast NBCUniversal teams and customers. Cohn was in that role from 2019-2022.

Why are you building a program? The number one lesson I would share is to talk to people who have already done [startup engagement, venture investing, or accelerators]. That was how we spent the first good year of building LIFT Labs — talking not just to other corporates, but other nonprofits, and other startup ecosystem players about what they're building. I think the research and the conversations can go a long way. It's a good idea sometimes to find a partner [who has done it before]. We found great partners in Techstars, and a company called VentureFuel.

The other lesson that I would offer is that every company is so different — for instance, the way that their employees will or will not engage in the programs, and what the goals are. I think the number one thing is to really understand from leadership why are you building a program. For us, when I was at Comcast, the three goals were really around product innovation, employee engagement, and brand, but it was in that order.

We had to really put skin in the game, and not do innovation theater but do product innovation, and test and try startup engagement and working with startups. We needed to get employees engaged, because without them, innovation teams don't work. [And on] brand, it wasn't for the sake of [enhancing] Comcast's brand, but it was really about how do we create a brand that makes startups want to work with us, and give those startup founders a platform to tell their startup stories and to be an amplifier of their work.

Our goals. I also wouldn't necessarily do [ecosystem engagement] specifically tied to [financial] returns, at least in the beginning. Especially when you're working with seed-stage companies, it can take so long to see any returns. ...Our goals were not tied to specific returns on those investments. It was really around the product innovation, and could we find new products that would make an impact for our customers?

Scanning globally. When I was first hired, my role was to build a space for Philadelphia startups to interact with Comcast. But what happened during our research phase was we discovered that there were a lot of startups that were not in Philadelphia, that were in our verticals of media, entertainment, and connectivity, and why would we not want to work with them? So very quickly, we made the decision to make this a global program that has elements of it specific to founders who were from Philadelphia.

The other thing that was interesting was, the more that founders from outside Philadelphia would come to Philadelphia to build their businesses or to come to an accelerator or an event, it really opened their eyes to the amazing startup ecosystem that exists in Philadelphia. Some of the companies in the portfolio actually moved to Philadelphia, and opened up headquarters or a second office.

"The number one thing is to really understand from leadership why are you building a program."

Helping startups move collaborations forward. One of the things that we did to keep the momentum going [when startups were collaborating with groups inside Comcast] was that we had a startup success manager. Her job every day was to be the advocate for the startup — to really help them through that whole process. That role is probably one of the most important roles on our team. It helps them with paperwork, and pushing on an email when somebody doesn't get back to you.

The second part is any of the pilots and proofs-of-concept that we [did] have always been paid for. The Comcast startup engagement team actually pays for half of it, and the business unit pays for the other half. That definitely gets people to have some skin in the game.

Collected Advice on Attracting Quality Startups

When corporates decide to launch any kind of startup engagement program, they often don't devote enough attention to attracting high-quality startups. Many assume that their brand is so well known and respected that every promising startup globally will surely find out about their pitch competition, new venture capital initiative, or accelerator. But it doesn't work that way. Many of the best entrepreneurs spend more time focusing on things like hiring, product-market fit, sales, and fundraising than they do scouring the web for an open innovation challenge being promoted for a short period of time by a Global 1000 company, or yet another accelerator.

What are the tactics that can help corporates attract the very best startups? We asked a group of corporate leaders for their input.

Tactic	Comments
Public website, social media announcements, and public relations	Sounds basic, but your program needs to build awareness in the digital world. Be ready to answer questions about your initiative and how it will help the startups that participate. (One resource mentioned that lists accelerators and other competitions for startups is the website F6S.com.)
"WIFM?"	What's in it for me? Startups want to clearly understand the benefits of applying or entering. Will they be eligible for prize money? Get shelf space in your retail stores? Get access to space at your next trade show booth? Get mentorship and advice from your CEO? Lay it out.
Articulate your needs/focus	Rather than putting out a call for all logistics-related startups globally, be specific about technology areas you are interested in or business problems you're trying to solve. That gives top entrepreneurs a sense that they may be part of a smaller consideration set — rather than a vast cattle call, with only a small chance of getting chosen.
Leverage personal networks	If your colleagues know people who work at startups; entrepreneurship programs at universities; or others who are active in the startup ecosystem, reach out for referrals to get help sharing your announcement.

