Double Degree Master's Thesis

Master's in Management - Major in Innovation and Entrepreneurship
at LUISS & NOVA SBE

Department of Business and Management
Chair of Entrepreneurship and Venture Capital

The Venture Client Model: an efficient approach to innovation. The perspective of startups and corporates

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Academic year 2021/2022

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ABSTRACT

Companies currently face significant competition and have the necessity to innovate. It is well known that corporates are shifting from an internal research and development approach to more open and collaborative models. Open innovation is a concept well established today and its benefits are becoming always more and more acknowledged by many. The study aims to determine whether a new approach to innovation, defined as the Venture Client, can solve the main challenges that corporations and startups face. The new approach is based on a procurement a co-development agreement. Corporates help startups to develop a product and buy it from them, without investing in their equity. The collaboration starts from open calls where startups help companies to fulfill their needs. The analysis investigates the main differences and peculiarities concerning the Venture Capital Model. This comparison is necessary to spot differences and pain points that need to be solved for companies and startups. An essential part of the analysis has been to study both perspectives to understand their needs and challenges.

Structured interviews were conducted with 6 participants, two startups and four multinational companies. All of them have taken part in a program that can be linked to the Venture Client Model. The results have shown that this type of collaboration can lead to important results. It has helped companies to discover new technologies and it has allowed startups to build their first product and expand their network. Even if the sample size has not allowed heterogeneity, we conclude that the Venture Client can be an efficient approach for companies to innovate and for startups to grow. Its strong points are flexibility, speed, and a decentralized decision-making process. These factors allow companies to catch the attention of startups and let them collaborate also with other organizations at the same time. The Venture Client approach makes the most out of the company's resources and at the same time helps startups grow and gain their first traction.

INTRODUCTION

Innovation is crucial for every company nowadays and different approaches can help them keep up with the pace of the market. Concerning the past, corporations have slightly changed the way they foster innovation. Research and development departments always play a key role in this area, but collaboration with external organizations, such as startups seems to be prevailing. Startups are companies that develop fast and eventually grow exponentially. It is impossible for companies, not to notice the influence and the power that these can have. The last decade, known as the "Unicorn era", has been characterized by the proliferation of startups all over the world and investment in the industry.

Companies cannot miss this opportunity and need to take advantage of the situation. Today they collaborate with startups in many ways. Open innovation is a word that includes many approaches and models that can help corporates to engage with external ideas. Of all these, the Venture Capital model is one of the most known and used. Companies invest in startups, obtaining shares in return. There are many different successful examples, such as Google, Facebook, and many more. Even if the model allows companies to benefit from the interaction with startups, it has many drawbacks. The model requires companies to invest significant sums of money to buy shares. The company must have professional figures devolved completely to the growth of the startup. The possibility for big corporations to invest in many startups can lead to monopolistic problems. Companies suffer fierce competition from other kinds of investors and funds. Companies do not have a clear need and end up wasting resources and time before having a significant return. There are many benefits that Corporate Venture Capital can offer, but there are also many challenges and adversities that need to be discussed.

Alongside the investment in startups, companies have collaborated in various ways with startups. Over the years, the open innovation approach has declined in different ways. One that has gained a lot of attention is the partnership and collaboration between startups and companies. In this case, these collaborate on specific challenges and try to build a solution. On this base, an approach born in Germany, at the BMW Group, the Venture Client Model aims to solve the main challenges that the other models present.

The Venture Client model is based on a procurement collaboration between corporates and startups. Corporates are no anymore investing in startups in exchange for shares, but they are buying the product that they created. The procurement contract is signed after the startup tries and develops the product in collaboration with the company. In case of success, both companies and startups benefit from the collaboration, since the first has early access to the new technology, and the second gain the first important client and can grow externally.

While the Venture Client model is potentially an efficient tool for corporate innovation, today its benefits are still not well defined and applied by companies. There is a need to understand the perspective of both startups and companies, to understand how these can gain most of the value out of this collaboration. This research aims to increase the number of evidence from startups and corporates. Today the researchers are developing frameworks and testing the efficiency of the model, by understanding the key factors that could make it successful. The objective of this study is to clarify the challenges that the Venture Client can solve and to highlight what are the needs that corporates and startups look for when interacting.

1. FIRST CHAPTER: Innovation

1.1 Corporate

1.1.1 Corporate Innovation

In a market that is constantly changing, where new business models disrupt established industries every day, bigger corporations need to have a clear strategy on how to innovate. Innovation is a key component in the life of a corporation. In the year many big players in the different markets have failed to implement ideas that changed the world. Examples of these are giant players such as Nokia, Blockbuster, etc. They have not been able to understand the trends of the market and keep up with them, to prevent the entrance of new companies.

The first goal of a corporation is to deliver a product to the market and pursue the internal pre-fixed mission. All the processes in the company are planned and defined to reach these goals. While on the one hand the organization and the standardization of well-known processes are crucial, on the other hand being financially sustainable and competitive in the market is what allows companies to survive and compete. When these two requirements are missing, and a company is not able to make the processes more efficient, there are many chances for new businesses to threaten its market presence.

Innovation is crucial for this matter. It helps companies to create more efficient ways to produce products and deliver solutions required by its and new markets. This allows them to be sustainable and protect their position against competitors. It is important to state that innovation has a broad meaning and does not only refer to the discovery of new technologies. Frequently the term is associated with a radical product or solution which changes the market and the lives of many people. While this might be the case for many of them, it is not exhaustive.

There is not a universally accepted definition of innovation. The most shared view by the literature is the "newness" characteristic of (Varis & Littunen). A new product or a new service can be an innovation, but there are different layers in a company in which there can be a new solution that can disrupt old practices and increase efficiency. On this basis, innovation can be divided into four different areas:

- **Product:** Being the most known type of innovation, it implies the development of an existing product/service or the creation of a completely new one.
- **Process:** It refers to the efficiency of processes utilized in a company to deliver their value products to the market and to communicate internally. A company is made up of resources

and the correct coordination of them can lead to enormous results, in terms of time and financial returns.

- **Market:** A market innovation refers to a new way in which a company connects with its customers. A new solution might let the company reach more customers and prospects by using the same or even fewer resources.
- **Organizational:** An organizational innovation is related to the internal structure of a company. It is a strong topic of discussion, nowadays, the impact that a correct arrangement of people and resources can have on a company's output.

1.1.2 Are Companies Innovation today?

Innovation has proven to be crucial for every industry and companies should have it as a strategic priority. However, this is not always happening, and as Eric Rise highlights in his book, the start-up way, in most other companies there is not one person accountable for following the growing trends and ensuring their progress toward it. Very few times a dedicated figure is present in the organizational chart (Rise, 2017). This might be a dangerous point for corporations because they might miss on some key innovations that can twist their market presence and increase their competitiveness.

Innovation and risk-taking are usual characteristics of entrepreneurs, and it does not always match the corporate standards. Companies are known to be more based on hierarchy and to assign every employee a specific task within the organization, without leaving space for any initiative and different activities. This approach helps to have control over everything and not lose time on time-consuming activities. However, as many examples show, initiatives from single employees are sometimes the most successful ones.

In the latest years, a figure that has been compared to an entrepreneur in big corporations is the intrapreneur. There are both pros and cons to being an innovator in a big company, as opposed to starting alone. Greater and smarter finance, the network, and many more are the advantages. On the opposite side, the entire organization brings rigidity with it and makes it difficult to bring major changes to the entire structure. An example of this spirit and practice is given by 3M, a leading manufacturing company. It has started to let its employees produce ideas and try to innovate them. By giving dedicated time to these activities, the company has produced more and more products to add to its offering. This has enabled 3M to innovate and keep up with external trends which would have, probably, favored other competitors (Conceiçao, Hamill, & Pedro, 2001).

Innovation is a key topic, and many big corporations are starting to invest and get the best out of it. However, even if this philosophy is starting to take hold in the international panorama, there is one form of innovation that in the latest years seems to have had an edge over all the others: start-ups. Startups are teams that start from scratch and build a scalable business model to obtain as much market share as possible. These companies outperform big corporations on innovation matters. The clear vision, the low initial number of people in the teams, and the different objectives allow them to be more flexible and find innovative solutions faster and more efficiently than the others.

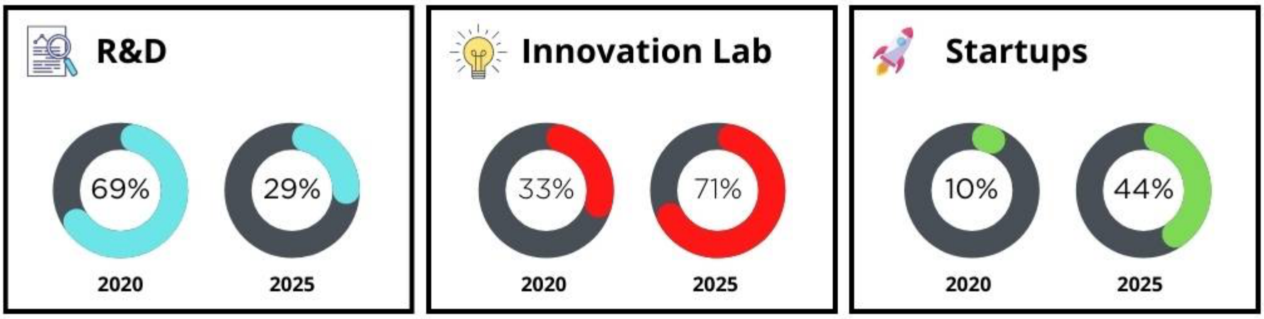


Figure 1 - Top innovation source for companies today and in five years (Source: MIT, Capgemini)

While this could be seen as a problem for established companies, it is also an opportunity. Many of them have started to leverage startups to create and incorporate their solutions. In this way, companies can integrate innovative solutions from the outside without putting too much effort and dedicating too many internal resources. As *figure 1* illustrates, corporates are changing the way they innovate. They mainly leverage R&D departments, Innovation Labs, and startups. The prospect of Capgemini suggests that while R&D departments are the first driver of innovation in companies today, this percentage will drastically decrease by 2025. On the opposite, Innovation labs and startups are projected to be implemented more and more, reaching incredible numbers, respectively 71% and 44%.

This relationship between startups and corporations might seems easy, but it has many variables, as it will be shown in the next chapters. This interaction is not always easy and every situation has to be analyzed carefully. Problems of ownership, strategy, finance, and many more must be considered. Each company might face these in different ways. Every situation is different, and the best dynamics and organization can make the difference between a successful and a failing innovation program.

Before diving deep into the different types of collaboration that companies can establish with startups, it will be analyzed how these new ventures work and the method that they utilize. Their behavior toward challenges and problems is different compared to bigger companies and these new approaches utilized could be the answer behind their success. The next lines will focus both on the innovative behavior that companies should have to exploit external resources and on the so-called Lean Approach adopted by start-ups. This will allow the research to show and explain the view of both parties.

1.1.3 Company Ambidexterity

Innovation is key to the survival of companies and organizations. As shown, however, it takes time, and the management of a company must commit to it. The challenge, whether to innovate or not is important and each company must analyze its situation carefully. An innovative mindset is crucial but the organization and the definition of roles within an organization are as much as important. Setting roles dedicated to innovation and being open-minded in exploring new ideas is what can determine a company's success.

Depending on if a company decides to innovate or not, there are two different kinds of businesses that have been individuated by the literature: Exploitative and Exploratory. The difference between the two is based on the utilization of different types of resources. Other than this, the two models of business, when operating, follow different strategies, cultures, and leadership styles (O'Reilly III & Tushman, 2004). The following table will describe briefly the two different views and characteristics of every single model.

Alignment of:	**Exploitative Business**	**Exploratory Business**
Strategic Intent	cost, profit	Innovation, growth
Critical tasks	operations, efficiency, incremental innovation	adaptability, new products, breakthrough innovation
Competencies	operational	entrepreneurial
Structure	fermal, mechanistic	adaptive, loose
Controls, rewards	margins, productivity	milestone, growth
Culture	*efficiency, low risk, quality, customers*	risk taking speed, flexibility, experimentation
Leadership role	*authoritative, top down*	visionary, involved

Ambidextrous Leadership

Different alignments held together through senior-team integration, common vision and values, and common senior-team rewards

Figure 2 - Ambidexterity Business

The table shows the two approaches by analyzing 7 main characteristics. Based on this dimension, a company can identify itself as *Exploitative* or *Explorative*. The two styles are much different, and it can be said that their approach to innovation changes radically. While the first one focuses on the exploitation of the already developed resources and adopts a mechanical structure to deal with day-to-day activities, the second takes a completely different approach. As the name suggests, the entire strategy is based on explorative behavior. The management has a more innovative and entrepreneurial style. This model's approach is more open to changes and works to find innovation every single day.

As shown, the two styles are different and each of them comes with pros and cons. After a first look, the explorative approach might be more tempting to foster innovation. While this can be true under many circumstances, this model, alone, can be dangerous for already established companies. A structured and mechanical organization can be the key to having control over a high number of employees and processes. On the opposite, adopting just an exploitation model can heavily undermine the openness of a company to innovation. The absence of a structured department, accountable for exploring and incorporating changes, makes it difficult for a company to keep up with the market and its competitors.

However, the two models are not incompatible and, in many cases, can co-exist in one single organization. This is the theory of ambidexterity. It is based on the mix of the two approaches: exploitative and explorative. Studies show that to develop such an organization, the most important factor is the senior team. There is a need for leadership that brings "different alignments held together through senior-team integration, common vision and values, and common senior-team rewards" (O'Reilly III & Tushman, 2004).

There are different studies about ambidexterity and how it can increase companies' performances. As already said, the merge of exploitative and explorative approaches can be the best way for companies to proceed and face the challenges of the market. A study conducted on S&P 500 companies shows the actual impact of this structure in different industries. The main takeaway of this research is that a correct balance of the two approaches can lead to superior performances. The optimal balance, indeed, really depends upon the industry and the competitive scenario of every single company and organization (Uotila, Maula, Keil, & Zahra, 2009).

After an overview of the strategy, organization, and vision that a company should have to foster innovation, it is now time to look at the different ways they interact with the external environment to explore new resources. In particular, the following analysis will focus more on the start-up world and on the way these new ventures deal with problems and solutions. The approach they utilize is today most known as the lean-approach. A continuous validation process that allows minimizing risk and resource commitment.

1.1.4 Lean Approach Method to Innovation

Innovation comes with difficulties and costs. There are many unknowns when it comes to discoveries and the development of new solutions. This is the reason why many companies, bigger and smaller, opt not to consider innovation as a core part of their strategy. Investing huge amounts of money and resources in development projects that end up underperforming, is not sustainable for the company and its positioning in the market.

When it comes to innovation and the development of new projects, start-ups seem to have a competitive advantage over big corporations. These are characterized by a strong hierarchy, fixed internal organization, and by the need for a specific outcome. All these traits make innovation costly and dangerous because when a product is developed, it is difficult to make any relevant adjustments. On this topic, start-ups have established a new model which repeatedly minimizes the waste of resources and maximizes the outputs: the Lean Approach.

First explained by Eric Rise, the Lean approach is based on a perpetual validation process. This refers to every single step of the project development: problem, assumptions, customer discovery, product-market fit, and many more. The evolution of an idea into fragmented into many steps which need to be confirmed or changed before proceeding to the next stage. The final product comes from a series of testing and prototyping. This ensures that the start-up does not lose money and time on solutions that might not be needed by customers in the market.

This approach is common in the start-up world and many big corporations are applying this to redesign the way they innovate and take advantage of new ideas. In many industries and topics, the traditional waterfall approach to projects seems to be overperformed by this new method. It has happened that companies have spent fortunes on developing failing products. Many times, the entire R&Ds were based on assumptions and market research that have never been tested with the end consumers, until the official launch. The market change constantly, and to catch and stay ahead of every trend, it is important to have a direct channel of communication with every interesting part of the specific project.

To summarize, start-ups build their ideas from scratches. They try to create an innovative and scalable solution with the lowest possible amount of money. This model allows corporates and individuals to develop solutions minimizing errors, by constantly gathering feedback from the market. This enables them to understand when a product/service is bringing value to society and whether to continue the development or pivot on an idea that might be more successful and adopted by the consumers.

1.2 The Innovation DNA of Startups

1.2.1 The Start-up perspective

The research will focus more on the investment side, but when analyzing these types of collaborations, it is important to have a clear view of all the parties involved: both investors and the start-ups that receive the money in exchange for technology. To have a broader view of these models and to understand all the advantages and disadvantages, it is necessary to define the interest of everyone that is involved in them. Start-ups play a huge role in this because they bring innovation and fresh perspective to the industry. While it is true that they are seeking investments, they also analyze very carefully every commitment, based on opportunities and obstacles.

In the next paragraphs, there will be an analysis of what is important and what start-ups look for when seeking investors. The main criteria, when choosing a partner which will own a stake in the company, are many and can change in different ways. Funders are not only looking for money, but they are looking for smart solutions for their businesses. Mentors, coaches, and networks. These are only some of the dimensions that start-ups evaluate when proposing their ideas to a specific type of investor.

To better understand which could be the best choice for a start-up when deciding to accept an investment, the analysis will show many different opportunities. This approach is crucial because a new venture has many different opportunities from which to choose. To understand how corporates can prevail and extract most of the value, it will be necessary to present the advantages and advantages of each of them. By doing so, it will be possible to identify some gaps in that corporations can have a strong advantage over their competitors.

1.2.2 First Investments or First Customers? The Chicken Egg Problem

Finding clients is a big achievement for the team and it is what start-ups are looking for. This purchase proves that the product is accepted by the market. It is a good indicator of the value of the idea and its future perspectives. Depending on the business model, having a proven customer base is a great card to show to the investors. When numbers prove to be right and the product is getting traction, then a start-up is ready to make their step further in the development and growth of the idea.

It is in this stage that lies one of the chicken-egg problems of start-ups: customer first or investment first. There are different opinions of the experts and the start-ups, but it depends on the purpose and strategy of the new venture. On the one hand, customers are the key to a sustainable and long-term business model. On the other hand, investors can add much value to the growth with capital and the network that they can provide

When it comes to investors, there are different types with various goals. If thinking about VC, the main goal, most of the time, is to have a high financial return. When they chose start-ups, they believe in fast growth which will lead to high returns. This attribute is not always easy to detect in the early-stage teams because is a bet on the future. One data that surely can help to be noticed is the ability to attract customers and grow fast. Investors are looking for traction. Ideally, the perfect situation would be to find a business model which can grow rapidly and can scale without dedicating too many resources.

On the same logic, there are different reasons why start-ups look for investments. The two main rationales behind them are money and network. The underlining idea of an investment is to capture as much market power as possible in a shorter period, to prevent your competitors to imitate the technology. Closing a round of investment is also a great opportunity to catch the attention of the market and other investors. It proves that the core idea is good and that it can be replicated. However, start-ups are not only looking for money but are also looking for partners in their investors. Many times, the network that investors promise is a big incentive for newborn companies. When a start-up evaluates a certain opportunity, two main variables are considered: money and value-added. Founders are not just looking to bring home the monetary value, but what matters is the strategic value that a partner can provide. They are looking for people that can help the business grow with their experience and connections: Advisors, mentors, and new clients.

While the answer to the chicken and egg problem is difficult to give, it is possible to say what start-ups look for when looking for investments. The three parties: start-ups, investors, and customers are connected. The roles that each of them plays are crucial to the success of the overall investment. On the one side, investors look for start-ups with already established and proven customer bases, on the other side start-ups hope to find new investors and new possibilities to grow and make connections.

1.2.3 Financing Opportunities

There are different options to finance a new venture and each of them has specific characteristics. Start-ups need to look around for different opportunities to understand which best fits their needs and perspectives. Each decision can drastically determine the future of the venture and its probability of success. In the next lines, the main types of investors will be presented. Each of them has advantages and disadvantages, and even if this thesis will analyze mainly the way corporates relate to start-ups, it will be helpful to understand and have a view of the competitive scenario. Start-ups indeed need to pitch their ideas and convince investors to pick them, but on the other side, also corporates must show what their value is and why a new venture should choose them as a partner. Depending on the stage and on the final objectives, a start-up has different opportunities.

The analysis of this work will be based on the early-stage phase, all the way to the late-stage start-ups, when the investors, depending on their objectives, sell or incorporate the venture. Starting from the basic loan that a company can get from a bank, Venture Capital and other forms of financing will be described to have a generic panoramic of the different opportunities.

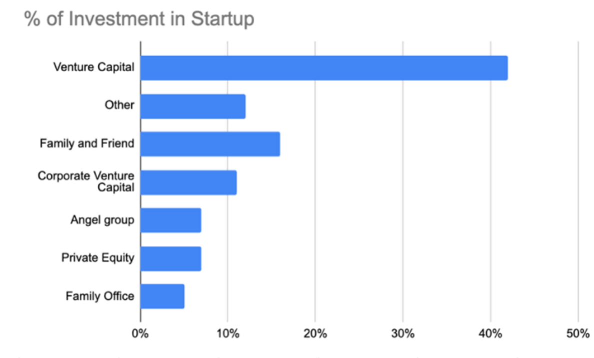


Figure 3 - Major Investors in Start-ups

The table above shows the way start-ups and small enterprises raised money in 2019. As the situation is not changed significantly, these data will be utilized as a starting point for the next analysis. Venture Capital, by far, has been the main source of finance. A percentage of 42% of ventures have chosen VC to increase their capital and to continue in the growth process. Even if the category Friends and Family is popular in this study, it will not be considered because does not refer to the stage of funding that we are trying to analyze. The next two categories that have injected high finances into the start-up ecosystem and that will be the basis for our study, are Private equity at 7% and Corporate Venture Capital at 11% (Silicon Valley Bank, 2020) These three sources of finance will be further analyzed in the next chapter.

1.2.3.1 Venture Capital

Venture capital is a type of private equity financing in which the fund/company provides risk capital to start-up and early-stage businesses in industries with high growth potential. These companies are risky and raising standard capital on the market or through bank loans can be difficult. The term VC usually refers to investment funds established specifically for this purpose, whereas the entities carrying out these operations are experts in the field ad are known as venture capitalists.

Obtaining venture capital financing is not the same as raising debt or getting a loan. Creditors have a legal right to loan interest and principal regardless of a business's success or failure. Instead, venture capital invests as an equity holder. The return of the venture capitalist as a stakeholder is determined by the company's development and profitability. This return is often received when the venture capitalist "exits" by selling its investment to another company or when selling it on the public market. Venture capitalists are often quite careful when deciding how much to invest in a fund, and they are more drawn to businesses with great growth potential, as only such possibilities are likely to deliver consistent returns within reasonable timing.

VCs mainly invest in different stages of the life of a start-up. Since their objective is to increase its value as much as possible, in the shortest amount of time, it is a great opportunity for start-ups. Deciding to join a Venture Capital program allows new ventures to participate in activities that range from coaching, and networking, to many different opportunities. The role of the VCs is to provide financing first, but they also must provide the start-up with the best opportunities and conditions possible. Being part of a community and being able to connect with many different experts that have already been in the same position, can give an enormous boost to growth.

While this is a strong incentive for new companies to join a VC, certain drawbacks need to be considered. When a start-up accepts the offer of a VC, it is automatically giving away a piece of ownership in exchange for money. VCs are businesses as well, so they require start-ups to have great performances and big results in a short matter of time. This is a really important factor to consider. When a new business is still building a perfect product for its customers and at the same time must focus mainly on its sales and results, it can have a counterproductive effect. Founders start giving more importance to financial results and under pressure, it can take a lot of time from their daily activities. Not meeting the expectation of a company that is investing in you, can mean failure for a start-up.

1.2.3.2 Private Equity

Private equity (PE) is an investment fund that invests money, but that is not publicly traded. Private equity funds and investors either invest directly in private or public enterprises with the potential to grow. Private equity funding is provided by institutional and individual investors, and it can be used to fund innovative technologies, make acquisitions, extend working capital, and boost and stabilize a balance sheet. The particularity of this fund is that most of the time the investment is supported by a strong management change in the invested company. This allows it to keep control of the situation and act with a financial rationale when making critical decisions.

Private equity is known to perform better for this reason. Over a survey of more than 4000 medium-sized enterprises in Europe and America, Private Equity owned firms have outperformed the ones managed by governments, families, and private entrepreneurs (Bloom, Sadun, & Van Reenen, 2009). This shows that private equity ownership brings operational improvements in management. It appears that PE targets poorly managed businesses, and these firms improve their management practices at a higher rate than other types of ownership. In this context, start-ups are the perfect example, because they provide new business models, but are usually managed by inexperienced people.