Collected Advice (continued)

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Tactic	Comments
Diverse teams at corporate attract diverse startups	If the team in charge of running your startup engagement initiative is diverse, the initiative will be more likely to attract diverse startups. It's vital to focus on attracting a diverse set of startups at the outset.
Connect with venture capital firms in your industry	Venture capital firms can be a great source for well-vetted startups — even companies that the VC firm hasn't yet put money into.
Attend events	Often trade shows and conferences will have pavilions that feature startup; on-stage pitch competitions; entrepreneurs speaking on panels; or founders in attendance.
Host events of your own	Hosting events of your own — whether online or in person— can be a way to show you're serious; detail what you're hoping to get from this initiative; and allow startups to get to know your company before applying. These events can take place in local startup hubs or coworking spaces; at your headquarters; or at conferences that attract startups.
Build relationships with accelerators	Accelerator programs typically keep track of their alumni, as well as companies that may have applied but were not admitted. Both groups may be relevant to your initiative.
Foreign trade commissions	Trade groups from other countries often put together road shows of promising startups and bring them on visits to the US (and other countries.)
University professors who teach entrepreneurship, entrepreneurship clubs, technology licensing offices	A great source of startups being formed on campus; tech licensing offices tend to know about startups that are already up and running and may have raised some early funding.
Communicate with startups your company already works with	If your company is a customer of startups, or has alumni startups that have been part of earlier initiatives, ask them for referrals or for help spreading the word in their networks.
Startup databases like Pitchbook, CB Insights, SwitchPitch, Crunchbase	Search based on relevant keywords, and screen for startups in the geography or stage that fits your initiative. Reach out individually to startups that seem to be a fit.

Collected Advice (continued)

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Tactic	Comments
Create content	Produce blog posts, podcasts, infographics, or other content that describe how your company views the future of your industry; why you're connecting with startups; and the ways you'll help them succeed.
CEO involvement	Yes, CEO involvement is the secret sauce for every initiative. But if the CEO is talking about your initiative — or even better, participating in it as a mentor or judge — that sends a strong positive signal about it being a high priority. One example: Disney CEO Bob Iger served as a mentor to several startups that participated in the Disney Accelerator.
Longevity and commitment	The longer you've run your startup initiative, the more startups will become aware of it — and convinced that it's here to stay, rather than a flash in the pan. You'll also have alumni who can serve as references and "ambassadors" for it.

Discussion Guide: Plug in to the Startup Ecosystem

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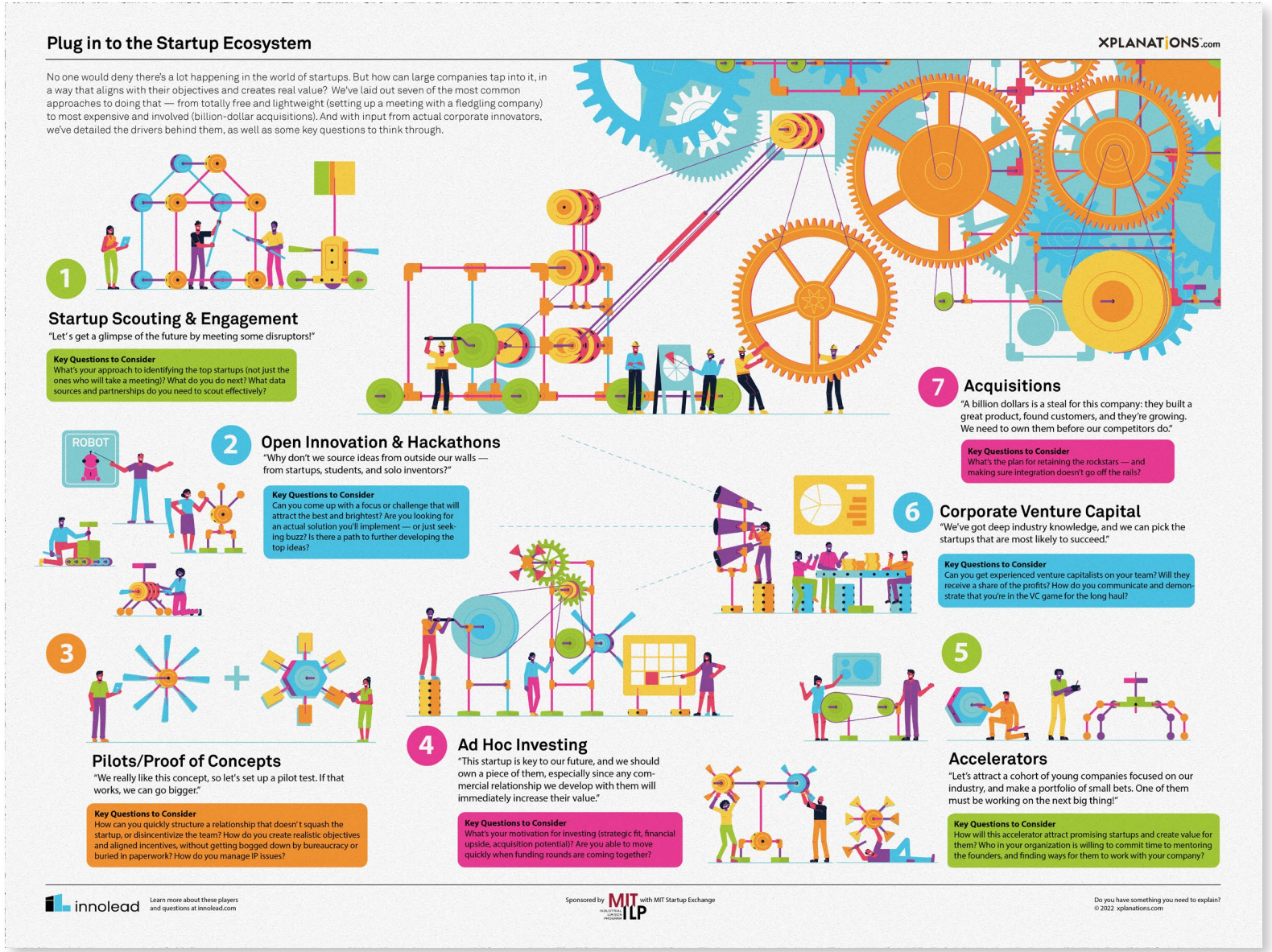

As part of this research initiative, we created a large-format, illustrated discussion guide that lays out seven of the most common approaches to plugging in to the startup ecosystem, from scouting to hackathons to investing to acquisitions. This guide is intended to help teams think through the key questions and issues related to each approach, and determine the right mix for their organization.

You can download the PDF version of this discussion guide at: http://bit.ly/ecosystem-guide

About the Respondents: Industry

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What is your organization's primary industry?

Chemicals	13.2%
Industrial Manufacturing	10.9%
Automotive, Transport & Logistics	10.1%
Financial Services	9.3%
Consumer Goods & Consumer Products	7.0%
Technology	7.0%
Energy & Utilities	5.4%
Mining & Metals	4.7%
Pharmaceuticals & Life Sciences	4.7%
Aerospace & Defense	3.1%

Our survey, fielded between August and October 2022, received 146 qualified responses. No single industry dominated the respondent set; the top ten industries from which we received responses are listed at left.