Receiving liquidity from a private equity firm allows companies and start-ups not to pay high interests to banks and not to give up ownership in the public market. On the practical side, there are two main differences concerning the VC model previously explained: management changes and the stake acquired by the fund. In terms of management, PE tends to make the right changes that give the company the possibility to be profitable. The main source of revenue for the company comes from management fees. When the managers perform well and the company can generate additional value, then the entire fund is profiting. To make this kind of change and to have an high influence over the company decisions, the PE firm needs a lot of power. This is the reason why, when acquiring a firm, they tend to get 50% or more of the ownership. This allows them to control and make the required changes when needed.

As for every kind of financing option, there are some positives and negatives to be evaluated. The new money and the management brought in by the PE will help the start-up to grow and to take actions that were not possible before. As it can be easily imagined, however, this commitment brings with it many implications. Such a decision enables the start-up to gain a high quantitative of finance in a short period, but at the same time, it requires it to sacrifice a great part of the ownership and decision making in the company. As the empirical data show, these kinds of investments are profitable because they focus on optimizing every single process, sometimes also giving up on the core values on which a company has been built. The value added by the PE is a great opportunity for growth, but at the same time, start-ups must decide if all these conditions are worth what they are giving up.

The next chapter will continue with the analysis of start-ups and companies by focusing on the way they usually collaborate. It has been important to highlight the main characteristics and the financing option that start-ups have. By doing so, the next concepts will be compared to these, and all the analysis can be said to be complete. Introducing the collaboration, the next chapter will better explain corporate venture capital and its history.

1.2.4 Collaboration between companies and Startups

Until now the analysis has focused on the innovation side of startups and corporations, favoring the first one for the approach utilized. To have a bigger picture, moreover, it will be necessary to point strengths and weaknesses of both. By doing this, it will be possible to understand the reasoning behind their interaction and the different approaches utilized today. In many aspects, as we will see, corporates and start-ups are complementary, and by collaborating and co-creating they can extract their full potential.

Companies try to innovate by connecting with start-ups. This relationship has changed much during the years and there are always new ways of defining it. There is an ongoing connection that has changed during the years and is based on different aspects. The two parties need to find common ground and develop, together, a product that allows both to grow and scale the market. The two must share purposes and visions to maximize value creation and minimize the risks.

As we will see, Corporates and start-ups can in some cases be complementary. Each of them can provide the other with specific resources which are unlucky to be found elsewhere. This connection, as said, can create value, but as a drawback, can carry many challenges with it. In the next chapter, different methods and ways of collaboration will be described, together with all the pros and cons that each has. There will be a special focus on the differences between the already established Corporate Venture capital model and the new Venture Client Approach.

1.3 Open Innovation

1.3.1 What is Open Innovation

Open innovation is one of the most talked-about models of collaboration in today's management practices. It refers to the process of gathering and developing ideas leveraging resources external to the company. It takes a different approach to the typical internal process. The ideation and implementation of a project can involve different people and sources, internal or external. Commonly, R&Ds departments in corporations develop all the projects internally by leveraging their resources. By applying the Open Innovation approach, companies can merge their resources with external capabilities to build a product or service together. This kind of collaboration, as opposed to the CVC approach, typically does not require a huge amount of investment. There is a willingness for both corporates and startups to work together and to gain the maximum result out of it.

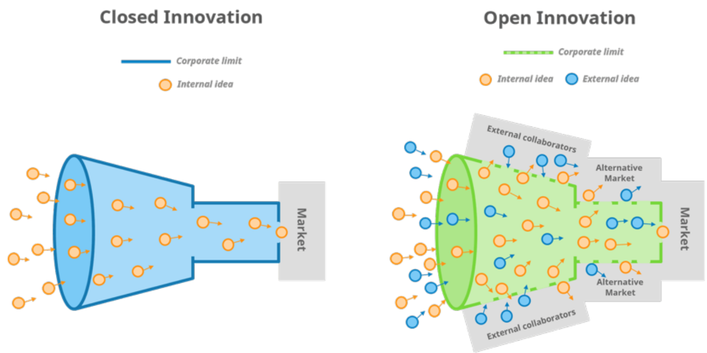


Figure 4 - Open Innovation

With the open innovation approach, the companies' boundaries disappear, and different actors are allowed to participate in different development stages of an idea. Open innovation is defined as sharing knowledge between the company, its customer, creatives, and many more stakeholders. These connections are important because they allow the company to be more open and to tap into the knowledge that would not be accessible in other cases. The image shows how this model works and how it is different from a closed innovation approach. The blue illustration indicates a normal internal flow of ideas that are proposed inside the company and developed by it. Typically, these come from the top management or from an internal input that orders a specific department to work on it. The green image, instead, refers to the open innovation approach and shows how ideas and knowledge from external participants, are taken into consideration.

There are two main types of open innovations, depending on the source of the idea and the inputs. The decision whether to choose one or the other varies on the type of commitment and objectives of the company. The two models are:

- **Inbound Open Innovation:** This model is utilized by companies to build or improve a product that will be part of their offering to the market. The main idea comes internally, and external actors are involved in different phases of the development, from the creation of the idea to its effective development. The inside resources of the company leverage external force and values to create something innovative that is needed by the company. This approach is common when the company has some challenges and spots opportunities that might be worth to be addressed. The name of this model refers to the flow of knowledge that comes in from the outside.

- **Outbound Open Innovation:** This type of innovation allows external actors to utilize the resources and knowledge of the company. It gives access to its technology and helps organizations, start-ups, and experts to build innovative solutions. All the parties involved in the collaboration can gain many benefits and it is shown this approach can improve companies' performances (Lichtenthaler, 2009). Even if less common than the inbound model, it can offer some important advantages. Firms can have access to an external view of the industry and spot opportunities that might not be leveraged instead. An outside perspective can make use of the internal resources in many ways and create different opportunities that would not be exploited instead.

Based on objectives and strategies, companies can opt for one solution or the other. Depending on the structure of the partnership, companies can leverage external knowledge to increase their competitive advantage. Once a project is selected and the different participants to it are selected, startups and experts join the company's operations to co-create a product. This exchange of resources and capabilities must be organized to exploit its full potential. The entire flow will require specific tasks and roles. Accountability is crucial.

While the Open Innovation approach allows for solving many problems, it puts them in front of many challenges. As already discussed, matching the values and the characteristics of big corporations and startups is never easy. While the first ones have very specific organizations and requirements to collaborate with external entities, startups cannot always satisfy all these requirements. Open innovation involves the sharing of knowledge, and it is known how important sensible information is for businesses. Sensitive data can dictate and make it possible for corporations to have competitive advantages. Sharing these data and inventions with others is never an easy journey. The protection of intellectual property (IP) is an important topic that will need to be discussed further. The market around patents is huge and there are many interests at stake when groundbreaking discoveries happen. When a project comes to an end, under open innovation environment, there can be a problem with the disassembly of IP. While the idea will probably be sold by one identity, the knowledge to develop and register a patent came from many different sources and these will have to gain value over it (Granstrand & Holgersson, 2015). This division of ownership is a challenge that needs to be addressed and specific approaches, such as the Venture client model, might be able to solve them.

Open innovation is a hot topic, and it develops more and more every day. There are different examples on the market and different companies are trying to take advantage of it. International and national corporations have understood its potential and are implementing innovation programs. There are many international pioneers, but also major Italian and Portuguese brands, such as Enel, Galp, and Acea are taking a step further in this direction. These programs are mainly based on finding ideas from external sources and supporting them to create innovation and attract the best talents around the world.

1.3.2 Approaches to Open Innovation

The ways companies can interact with startups are many. Based on goals and capabilities, there are several open innovation initiatives firms can adopt. These models have developed over the years, and they vary a lot in the commitment and effort required by companies. Each of them has some specific characteristics but many times their border is not completely marked. This means that while it will be possible to label different initiatives with specific names, sometimes these might overlap.

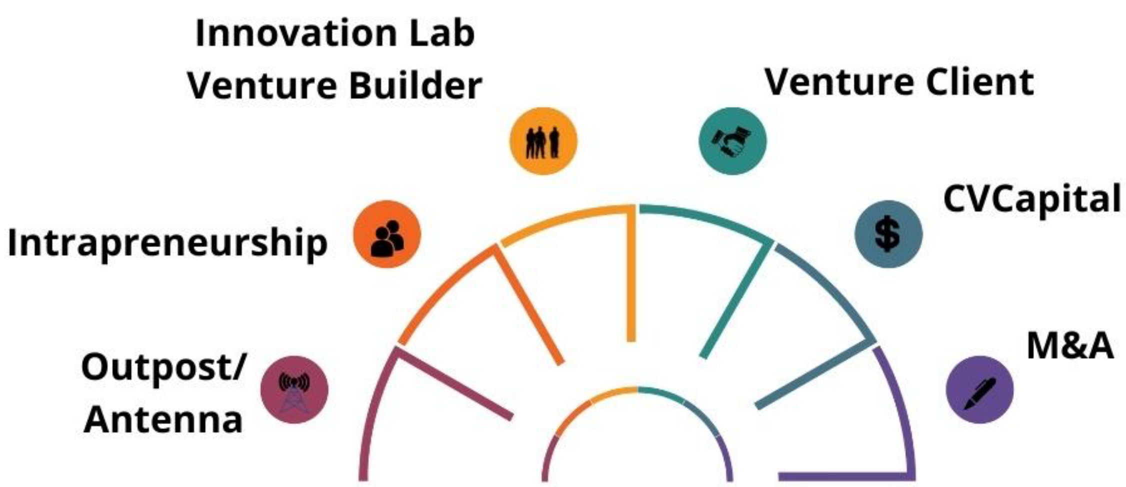


Figure 5 - Open Innovation Approaches

As said, different initiatives require different efforts and resource investments. As shown in *Figure 5*, these practices are identified differently and start from the simple outpost exploration, all the way to the M&A acquisition, companies have many models to choose from. Let's analyze all of them more in-depth.

- **Outpost Exploration:** This is a safe and careful approach to innovation. Companies start to look around for trends and opportunities which are clear in the market. Companies build up hubs to be close to the technology and business model innovations as well as increase their engagement with the startup environment. Having a close presence in international tech hubs, such as Silicon Valley and Israel, allows companies to be up to date and know about new and groundbreaking innovations, and to try to get a shot in them. While America and Israel are two historical innovation hubs, companies are starting to look around for innovation all around the globe, opening hubs and centers in many different growing areas.

- **Intrapreneurship:** This term refers to the entrepreneurial employees of a company. When trying to innovate from the inside, it might be difficult to come up with solutions that are accepted by the big corporates. Roles and responsibilities, most of the time, do not allow employees to take a shot and build their venture. Given the number of workers in companies and their potential to innovate the processes they usually work on, not involving them in the innovation process can lead to many missed opportunities. Big corporations, such as 3M, have started to implement ad hoc programs to leverage internal personnel. Since employees work every day on specific operations and technology, they can be a powerful resource for inputs and insights. In the case of 3M, the intrapreneurial program has proven to generate success stories. Many more companies are trying and exploring this model by allowing their employees to dedicate working hours to entrepreneurial activities.

- **Innovation Labs (Acceleration and Incubation Program):** These programs are mainly instituted to help startups develop their ideas and to reach an optimal stage to get funding. Corporates, by implementing them, offer new venture services and modules that allow them to gain knowledge and understand their full potential. As opposed to the CVC, as it will be analyzed, most of these programs are no longer taking equity. These Accelerators have the purpose of scouting and assisting teams to scale. By having a close relationship with startups, companies can understand their full potential. This can help companies to reach different purposes: lastly investing in it, proposing them to their customer base, or trying to collaborate and reach strategic goals.

- **Venture Client Model:** This model is more recent compared to the others. It is based on a partnership approach that does not comprehend any buying or selling of equities. The model is based on a collaborative approach in which, companies allow startups to grow by buying their products. This might seem a straightforward model, but only in the latest year, it has been producing many promising results. This approach allows companies to solve many problems and respond to the main necessities of corporations and startups. When the structure is well designed, it can lead to a win-win situation. Startups are their real first customer and can test their product offering, while companies can tap into new solutions that will be accessible at premium conditions for them in the future. This model will be the base of this thesis and will have a major focus in the following chapters.

- **Corporate Venture Capital:** Many corporates have adopted the Venture Capital model with many success stories. A corporate that decides to invest important amounts of money in startups, to help them grow and scale, takes big risks. There are various reasons why firms decide to pick up innovation from the outside by betting on startups. As it will be analyzed more in-depth later, corporations might have financial or strategic purposes when applying this model. The advantages that this model can bring to the company are relevant and it has been developing more and more over the years. When investing in a startup, the main difference that a Corporate can bring, as opposed to a simple Venture Capital fund is the connection to the industry. Established processes, networks, and knowledge are just some of the offerings that new ventures can get when entering a CVC program. All these advantages, however, might be offset by a lack of specialization and investment knowledge. All these aspects will be analyzed more closely later in the analysis.