Nearly two-thirds of respondents work at companies with 10,000 employees or more. The regions best represented in our respondent set were North America (40.3 percent), Europe (31 percent), and Asia/Pacific (18.6).

More information about our respondents is on the following pages.

About the Respondents: Seniority and Job Function

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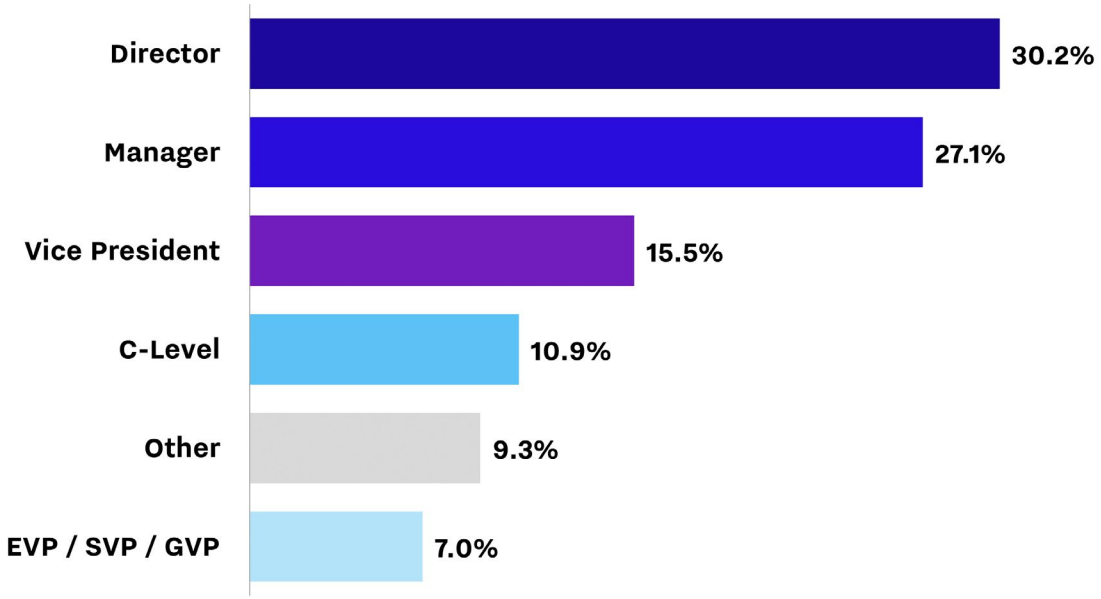
What is your level of seniority?



What is your functional area or discipline?

Innovation	27.9%
Corporate Ventures	26.5%
R&D	18.6%
Strategy	7.0%
Business Unit	5.4%
General Management	3.9%
Other	3.9%
Marketing	3.1%
M&A / Corporate Development	2.3%
Operations	1.6%

About the Respondents: Company Size

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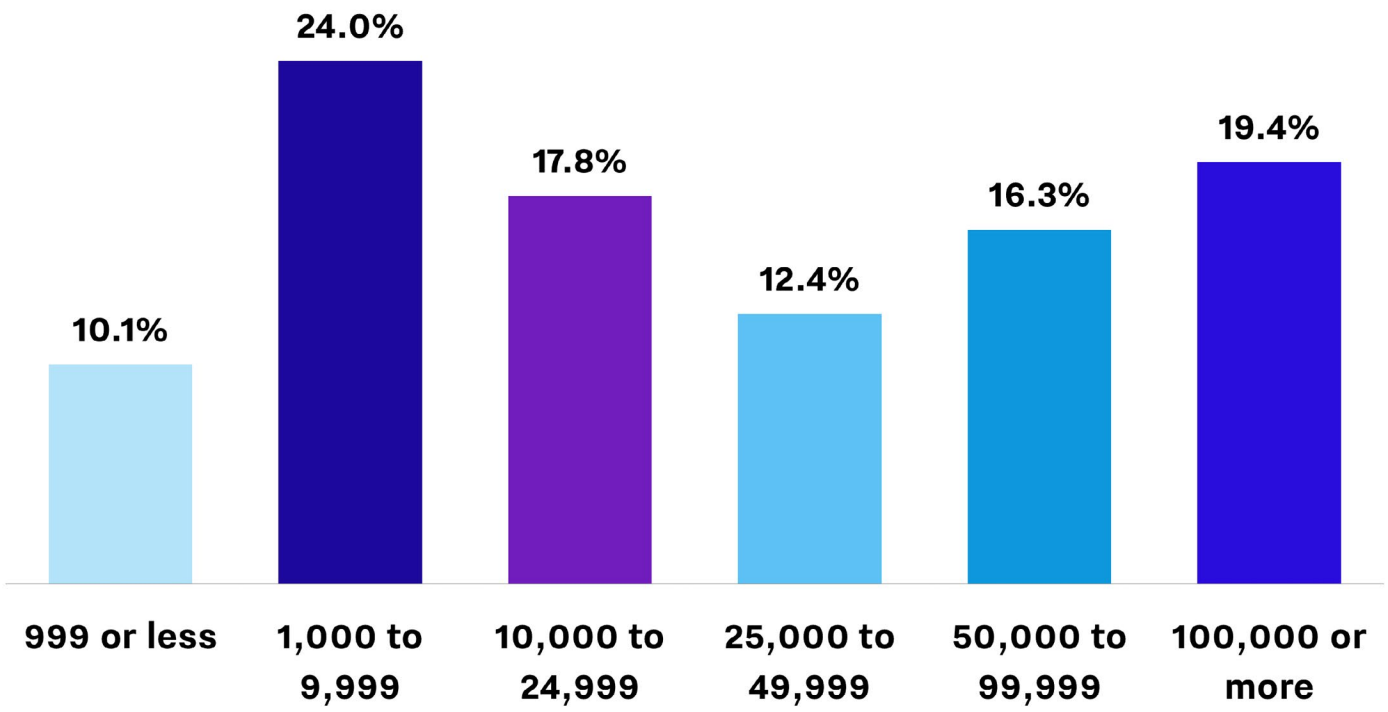
How many employees are in your organization?