- **M&A Deals:** Companies might decide to directly buy new companies and completely integrate them under their organizational umbrella. When a firm acquires another, the acquired will join the operation and the structure of the acquirer. When a firm buys most of the equity of a startup, it is officially allowed to make major management decisions. It means that the startup is completely under the control of the firm, and this will completely integrate its operations and assets into the already existing structure. This is the most radical initiative of open innovation that companies can adopt, and it requires an extra effort to merge two realities under the same vision and organization.

All these methods to innovate and bring new technology to the company, by leveraging external resources, are extremely valid. It is up to the different companies to decide which model they want to pursue. Each of them comes with many advantages and many challenges, depending on the commitment and necessities, companies exploit what is most suitable for them. For this analysis, the CVC model and the Corporate Venture client will be the focus. It is important to know the history and the characteristic of both to understand the preferred approach. In the next chapters, examples and empirical evidence will show the pain points and the problems that each model can solve.

1.3.3 The Corporate Venture Capital

As the name suggests this model is the most like the venture capital approach. Companies, to innovate and to stay ahead of the competition, invest in startups with high potential to grow. With these investments, companies commit to helping startups to develop their technology and to offer them all the necessary internal resources to reach this goal. Even if they follow the same logic, there are many differences between VCs and CVCs. Strategy, vision, and goals are just some of the features that differ. While VCs are mainly focused on the financial side of the investment, Corporates might also look at strategic components that might lead to an increase in their business.

Given the different strategies, CVCs and VC funds might offer different services to startups. While VCs are specialized in investments and in selling startups after a specific period, companies might luckily be interested in continuing the relationship with them to gain as many strategic advantages as possible. This different approach means different services to startups and different attractiveness toward them. All these aspects will be further analyzed in the next chapter.

1.3.4 The Corporate Venture Client

The Corporate Venture client differs slightly from all the other open innovation approaches defined so far. On the bases of this approach, there is a strategic partnership between corporates and startups. As explained, the two entities are complementary. Each of them has specific factors that the other might not have or are difficult to develop. In this specific case, the collaboration is based on a procurement relationship that sees companies directly buying products from startups.

The model is a base to co-create new solutions. Companies partner with startups and help them in the development and expansion. This model differs under many factors from the Corporate Venture Capital approach. In the screening, selection, and final decision, strategic purposes are always predominant. Companies do not look only for financial opportunities; they are looking for solutions that can improve their core business. Saving time, increasing efficiency, and evolving product technology. These are only a few of the factors that firms should look for.

The role of the Venture Client is not opposed to Venture Capital funds. They operate in different ranges, and they are not direct competitors. This is an important aspect to take into consideration when deciding to adopt it. The two entities, if collaborate in the right way, can extract most of the value out of ventures. Each of them fic things to offer that if combined can build a win-win situation.

The Venture client method solves many problems with the collaborative models that companies apply today. The next chapter will be focused on describing both approaches with their pros and cons. Corporate Venture Capital, even if more established than the Venture Client, has many problems, and corporates need to analyze them. The Venture Client model, even if not perfect, can solve many of these problems and can be an effective alternative to it.

2. Second Chapter: The Corporate Venture Capital vs. Corporate Venture Client

2.1 Corporate Venture Capital

2.1.1 What is the Corporate Venture Capital

A way in which companies can engage with start-ups and get the advantage of their solutions is by directly investing in them. By acquiring startups, companies gain ownership of technologies and talents in a short period. It is a fast way to buy innovation and to make part of the organization's portfolio. One way in which companies can do this is by applying the venture capital model. These are investment funds with a main financial return objective. From this model, companies take inspiration and build something similar, based on different strategies and objectives.

Venture capitals, as shown before, are a fund that invests in start-ups at different stages. Other than investing, they provide them with mentoring and different services which allows them to gain more experience and grow at the same time. This practice, when successful, ends with a win-win situation: the start-up grows by gains customers and market, while the venture capital gets back a high financial return. Its final goal is to sell a start-up and to make a profit from its exits or IPOs. The targeted reward is around 25%-35% of the amount invested and has a short time horizon (Zider). This makes venture capital an investment fund with financial returns as the main objective.

While financial returns can be the goal of every organization, sometimes companies have different reasons to invest in start-ups. Corporations leverage start-ups to innovate and incorporate their solutions to benefit their business. Other than financial returns companies might look for strategic acquisitions which can get them to gain a competitive advantage against their competitors. Another difference that applies, is the commitment that a company puts when acquiring or partnering with a start-up. Depending on the help and service it can provide, companies that investors can be defined as active or passive.

Returns, commitment, and links in the operations can vary from firm to firm. Companies invest in start-ups for two main reasons: to increase and intensify their activities, or to gain new revenue streams. Given the same logic, businesses can also distinguish themselves by the degree to which they are linked to the invested company's operations. Strong linkages can allow the start-up to utilize and take advantage of resources and processes, such as manufacturing, network, and any other services which can be exploited.

Corporate investment objective

Link to operational capability

	Strategic	**Financial**
Tight	*Driving* advances strategy of current business	*Emergent* Allows exploration of potential new businesses
Loose	*Enabling* Complements strategy of current business	*Passive* Provides financial returns only

Figure 6 - The Corporate Venture Capital Strategies

Figure 2 puts these dimensions into a chart and allows to further comment and discuss the companies' approaches. Based on this distinction, investing businesses have four different ways to invest in start-ups: Driving, Emergent, Enabling, and Passive. Depending on the degree of each dimension, a certain approach is adopted. To make sense of this, each single of them will be described in the following lines:

- **Driving** (Strategic objective and tight link to operations): In this case, the company works closely with its venture capital branch and the start-ups. By aligning objectives and strategies, the management team of a company decides to invest in companies that can help them realize its mission. Since the infrastructure of the investing company is linked to the operations of the start-up, it can take advantage of it and grow.

- **Emergent** (Financial objective and tight link to operations): As the previous type, they seek to invest in companies that are related to their market and operations. However, the final objective is slightly different. Investing companies try to find new revenue streams in new potential markets. Leveraging on start-ups can be a good strategy for them to increase revenues. A case of this is Panasonic, which has invested in start-ups to enter the market of home computing and entertainment.

- **Enabling** (Strategic objective and loose link to operations): Even if the investing company is not strictly related to the operations, the start-up in this case is utilized to complement the actual product offering of the company. An example is Intel, it decided to fund companies that require their processor, to grow their market demand.

- **Passive** (Financial objective and loose link to operations): These investors are merely looking for financial returns. There is no big connection between the business and the investing company that does not offer much help other than financial. Dell has been a passive investor in the past. The technological company has invested money in start-ups that even if they exploded, would probably not help to increase the market position.

The number of corporates' venture capital has grown at a high rate in the latest years. Only considering the first half of 2021, the deals accounted for 78B$, 133% more than the same time the precedent year (CBInsights, 2021). This data is important and shows the effort that companies are doing to keep up with the competition. This is an ongoing trend and many companies, from different verticals and industries, are investing to take advantage of this strategy. In Europe, the countries that have seen the most deals are the UK, Germany, and France. These allowed Europe to grow steadily in one year, surging the funding by more than 400% (CBInsights, 2021).

Corporate venture capital today is present all around the world, but it is estimated that almost 51% of all investments have a place in the United States (CBInsights, 2021). Big and experienced players rule the market, but there are several exemptions, such as Coinbase. Its investment branch, Coinbase Ventures, founded in 2018, already counts about 37 invested Unicorns in its portfolio. The European panorama, even if smaller in terms of numbers and deals, counts major companies, such as BMW with BMW Ventures and Siemen.

Summing up, corporate venture capital is a great strategy for companies to collaborate and work close to start-ups. It allows them, in different ways, to connect and get the best by merging resources. Depending on the company's capabilities and necessities, the structure of the investment may be much different. While this strategy can turn out to be powerful and profitable, every venture capital carries many risks with it. Start-ups have a failing rate of X out of X. This statistic is not much different for corporate venture capitals. Every investment which is done is risky and each requires careful analysis.

2.1.2 The history of Corporate Venture Capital

The start of Corporate Venture Capital finds its origins in two names known in today's economy: Dupont and General Motors (GM). This relationship began when du Pont, president of

DuPont, a chemical and plastic producer company based in the US, 1916 decided to invest, and buy the shares of the young automotive company. The objective of the investment was mainly financial and there was a strong belief in the growth of GM during the years of the war. The choice was successful, and during World War I, the company raised its value by 7 times. These extraordinary results led the board to invest 25M dollars more, to pursue both strategic and financial objectives ((CBInsights, The History Of CVC, 2017).

2.1.2.1 The first wave: 1960 - 1977

The first wave of CVC has developed years after the first pioneer investment made by the Dupont Corporation. In the 1960s-70s, America's economy was populated by big conglomerates leading in different industries. The market was characterized by monopolies because there was not any possibility for companies to compete against giant players in the market (Ford, 3M, Mobit, etc.). Generally, monopolies are harmful to the economy and society. The lack of competition leads the company to invest less and less money in innovation because its position is not threatened by any other company. The entire market is regulated and owned by a single entity that might take advantage of its position to gain more and more. For this reason, governments enforced anti-monopolistic laws that forced corporations to redesign their strategies.

This is the case in the 60s in America. Big corporations were forced to give up some market share to foster competition. As a response to this, they were looking to diversify in new and potential markets to grow. Diversification was a good strategy to leverage already existing resources to expand in similar or related markets and to have new sources of finance. In this panoramic, the CVC started to spread as a tactic to pursue the goal of diversification. Investing in newborn companies with specific knowledge could help these conglomerates to discover new opportunities and enter or create new markets.

Other than DuPont, also other conglomerates have adopted this approach and have tried to innovate and gain new markets. General Electric, Boeing, and 3M are just some of the names that have invested in these practices and have been successful during those years. The main reason behind an investment in CVC for all the main corporations were 3:

1. Diversify and find new market opportunities
2. Utilized unproductive cash to invest in early stages and promising companies
3. Invest and try to get ahead in the tech industry. An industry that has shown to be productive in the later years.

While investing in start-ups and new companies was a shared model, there was still not a clear structure about how these investments were supposed to happen. There are different stories of success and different programs run by different companies. The innovation and production company, 3M, developed an internal idea creation program, which allowed employees to propose and develop products that the company could sell. The most known example of this is the creation of the post-it, a product which has for sure increased the competitive position of the company. (Govindarajan & Srinivas, 2013). A different approach was adopted by Exoon Enterprise, the CVC branch of the famous oil company which only in the 70s invested in more than 37 ventures. These investments helped the company to enter different industries and to challenge technological giants such as Apple and IBM. When the project was abandoned, its losses counted for about $2Billion.

The first wave of the CVC has been really important because has marked the ground for all future discoveries and approaches. For the first time, companies have started to leverage external resources and not only on internal development, to chase innovation. After this period of increased investments, the oil crisis and the stagflation forced many businesses to shut down or rethink their strategic and financial strategies.

2.1.2.2 The Second Wave: 1978-1994

The second phase of the CVC started in a different environment. Technological companies, such as Microsoft and Apple had incredible results and the computer was becoming an item always more and more important for every single business. The entrepreneurial skills, other than management were more diffused and people started to create their ventures more easily. The economic scenario was different and big corporations were not the only ones to invest in start-ups. Other independent funds, better known as Venture capital, started to become more and more popular. They utilize private funds to help potential businesses to grow, with a pure financial objective.

The importance of Venture Capital has introduced a new way for companies to invest in start-ups. At that time there were three different investments corporations could make:

- **Indirect investment**: the company gives the money to independent Venture Capital which would manage it to get a financial return

- **Dedicated VC:** the company provided the money and followed the investment more closely. They established client-based funds which tried to help start-ups to grow by allowing them to leverage some internal resources.

- **Internally managed CVC:** this strategy saw many corporations build their investment fund internally, trying to exploit as much as possible the closeness to the ventures which joined their programs.

- **Internal employee investment activities:** Other companies, such as 3M and Eastman Kodak, allowed their employees to pursue an entrepreneurial career outside their own companies.

All these different approaches have shaped the way CVC has developed today. Many programs have developed following similar structures and correcting what did not work in the past. The geographical area which has been the core of this CVC phase has been the "Silicon Valley". As of today, this district still plays a crucial role in the start-up and entrepreneurial ecosystem. Big names and projects, such as Apple and Xerox have risen during those years. Corporations have also played a crucial role which declined throughout the period: from 41% in 1977 to 27% in 1982 (CBInsights, The History Of CVC, 2017).