About the Respondents: Location

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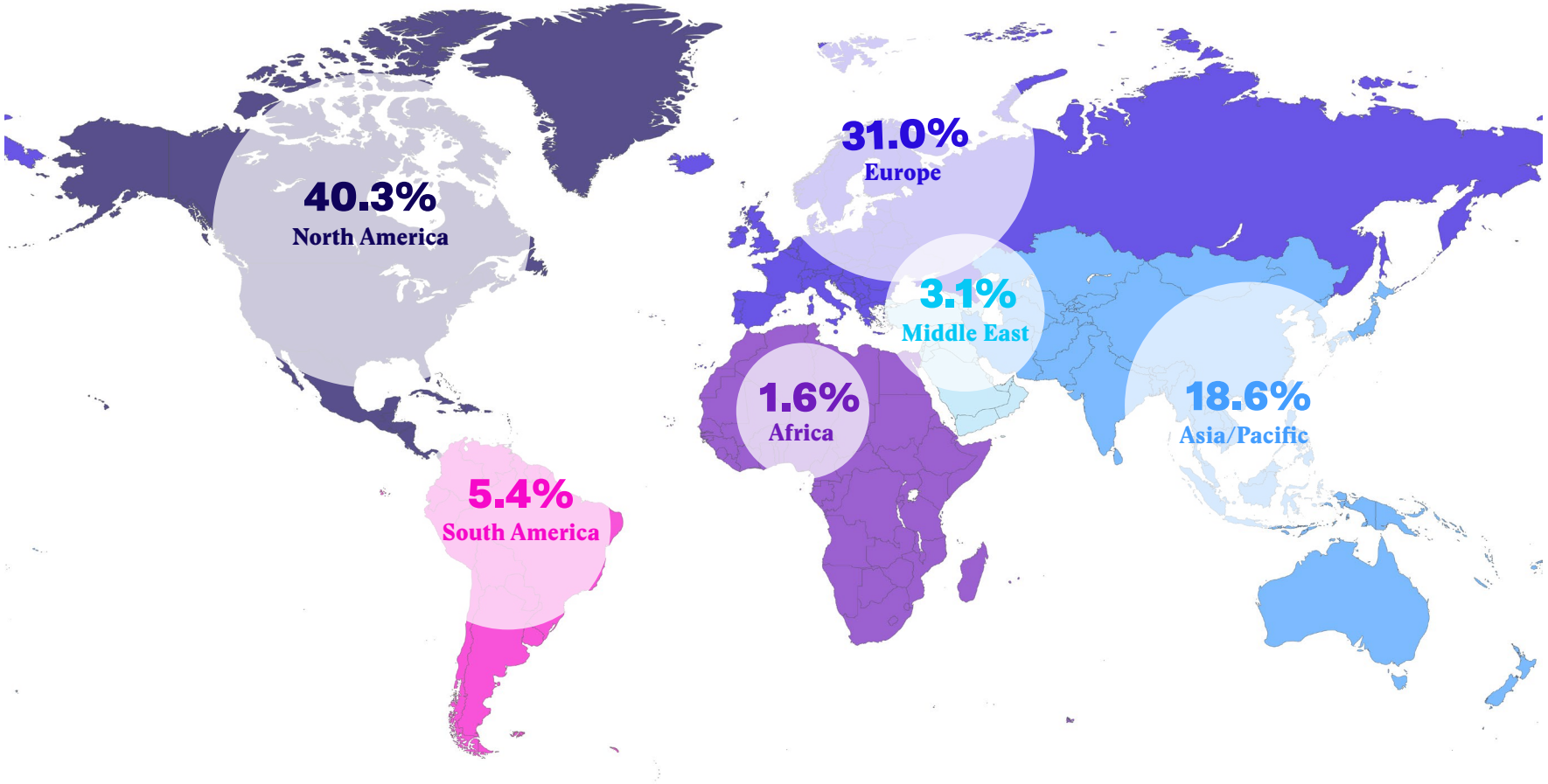
Where is your organization headquartered?



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MIT Corporate Relations aids and directs companies interested in multidisciplinary involvement with the Institute. Its expert staff works with MIT senior administration, faculty, and company executives to structure and define individualized alliances that mutually benefit the company and MIT.

MIT Corporate Relations also offers industry access to MIT through two integrated programs, the MIT Industrial Liaison Program (ILP) and MIT Startup Exchange.

The Industrial Liaison Program is instrumental in providing connections to MIT faculty, departments, labs, and centers. It serves companies across the globe and is organized both geographically and by industry.

MIT Startup Exchange actively promotes collaboration and partnerships between MIT-connected startups and industry. Qualified startups are those founded or co-founded by MIT faculty, staff, or alumni, are based on MIT-licensed technology as well as others that although don't have origin at MIT are vetted and supported by other innovation groups affiliated to MIT (e.g. The Engine, MIT.nano). Industry participants are principally members of MIT's Industrial Liaison Program (ILP).

Contact: ilp-info@mit.edu

Upcoming in-person and online events calendar: https://ilp.mit.edu/attend

For more information: https://ilp.mit.edu

MIT INDUSTRIAL LIAISON PROGRAM ILP

MIT STARTUP EXCHANGE

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InnoLead is the world's largest network of executives responsible for strategy, R&D, new product development, design, and innovation in established organizations. We connect those executives through online and in-person events, and we supply information and guidance on our website — all focused on helping them to build competitive advantage.

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