A deep crash in the market stopped the increasing trend of investment at a local and international level. While in 1986 were invested approximately $750M only by companies alone, in just one year this number declined due to financial constraints that forced them to re-think their strategies and areas of investment. This stated the end of the third wave and the start of a speculative era that is known as one of the biggest bubbles of all time: the dot-com bubble.

2.1.2.3 The Third Wave: 1995 – 2001

The third wave of the CVC has its roots in a period characterized by strong financial speculation. Technology had raised much in those years and the internet started to be adopted in many different sectors in the everyday life. Technological and innovative companies rode the wave to develop solutions never seen before. Netscape Communication Inc., a browser provider, is a clear example of this. During its IPO, in 1995, the company saw its share double in just one day. The first time that something like this happened for a company that had released its first version of the Web browser just 6 months before going public (Duggan, 2018).

The revolution had begun, and the utilization of the personal computer was spreading around the world. Corporates of course were in the middle of this rush and tried to exploit this increasing trend. In just 6 years, more than 100 new CVC funds opened and the amount coming from company-backed deals was about $17B, about 25% of the total investment made by Venture Capitals. It was in this period, that companies understood the real potential of external start-ups to innovate. The typical model based on fully funded R&D started to be complemented by the new CVC investments.

Investments, unlikely in the past, started to gain a more strategic perspective. Technological companies that needed to innovate, started to build funds to find new solutions in the market. Intel is a great example of it and invested huge amounts in the ecosystem. The company, alone, had invested about $5B in around 1000 businesses during this period (CBInsights, The History Of CVC, 2017). The investment scope was not only local but most of the companies were selected from abroad. The main objective of these investments was really to foster market innovation and the development of new solutions.

As mentioned above, while this period has seen the rising adoption of CVC practices by many companies, it has been highly inflated by the speculation approach of many investments. Different tech companies in those years, after Netscape, started to go public and saw their stocks increasing the value as never seen before. This period created a strong momentum that brought many people to invest in start-ups and companies which were created just to attract investments and to go public, skipping the entire typical validation process. In just 4 years the US stock exchange market grew 5x.

This bull market, however, stopped in 2000, when the Nasdaq stock exchange recorded a fall of 76,81% in 2 years (Hayes, 2019). This crisis hit the entire market and again, companies had to review their investment and strategic decisions. Only in the second quarter of 2001, companies registered a loss of $9,5B related to their investments in new ventures. Many companies decided to shut down their investment programs and redesign their approach to innovation (CBInsights, The History Of CVC, 2017). One of the main causes of this crash must be found in the objectives behind all those investments. While the case of Intel the focus has been mainly strategic, many other companies started to invest because they were attracted by the high potential returns. A lack of focus on the potential additional value brought to the company and the hunger for profits has led CVC to over-invest in ventures without a correct analysis. This event shocked the entire market and many things haveged in the following years.

2.1.2.4 The Fourth Wave: 2002 – Present. The Unicorn Era

The shock caused by the dot-com bubble has affected the next decade in terms of investments. Companies, as well as venture capitals, have been investing less and less because scared of the losses suffered in the last crash. The sense of skepticism led many companies to focus on different areas of development and to make only critical and wise investments. The numbers and the value of the investments began to rise again only in 2009. In about 5-6 years, Silicon Valley was again the core area of innovation and the destination for many innovative and disruptive startups.

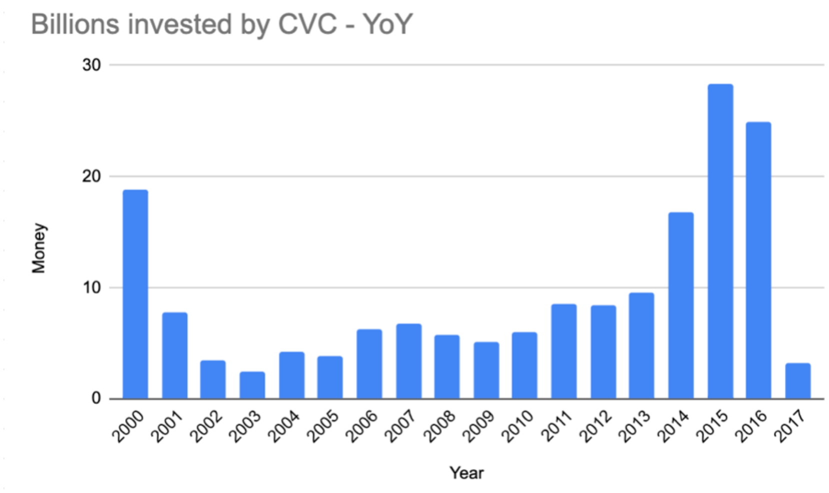


Figure 7 - (In Billions) $ invested by CVC per year

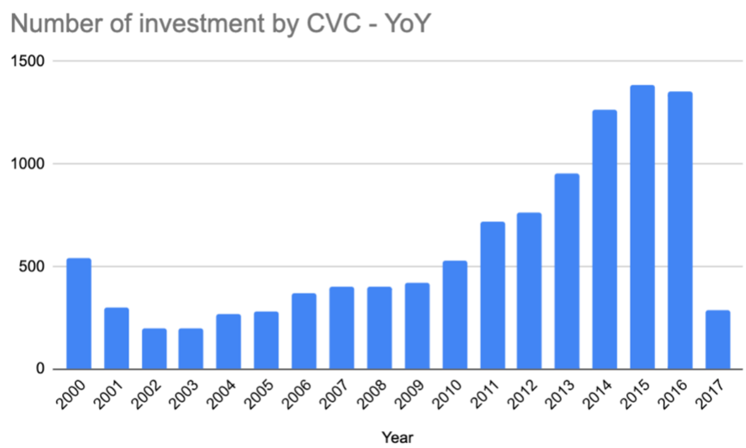


Figure 8 - Number of investments made by CVC

As it is possible to observe from the graph, the increasing number of deals made by CVC has increased steadily starting from 2009. In just 5 years, the value of the investments was the same as the one recorded in 2000, the year before the crisis. In 2005, the investment reached $28,4 with almost

1400 deals. These numbers are impressive and show that the interest of corporations to invest and innovate was about to come back

Those years have been important for the progression of society and the economy, given the many discoveries which have been made. After the financial crisis in 2008, companies started to create products that have changed forever the approach to the world and have opened the road to many different opportunities. Facebook and Instagram are only a few of the start-ups that have literally changed the way people leave and interact nowadays. This phase started another great development phase that is still ongoing today. Big corporates, as in the past, are key players and will develop always more and different ways to innovate.

This phase is important because companies, strong from what have experienced in the past decade, started to focus on the value that investments could add to the company. A phase of real collaboration starts. This is the example of Microsoft Ventures, the famous tech company's investment fund that focused on strategic and financial goals at the same time. A shift in perspective, in this specific case, is given by the relationship between the company and the start-up. Microsoft, in this case, was not only a fund provider which expected to have some financial return but it was actively engaged in the start-up development. The company allowed it to utilize internal resources, such as technology, network, and processes. This was a win-win situation. On the one side, the start-up could take advantage of a wide range of resources, on the other side, the investing corporation could have a direct eye and control over the start-up's progress.

This phase of the CVC has been important and has helped companies to understand and evaluate the real value which could come from collaborating with start-ups. As already presented above, history has shown four different types of corporate venture capital, each of them having specific characteristics. The history and the development of this practice have helped to understand the reason behind decisions and investments made by companies. The increased attention to start-ups, and the understanding of their potential, has pushed companies and innovators to find new ways to connect and extract value. All these methods will be presented in the next chapters and the different characteristics will be highlighted.

2.1.3 Corporate Venture Capital Structure

Retracing the history of CVC has been important to understand how companies have acted in the past. From this starting point, it is important to discover more about their approach and how it is developed and adopted today. Investments can be made in many ways, with more or fewer intermediaries between the company and the start-up. The structure of these models must be carefully chosen and adjusted to the corporate needs and objectives. The final goal of a company, when investing in a new venture, can change the way this relationship is built. A more strategic aim requires the company to be closer to the operation of the newborn activity. As opposed to this, a more financial-oriented company can completely delegate and provide money to an external investment fund. These cases, of course, are not exhaustive and in the next lines, it will be provided a broader analysis of the different approaches company utilize today to match and invest in new opportunities.

As already mentioned in a previous paragraph (PARAGRAFO), corporates' approach today is like the past. The models adopted by organizations today follow the same logic that was utilized in the past years. In general matter, a company can decide to invest directly in a start-up, set up some internal resources to take care of the scouting and development process, or connect with a specialized Venture Capital at different degrees. All these methods are present in the market and companies choose to operate in one way or the other, depending mainly upon their needs and capabilities. Operating a VC model is not easy and many times companies are not able to find the required knowledge inside the company. Training or hiring experts can be expensive and mostly in the first moments, it can be dangerous to invest huge amounts of money with the possibility to make mistakes. To avoid this, sometimes companies rely on external funds and experts that help them to build a strategy and to follow them in the entire process. Depending on the degree of commitment, then, the company decides the degree to which it will be involved operatively speaking.

	Direct	**Indirect**
Internal	Cvc Arm	CVC Unit
External	Specialized VC	General VC

Figure 9 - CVC Structure

There are mainly two-dimension for corporates that want to invest in start-ups: direct/indirect involvement and internal/external fund (Reimsbach & Hauschild, 2012). The figure above shows the different examples of every single dimension. Let's analyze all of them in order:

- **“Indirect External”**: Big corporations put money in VCs that they trust, with a chance to make a profit out of an investment. This type of process does not allow the corporate to have direct control over the entire funding and development process. The corporate gives the money to a fund which will eventually give him back a return. The final objective of this type of investment is mainly financial. This approach does not give the corporation the possibility to exploit the full strategic potential of the investment. The power to oversee the investment and to take drastic management decisions is left to the management of the fund, which should represent the willingness of its investors. As it will be shown later, this approach, as well as others can be subject to agency theory problems.

- **“Direct External Investments”:** This scheme is like the previous one. Companies rely on external partners to invest their money, but in this case, they are more active and closer to the development process of the new venture. The management and the strategic team have an active role in the decision-making process. All the phases are followed carefully by the company and the final goal of this investment is to focus on strategic matters. The closeness of the company to the start-ups allows it to grow faster and exploit all the resources needed in the different phases. Being so closed and being able to select the specific ventures, allows the company to better understand and plan its commitment to them. All this process, since is carried out by an external fund, has two different costs: financial and strategic. Financially speaking, companies must pay for the service that VCs offer. From scouting to investment, there are many steps that VCs are specialized in, such as due diligence, engagement, and many other services. Other than this, while the company has a higher control, concerning the previous approach, also in this case the main strategic and ownership decision can be made by the VCs. This brings up a potential cost called agency theory costs. This will be further analyzed in the next chapters.

- **“Indirect Internal Investment”:** this kind of investment is utilized by companies when they set up a Corporate Venture that operates parallel to the core business. Corporations set up budgets to invest and a specific unit takes care of the entire process: finding, analyzing, and investing in growing and promising start-ups. This type of investment unit differs from a direct investment because it involves a certain degree of freedom. The start-up that enters these programs can either join some project of the main company or can start a completely new project within a common strategy.

- **"Direct Internal Investment":** This investment is the one that brings the corporate as close as possible to the start-ups. It involves a direct and active relationship that allows the company to collaborate and to discover more closely the technology developed by new companies. These investments are not something parallel to the main business, they are part of it. The finances for this activity come directly from the operative and strategic budget of the corporation. The relationship with every single entity is valued and decided by the main and this gives total freedom of choice for every necessity of the business. While on the one hand, this can be important for the corporation, on the other hand, it needs to have trained experts in the team to follow and develop the start-up.

All these approaches are adopted in by many different companies with many different results. Every approach has different characteristics, and a company decides to use them based on its objectives and necessities. In the next chapters, it will be analyzed the major obstacles to Corporate Venture Capital. It will be compared to the other financing models, such as Venture Capital, to understand what each one is better and is preferred over the others.

This chapter has presented both the points of view of corporations and start-ups. Not every time, however, they match. In some cases, values, objectives, and structure differ so much that collaboration can seem to be impossible. Startups can have more interest in partnering with investors that can help them grow, and corporate venture capital is not always their first choice. In the next chapter, the main problems of the CVC will be analyzed more closely, and a new model to extract the full potential out of the start-up environment will be introduced.

2.1.4 Major Problems of Corporate Venture Capital

There are different examples of CVCs. Sometimes companies are successful in innovating and finding the right fit with start-ups, for others it does not work out and they are forced to shut their investment unit down. The previous analysis has highlighted the main advantages and disadvantages of this model. Its implementation requires careful study, and companies must invest and commit to this process to extract their full potential. This is not a one-way relationship and startups play a crucial role in it. Companies need to pay a lot of attention and understand what the best way is to attract them.

The competition in investing and partnering with start-ups is high. VCs, private equity, and many more financial institutions are trying to find the next unicorn to have incredible returns. This is a scenario in which the CVC stands and does not always win against its competitors. What they have to offer is not always in line with what start-ups are looking for and so they search for other opportunities. Every single entity can provide new ventures with different features and in the next lines, some of them will be analyzed.

2.1.5 Venture Capital vs Corporate Venture Capital

There are many differences between these two institutions. The goals and the vision of each is sensibly different. On the one side, VCs are always looking for high financial returns, on the other CVCs have more strategic and short-term goals to achieve. VCs and private equity are looking for startups, of different stages, with the potential to grow and explode. CVCs, on the other side, are looking for more developed and functioning startups which can provide technology to increase their market competitiveness.

Different goals and commitments mean different offerings to start-ups. Corporates cannot always match the offering of VCs, because they do not have the same expertise and capabilities to offer. Given the differences between the two investors, three main areas need attention to understand why VCs are mainly preferred over CVCs. In some cases, VCs can offer

1. More independent investments and growth opportunities
2. More specialized support

These are only a few of the factors that need attention when comparing the two investors. VCs, in some cases, can be more appealing for startups and companies must be prepared (Gimmy, 2017). Let’s proceed to analyze all the listed elements.

Companies need to find synergies and incorporate innovation. The point of contact between big, hierarchical corporations and startups is never easy. On the corporate side, there is a requirement for control and overview of all the different processes. The wide organization is structured in adopted to retain control and to give accountability over all the processes. This can happen also when companies are acquiring and taking control over startups. Their need for control is so important that when investing, they can force the new ventures into strict rules. When a startup enters a corporate venture program and receives funding from corporates, is in a way linked to the company itself. This sets some limits for the new ventures that need to be considered when growing at scale. For example, a company that plans to acquire a startup to incorporate its innovation, would most likely not allow the startup to try to get new clients in different markets. Its final goal is to sell the discovery to its client and the startup must become part of the entire organization.

Corporations can provide a lot of resources, such as funding, network, and proven processes. As a drawback of it, a start-up might lose independence and must align with the company's vision and strategy. As a definition, this does not happen with VCs, and that's why many startups prefer this kind of investment. A VC is a financial investment that profits from the growth and sale of a start-up. Its scalability and ability to gain new markets is a strong plus for its strategy. This is the reason why, in most cases, VCs are preferred by startups that want to grow fast, gain market share, and reach a global scale without giving up too much independence and receiving great support.

When it comes to supporting and helping in a startup idea development, VCs can have a strong competitive advantage. Their experience and the high knowledge of its employees allow them to make good scouting choices and master specific skills. The investment and growth of a startup is the main business of VCs, and the experience allows them to make the process always more and more smooth and profitable. The creation of practices, case studies, and the onboarding of experts in different industries, makes it possible to support startups in all their necessities. Exploiting economies of scale, VCs try to create ecosystems of entrepreneurs that can help each other and grow together. Concerning the CVCs, knowledge, and expertise in this kind of investment can be a problem. Depending on the strategy and dedicated personnel, big companies might struggle to allocate the right number and skilled resources, leading to inefficient results. Given the specialization in one single industry, also, it does not allow the right flexibility to assist diverse startups in their development. This is an important drawback that new ventures consider when considering searching for funding. VCs, on the other side, even if some are more specialized in certain sectors, can accept a higher number and more diverse pool of ideas.

Being in competition, VCs and CVCs offer different value propositions and services to their "clients": startups. On the one side, some VCs help a startup to scale and gain the market, on the other side there are strategic CVCs that want to leverage startups to incorporate innovation and add new offerings for their clients. These are two different views and options. When deciding on the investment, start-ups must evaluate all these characteristics to understand what is best for them and the team. Different paths can lead to totally different results. Fast-growing and disruptive technologies might be attracted by high-value opportunities and the support of VCs. In this case, CVCs' choice and selection of new ventures can be undermined by their appealing offering and need to find a way to raise from the competition by leveraging on unique features. A possible solution to this problem will be analyzed later and explained in the next paragraphs

2.1.6 High dependency on Corporate Management

When it comes to innovation, the hunger of companies is usually high, and they try to get the best startups and ideas on the market. When a corporate set up investing units, there might be misalignment in the entire structure. Communication is a real issue when it comes to big organizations. Large enterprises may lack information flow between different departments, and it makes the entire process of selection more and more difficult.

The most common process of selection of startups by investors is to participate in specific challenges. Teams present ideas and solutions and the best out of the participants get access to an acceleration program. The main choice is made by the investment team based on the opportunities and potential that they see in the ideas. There are different parameters and characteristics to consider. While in VCs and investment firms after the selection process, startups enter specific development programs, it does not always happen in corporates. The idea behind the investment of CVCs is to collaborate to incorporate innovations and new solutions. For this reason, a startup, when engaging with a company, needs to find specific resources and divisions to work with.

Investment units within corporates interact with the startups, but they will not be the ones who will be physically developing the product with them. Once a startup is onboarded, they are supposed to match with a specific department that will help them to develop the product and grow. This process might seem to be straightforward, but problems in communication and differences in the commitment can cause a massive loss of time. It might happen that interested departments have already planned their action and budget for the year and this leads startups to end up without a possibility to work and exploit internal resources. This missing communication and the difference between teams that take the decision to invest and the ones that really would work alongside the new ventures is a problem.

Talking about numbers, this mismatch between internal units leads only the 20% of startups that join these programs to find an interesting department (Gimmy, 2017). It is a huge waste of resources and time both for new ventures and for the company itself. This undermines the reputation of companies because startups, which aim to grow in a short amount of time, prefer to partner with other investors that can offer more efficient solutions. Once joined a p fact, startups expect to start working straight away on the solution and build on their idea.

This problem is not only given by miscommunication in the same company but might also be caused by the changes in people in power. Different managers can have different views and startups might be selected for some specific reason which might not be shared by the new management (Orn & Growney, 2020). This is a good point to take into consideration when deciding on this kind of investment. There is high uncertainty when a startup joins these programs because corporations play a major role in the relationship. It is important to look for these variables and make a wise decision when engaging with a corporate.

These factors surely impact the competitiveness of companies in terms of attracting disruptive and innovative teams. Corporate investments in startups might present many barriers which need to be evaluated. This high uncertainty might lead founders to hold up and look for other sources of finance when deciding about their future. When they are looking for investments they need to look for the value that these can add to their team. This is an important problem that needs to be tackled and in the next chapter, some solutions that might solve it will be presented.

2.1.7 Timing and finance consuming

A study conducted by IESE Business School has analyzed the time that it takes for a corporation to engage with a startup. All the processes of selection, collaboration, and integration in the corporate structure can require a lot of time for the reasons explained in the previous paragraph. Different units, commitments, and strategies might lead to costly misalignment for the organization. Even in the cases in which a new venture finds the interest of a business unit that will help it in its path, then an important point to take into consideration is the time frame in which this collaboration will take place.

The study reveals that on average corporate accelerators take 11 months, from spotting a startup to finally integrating it into their operations (Prats, Siota, Martinez-Monche, & Martinez, 2019). From the CVC's initial contact with a startup to the initiation pilot with the business unit, engineers must find out what they need, and which problem must be addressed. Once a startup is noticed, it takes at least six months for the corporate VC to invest in it by participating in a round of investment if it is allowed to enter. After this step, engineers would have to wait another six to eighteen months to have access to the startup technologies.

Another aspect that needs to be taken into consideration is the amount of money that company needs to invest to benefit from an investment. An average CVC that plans to do 10 investments in one year, statistically will just be able to profit from one of them. Around 90% of startups, globally, tend to fail (Bryant, 2020). If a company invests 1$ million in every single startup, then it will take about 10$ million to find a startup that will succeed. This process is costly and risky. It might cause the CVC not to have a return enough consistent to repay the investment that has been done by the company.

These characteristics make it difficult to understand if a CVC can be profitable and can bring innovation into the company, or if a new method must be applied. From all these factors, it might seem that corporate VCs are not able to solve burning strategic problems fast enough. The structure utilized does not allow companies to scale their innovation and their methods to find and invest in startups. There are many different points of view when it comes to Corporate Venture Capital and the one from Gregor Jimmy, the creator of the Venture client model that will be the core of this analysis, is: "CVC is an ineffective, slow, capital intense, risky and atrophied driver of innovation" (Gimmy, 2021).

This is the end of the analysis of the corporate venture capital model and all its advantages and disadvantages have been presented. Over the years this model has developed many times and always more and more companies have adopted it. Some of them have successfully implemented it and solved strategic problems, others have decided instead to shut these divisions down. The entire thesis is based more on strategic and long-term returns, rather than short-term investments. It wants to answer the question of which method and engagement strategy should be privileged by companies when interacting with startups. The next example, the Venture Client model, will try to highlight all the positive aspects that it can bring to the company's strategy. There are many problems and limitations that this model solves.

2.2 The Venture Client Model

We have analyzed in-depth the Venture Capital model; the way companies apply it today and the history behind its development. When corporates decide the way to proceed and to innovate, there are many different options to choose from. While CVCs are one of the most developed and growing models applied, there are different kinds of collaboration that are always more and more popular. The industry is developing in two different ways: investments and partnerships. Companies, as in the case of CVCs, can invest in companies to incorporate technology. As shown, there are many drawbacks to this method and firms are looking for more efficient ways to reach their innovation goals. By partnering with startups and external sources of knowledge, companies might put in place some collaboration model to build products by leveraging synergy and operations.

Partnerships are important and have always been in place in every industry. Many times, companies partner to enter new markets, develop new products, or reach specific goals. While this is a consolidated practice in mature industries, the collaboration between companies and startups needs further attention. Many practices and case studies have shown that this collaboration can take place and can have a positive impact on innovations and technology development. It allows teams without resources to partner with big corporations which on the other side are looking for fresh and innovative inputs. These collaborations can happen in many ways by involving different players. Researchers and businesses have agreed on a new formula of collaboration between Corporate and Startups, naming it: the *Corporate Venture Client model*.

The Venture Client model is a new form of collaboration. It is a procurement partnership between corporates and startups. In easy words, one buys the product from the other, increasing the value of both. These partnerships have already been utilized for many years, and companies have worked alongside startups for a long time. With its development, there has been a necessity to better structure this approach to be replicated. Successful cases and positive experiences have caught the attention of many international players. This has highlighted the need to build a framework that companies can follow to extract all its benefits.

When an approach starts to show its results, it is important to understand which are the factors that contribute to its success. By eliminating casual relations and by finding repetitive patterns, significant characteristics can be spotted. Once these show a positive correlation with successful outcomes, researchers start to study a way to explain and replicate it. This is happening with the Venture Client model. This practice has been growing in terms of numbers and values, so there has been a necessity to study and structure it, so that can be replicated.

From the corporate perspective, having a model to follow can be time-saving. On the other hand, however, it is important to keep in mind that all of them have different characteristics and resources. Copy and paste strategies most of the time do not help firms to reach the aimed goals. Every company adopts an innovation model with its characteristics and this requires different costs, resources, and time. Depending on goals, strategies, and internal structure, firms should exploit this model to their advantage.

2.2.1 What is the Venture Client Model

Keeping in mind that the ideal project is managed cost-effectively, in the minimum time, and with the best quality, the Venture Client model aims to reach this goal. Firms that use this model need to be open to collaborating with startups and to creating synergies to develop innovative solutions. If these terms apply, a company can take advantage of the many opportunities that this approach can help to discover.

The Corporate Venture Client model, as said, tries to structure a partnership relationship between startups and corporates. Being based on the procurement processes, the link that is established between the two comes down to a simple client-supplier approach. In this scenario, companies act as buyers of startups' products during their go-to-market phase. The corporate ensures new sources of finances without investing in them. After spotting startups that are developing promising products, companies engage with them to help in the development and growth. This process, if successful allows corporates to innovate and startups to gain confidence to go to the market.

This partnership allows companies to provide finance to startups, even without investing in them. This approach has many advantages, for both sides, if applied efficiently. Corporate and business units proactively look for startups that are in their development/scale-up process. They search for developed and scale-up projects that can match their needs and solve internal problems. This engagement in a relatively early stage, allows the two entities to work together and build a product that is either designed for the market or for the company itself. Being able to choose and help develop all the desired features is a great opportunity for the company. Having a say and being able to have a close look at the latest innovations can ensure a strong competitive advantage.

To be competitive in the market, companies have analyzed what is that they could offer that other innovation players cannot. Startups, when looking for partners, are mainly looking for three main factors: capital, coaching, and clients (Gimmy, 2017). As analyzed, new ventures are looking to build new and valuable relationships to grow their business. The first two dimensions, capital, and coaching are what corporate venture capital has focused on so far. The comparison between CVCs and other financial players has seen these last to prevail because of higher flexibility and increased specialization. When corporate engage with startups must understand which is their competitive advantage and leverage it to prevail.

As already discussed, one fundamental aspect of startups, after developing a product, is to find clients that buy it. Already developed and scaling startups look for companies that can buy their innovation so that they can advance in their growth. One important reason why startups approach CVCs is that they feel that they can bring new clients to the business by leveraging an operating network. This is an important aspect that corporates must consider. About this belief, however, CVCs have been shown to under-deliver the "first-customer" dimension (Eckblad, Gutmann, & Lindener, 2019). Another interesting goal that startups look to reach by engaging with a corporate, is to support their Marketing and Sales activities. The lean approach teaches it: pivot until you find the right product and the right customer. Also in this dimension, CVCs have been shown to underperform the expectations of startups when asked by (Eckblad, Gutmann, & Lindener, 2019).

These insights are crucial to understanding what corporates should offer to attract the most innovative startups in the market. Companies, of course, must leverage on something that neither VCs nor other financial institutions can: serving as a client. After graduating from investment programs, investors around the world want startups to earn by selling their products. By doing so, new ventures can prove to be profitable and show that the product is required by the market. Selling and testing products is a step that every single startup must go through, and corporates might help them to succeed. Finding the first customers, especially those of big dimensions and with a high market reputation, is never an easy task. This is an opportunity that corporates must take advantage of. Offering to be the first customer and directly buying a startup product could help them to gain a competitive advantage.

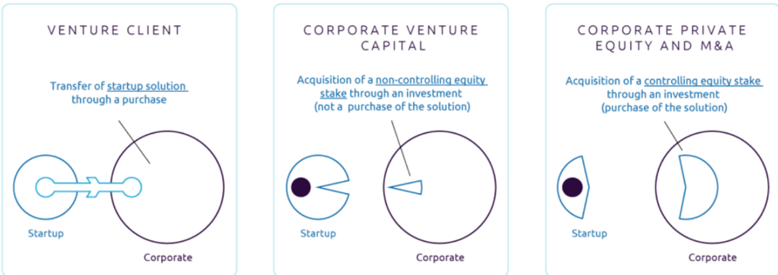


Figure 10 - Different Venture Initiatives (Source: Capgemini)

Figure 10 tries to illustrate the differences between the open innovation initiatives analyzed so far (VC/CVC – Private Equity/M&A – Venture Client). It analyzes the different approaches by focusing on the financial and exchange of resources aspects mainly. Starting from the first approach, the one most discussed in this research so far, the financial entities buy out non-controlling equity stakes from the new ventures and engage with them to have financial or strategic returns. While the engagement that VCs and CVCs have may be different, the logic behind the investment is similar: relatively small shares percentage to leave freedom to the startup. Private Equity has similar characteristics, with the main exemption that to operate and to take major strategic decisions, it is required to own a controlling equity stake. The same applies to M&As by companies that acquire enough shares to have a high degree of control. Lastly, the *Corporate Venture Client* approach takes a completely different direction. There are finances involved in this relationship, but it is exchanged with different rewards. Startups do not give up equity for the finance received but instead sell their product to the interested corporation. There is an ongoing exchange of resources and products between startups and corporations. This transfer happens in both directions, since corporates with their feedback, knowledge, and experience, help startups to optimize and develop their products.

This approach differs in many ways from the other open innovation initiatives. It has a different structure and logic from the others. Its implementation, however, can help corporates to attract the best startups in the market, even if these are already part of any VCs programs. This is an important aspect to take into consideration because this approach is more open and fosters collaboration. When a startup is selected by important funds, it means that there are high chances of success. It is at this moment that Corporates show and select the most interesting for their businesses. Following the Venture Client model, companies buy products from startups that are ready to place them in the market.

The Venture Client model proposes to solve many problems that companies, and startups have today. It brings together different interested entities without creating competition. VCs, startups, and corporates collaborate to extract the highest value. It enables corporate to innovate by simply leveraging their assets. After a quick introduction to the Venture Client model, the next paragraphs will be analyzing the main benefits that corporates and startups can have by implementing it.

2.1.2 The history of the Corporate Venture Client

As said this approach has been adopted by many companies in the past, but only in the latest period researcher and innovators have formulated a specific name for it. This form of collaboration is today used in many industries, but not always companies are aware that they are applying it. As of today, researchers are trying to formulate a specific framework, to understand which factors can make it successful. The pioneers in the definition of it must be found in Germany, specifically at the BMW corporation.

In 2012 Gregor Jimmy, a serial entrepreneur Gregor that has worked in the Silicon Valley for his entire life got a proposal to rethink the innovation process of BMW. At the time, the company did not have a dedicated innovation arm to look after startups. This meant many opportunities lost by the group and its divisions. The first big changes done by Gregor Gimmy have been to establish a Corporate Venture Capital unit. Like many other automotive companies in that year, the group started investing in new ventures to leverage outside innovation. Being in the period known as the *Unicorn Era,* many companies started to adopt this model to foster innovation.

While this period has seen the rise of many startups backed by big companies, many failed. Only to cite a few of them, Volkswagen and Yahoo have closed their investment arms due to low profitability and convenience. Even if there are many successful examples in the market, Jimmy started to question which was the problem that did not allow all the companies to reach their innovation goals. The most plausible answer to this question came from the comparison between corporate VCs and simple VCs. As already presented, standard VCs funds have some characteristics that make them preferred by startups. These are more independent and specialized to help the startup grow. The main problem comes down to the reason why corporates are not able to attract promising and profitable startups.

To answer this question, Jimmy came up with what companies can offer to startups that other funds cannot: being the first important client. From this intuition, BMW named this model the Venture Client. This solution has been applied by one corporate unit specifically established to proactively find startups to collaborate with. This is the history behind the birth of "The Startup Garage", the first known corporate unit that has given the name to this approach. Gregor Gimmy and the BMW Group have opened the road to an innovation process that will now be studied and adopted by many corporates around the world.

Today *The Startup Garage* is still running and has many success stories. BMW, while creating this innovation unit, has not closed its investment arm BMW iVentures. Today the two divisions complement their operations by leveraging synergies. The Venture Capital unit operates as usual: analyzes and invests in promising startups. The Venture Client division, instead, collaborates with startups only once they have been selected and funding by expert investors. This interesting collaboration between units allows seeing how the two entities can cooperate end co-exist, not only in the same company but also outside.

While BMW is still operating the Venture Client model, Jimmy has started his own innovation company that helps other corporates to adopt the model. It collaborates with BMW, but at the same time has helped many other big corporations, such as Siemens and Bosch, to take their first steps in utilizing this model. 27Pilots is a small innovation consulting company. At the core of the model, there is the aim to eliminate geographic boundaries and collaborate with financial entities, such as VCs. This approach might lead companies to innovate and to

The collaboration between companies and VCs is powerful and needs more attention. In the case of BMW, for example, the company has decided to evaluate only startups that have already been invested by professional funds with a successful track record. This aspect is important because allows the Venture Client to outsource most of the due diligence needed and save up time and resources. This relation allows companies to access successful startups without directly competing against VCs, but simply collaborating with them. This approach can turn into a win-win situation in which each part reaches its goals.

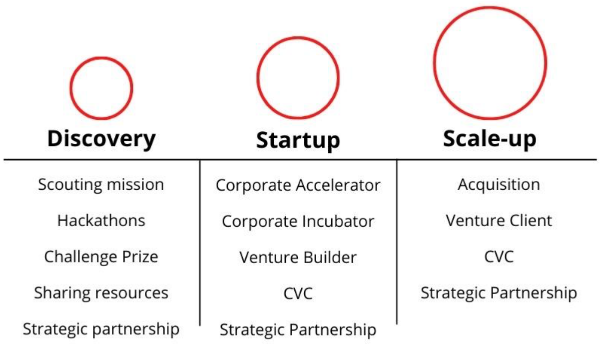
The next chapters will focus on the benefits that this model offers companies, startups, and investors. As said, this approach can create real and powerful value for all just by leveraging collaboration.

2.2.3 Stages of the start-ups for the Venture Client

As in the case of BMW, the corporate venture client unit invests mainly in scale-up ventures that are in the scale-up phase. The reason behind this choice must be found in the structure of the partnership. Companies buy out products that already have been prototyped and can be tested within their operations. This makes it necessary for the ventures to have reached certain stages of development so that they can provide the company with tangible results. As for many CVCs, the ideal timing for the company to engage must be the *"scale-up and deployment"* phase (Prats, Siota, Martinez-Monche, & Martinez, 2019).

Every open innovation initiative has its perfect target stage. Some, such as hackathons, accelerators, and incubators are more interested in early-mid stage startups that are defining their business model. Different initiatives target ventures with specific characteristics because they know to be able to extract the highest value out of them. Depending on the strategic goals, corporates might engage with different ventures in different stages. The same models can apply to various stages and it's upon the company to understand which fits them the best.

An example of this is the Corporate Venture Client. Depending on the goals and capabilities, firms might be interested in engaging with early-stage or more developed startups. There is a fixed answer to which approach is better, but it depends upon the outcomes and commitment required. While even strategic partnerships and Venture client schemes, their structure suggests targeting developed and already organized ventures. Once the corporate gets in touch with them startups are supposed to collaborate and deliver their product in a structured and legal way.



2.2.4 Benefits for Companies

The entire analysis aims to understand are key differences and advantages that distinguish the Corporate Venture Client model from the CVC and the other open innovation approaches. In this perspective, it is necessary to point out which benefits companies can take from it, and the reason why they should apply it. Corporates engage with startups to innovate and to keep up with the progress of the industry and need to find the most efficient way to do it. Let's analyze the factors that the Venture Client model offers:

- **Access to top-notch startups:** Adopting this approach and not competing against VCs and financial players allows companies to engage with a high number of promising startups. Companies and VCs complete themselves by collaborating and helping the startup to grow under different but complementary aspects. Offering to be a client, without strong restrictions on the governance of the startup, companies can attract the best innovators in the market. This is a powerful incentive that gets new ventures closer to corporates. By doing so, firms can attract new talents and ideas closer to their business.

- **Access to innovative solutions:** The previous point is highly connected to this one. The partnership with startups allows companies to access innovative solutions that are developed by talented teams. Once companies buy these products, they can have many advantages, such as being the first movers or the first to adapt to a specific market need.

- **Quick tangible results:** Since the approach focuses on late-stage and developed startups, companies do not have to wait long to see the first results. Once they engage with startups, these are supposed to deliver an already working product. This factor allows reducing drastically the time required to start utilizing the innovations and testing them in the company. The proactive research done by divisions assures that startups quickly find interesting counterparts to collaborate with.

- **Reduced risk and full flexibility:** The Corporate Venture Client model allows companies to engage with startups without making bold investments. As opposed to the Venture capital, which requires significant amounts of money to partner with the startup, with this model the entire engagement is built on partnerships. By buying the product that new ventures produce, it signs an effective procurement contract. This allows corporates to be flexible and to adapt to every situation. If the collaboration, perhaps, does not go in the right direction, companies might be able to step back without having invested more money than necessary in it. This is a key aspect to take into consideration because makes it possible to collaborate with a certain degree of flexibility.

- **Reduced investment needs:** Connected to the point before, there are hardly ever financial investments in exchange for shares. The engagement is based on a procurement partnership that sees the company paying for the product and innovation that is getting from the new venture. More than an investment, it can be considered payment in exchange for products. The special characteristic of this collaboration is given by the nature of the supplier: startups. As opposed to other forms of partnership, the Venture Client model allows the company to spend the amount of money needed to buy and partially develop the product.

2.2.5 Benefits for Startups

The Venture Client model allows both companies and startups to gain from this partnership. The factors that make it different from other open innovation initiatives create the base for a win-win solution. The collaboration, as opposed to many others, does not imply that the startups must fully commit to the will of corporates, and this creates an incredible potential. Startups look for solid partners that can add value to their core business and that can help to transform ideas into reality. An important pain point of the other model analyzed so far is the flexibility that new ventures have when connecting to a corporate. For this problem, many opt to be invested by more financially oriented entities, such as Venture capital and Private Equity offices.

It is important to remember that startups, especially in the prototype stage, are looking to validate their products. The best way to have this feedback is by listening and being close to its customers and improve always more. This is what the Venture Client model aims to do. It gives the startup the possibility to closely interact with an important client by retaining the entire control over the business. These are some of the benefits that startups can get when engaging with a corporate by applying this model:

- **Gain Client contacts and public reputation:** The first thing that proves that a product is working, and the market requires it, is customers. If companies are buying a product, it means that there is a high chance that the product works and that it can drive success for the business. When startups engage with companies that apply the Venture Client model, they are simply selling their product. This relationship allows startups to test their products with an established company and at the same time increase their brand image in the market. Only the fact that new ventures partner with big and powerful corporations can increase by far their public reputation. This relationship can open the doors to many more prospects and companies will be interested in collaborating and trying the new solutions.

- **Validate and improve prototypes:** Thanks to the relationship installed, companies acquire products from startups and test them. By doing so, startups have the chance to see the results of their developments on real-time bases. By collaborating, startups will work closely on the production and deployment of products. This relation will generate a feedback loop. The product will follow all the guidelines of the company that is buying it and will pivot and tests all the solutions. This is a unique opportunity for new ventures to speed up the prototyping process and test their innovations on the ground.

- **Gain industry knowledge:** By working closely with companies' departments, startups get to know more and more about the industry. Collaborating daily, the amount of knowledge that they can gain is incredible. Being in touch with a company that has established know-how and has been in the market for many years, can help to discover many insights. Being in contact with different people and exchanging views and opinions can make a huge difference in the way startups approach their futures. This connection helps them to continue building and testing their product, by gathering always more and more feedback. High exposure to the companies' operations can increase the awareness of the industry and the general knowledge.

- **Increase professional network:** Being in contact with the company allows the startup to get in touch with more and more experts in the industry. The close connection and the relationships that are created tend to increase the startups' network. An important part of the business, especially for new ventures, is connections. These can bring new and more experienced perspectives that help startups to solve doubts and exploit the best opportunities in the market. Increasing the networks can overall help the startup to grow and to know more about the industry and its needs.

- **Keep full equity and business autonomy:** This is a key aspect of the entire model. The analysis has highlighted that VCs are more often preferred to corporate investments because of the flexibility and experience. This approach opens the doors to a collaboration between VCs and corporates that helps startups to grow and gain experience. When firms engage with startups and buy their products, they are not investing in exchange for equity. This is a crucial factor that leaves high managerial flexibility to the startup that can decide how to better operate and develop their business. The Venture Client model is based on an agreement that does not force the startup to give up autonomy and does not force it to follow restrictive rules.

These are some of the benefits that startups can have when utilizing the Venture Client model. This approach tries to increase the appeal of companies toward startups and increases the chances of collaborating. It allows startups to partner with corporates by retaining flexibility and autonomy. This relationship entitles new ventures to test their product while being treated as real suppliers. There are many advantages related to this approach and startups can utilize it to get the first customers, build a reputation and grow in the market.

2.2.6 Time and Cost-Efficient Model

As for many other collaborations, corporates applying the venture capital model follow three main phases: identification, collaboration, and integration. These can require more or less time, depending on the company's strategy and focus. It has been studied that the Venture client model can show its results in much less time than other open innovation activities, given its proactive behavior toward startups (Prats, Siota, Martinez-Monche, & Martinez, 2019). While every collaboration can be different due to characteristics and different factors, the study shows that the average time that takes corporates to identify startups is less than 5% of the duration of the entire partnership. This is important data that in other approaches, such as the Venture Capital, goes up to 15%. Timing is crucial and saving time allows the company to invest in more opportunities and identify always more and more startups.

Corporations such as BMW can drastically reduce the identification time because the need for startups comes directly from the department that will cooperate with them. There is a proactive approach. In the case of BMW, interested divisions scout some interesting startups that they might think can improve their efficiency and report them to the startup garage unit. This allows the company to understand its needs and to focus its attention on specific startups and innovations. Another aspect that helps the automotive company to reduce the time for identifying the startups that fit the best, is the outsourcing of due diligence. It is a long and complicated process that is done before investments. Since the startup garage only collaborates with startups that are backed by VCs, this time-consuming activity has already be en done JimmJimmyy (Gimmy, What BMW's Corporate VC Offers That Regular Investors Can't, 2017).

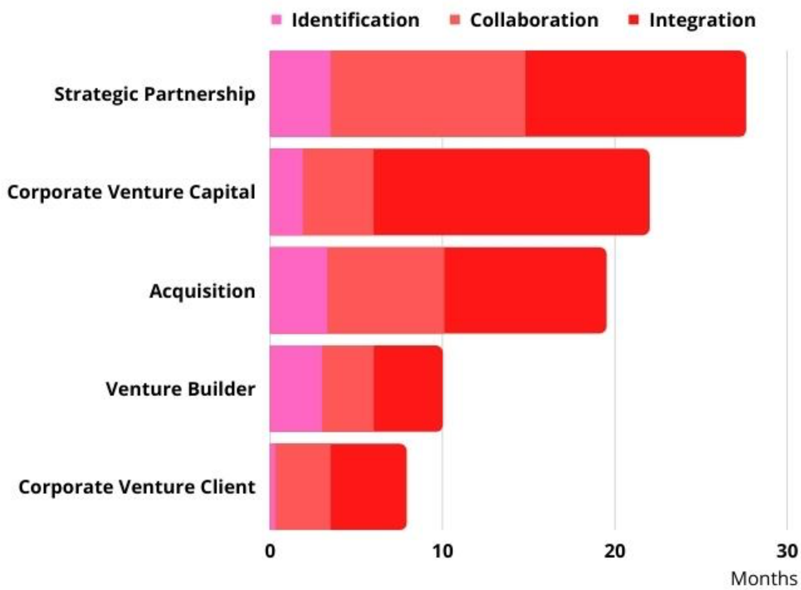


Figure 11 - Average Time for Initiative (Source IESG BS and BeRepublic)

The graph shows the average time that each open innovation initiative requires to be completed. It comprehends the three main phases and shows how the venture client outperforms as compared to all the others. This graphic is important to show the real impact that such a model can have on an organization. With the time drastically reduced, the company has more opportunities to chase and less waste of resources.

Regarding the cost implication of this initiative, it is interesting to look at the data from the report that show how efficient this model can be. As compared to the two most used models, the Corporate Venture Accelerator, and the Venture Builder, the Venture client sets a record as the lowest approach. Respectively, these open innovation initiatives require 310 thousand €, 255 thousand €, and 47 thousand € (Prats, Siota, Martinez-Monche, & Martinez, 2019). This difference in costs is given mostly by the different commitments that the company is asked for. The different timing, moreover, contributes to the cost reduction and helps the company to make efficient usage of their internal resources.

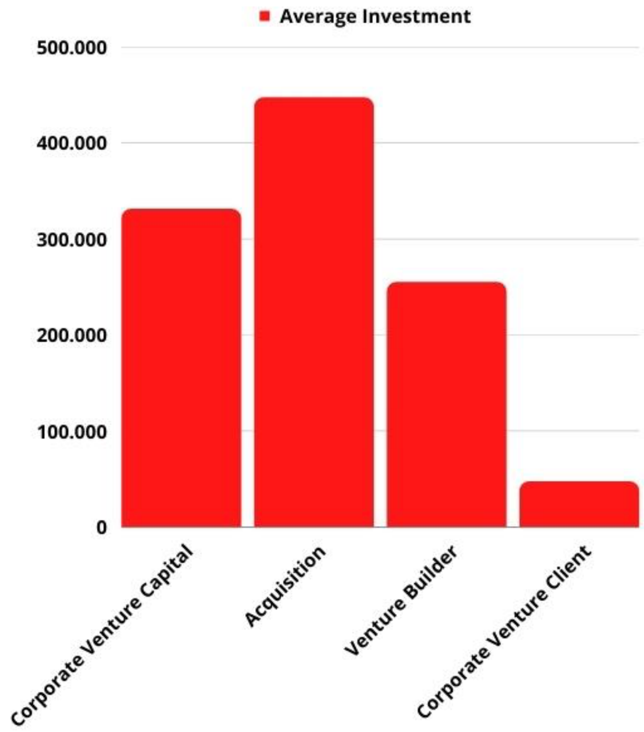


Figure 12 - Average Investment Initiatives (Source: IESE BS and BeRepublic)

The graph shows the difference in costs for every single initiative. However, even if there is high volatility for each of the observations, the Corporate Venture client remains the less expensive model used. An explanation for this observation can be taken from the reduced time needed in each phase. The outsourcing of specific tasks allows the company to focus on what they can have a real impact on. As opposed to this, other models, such as the acquisitions and the CVCs, require a high amount of money due to the specialization and commitment required by the strategy itself.

This analysis wants to highlight the potential of the venture client model when applied correctly. More efficient utilization of resources and time makes it possible for companies to innovate and not lose the focus of their main business. This is a parallel solution that can help different companies to succeed and exploit new opportunities. Given the low amount of money needed and the capabilities required, this model opens the door to many different companies. While all the other initiatives are known to be reserved to high spending companies, the Venture client model might allow even smaller firms to try and get the best out of the open innovation environment. This will be analyzed in the next lines.

2.2.7 Greater Competition – SMEs and Technology buyouts

As Gregor Jimmy states in the presentation video of his innovation consulting firm, 27Pilots, any company can benefit from adopting this approach (Gimmy, Can any company become a Venture Client and apply the Venture Client model, 2022). The Venture client model, with its characteristics and applicability, opens the door to innovation for many companies of different dimensions. Investing in new ideas and startups can be difficult and SMEs may find it difficult to start doing it. Approaching a startup, investing, and then supporting it, can be time and money-consuming for a company. With this new approach, also smaller companies can have easier access to innovation and exploit the most promising startups.

This approach creates a win-win situation that opens the doors to smaller companies and gives flexibility to startups. As Jimmy states, this model is based on low or null investment and gives the chance to everyone to give it a try and engage with startups. When investing and buying shares from a company, only big corporations can have access to those rounds, and it can be very limiting. Applying the venture client model requires businesses to commit their time and try out products from startups. Such activity, in a certain way, is much easier and can be performed by less advanced and specialized companies. This approach, by helping companies innovate and to empower the democratization of innovation, can have a huge impact on competition and the role that technology plays in every industry.

Regarding competition, another aspect to focus on is the fact that many times companies invest in startups just to acquire the technology and take it off the market. It is always more common that after big companies buy startups, they make them die, causing a loss of competition and innovation in the market. This practice is known as "anti-competitive acquisitions" (Waters, Lee, Murphy, & McGee, 2022). Companies acquire startups with patents to incorporate innovation into their operations and gain a competitive advantage. While on the one hand, this is a strategic choice and win for a company, because it possesses a technology that no one else can utilize, on the other hand, it can harm the competitive market and its efficiency. It is difficult to compete and innovate in a world in which giant players with budgets can buy and exploit great innovations. This activity starts a war of acquisition that can harm entire industries and consumers.

About 75% of 616 deals signed by big tech giants, such as Apple, Facebook, Google, and Microsoft, included non-compete clauses. By doing so, companies take out of the market technologies and do not allow others to access them. The result of thousands of acquisitions, in the long run, can lead to a less efficient market structure. The massive number of acquisitions, even if less alarming, can have the same impact as a bigger acquisition that leads to monopolistic behaviors. These are many times questioned and stopped by the dedicated commissions.

The Venture Client model can play a crucial role in this view because companies do not directly buy startups, but they collaborate with them. In the venture client scheme, startups leverage companies to gain visibility and to get in contact with other clients. This model can be a solution to the monopolistic behavior that many corporations are showing today. It is important not to forget, that while a company aims to have competitive advantages to have margins, this does not have to interfere with the entire market and harm the final consumers. The Venture client model, on the other side, does not prevent companies to be ahead of the competition, because early partnerships can easily lead to favorable bargaining power and other many benefits, as described before.

The Venture Client model seems to solve many problems that today's companies have. It aims to establish a win-win situation to increase competition in different industries. If applied in the right way, this model can help businesses to innovate, and startups grow behind their boundaries. The high flexibility and the low requirement of resources make it adaptable to different scenarios and this is its real power. Although the model presents many benefits, it also has its disadvantages that companies and startups need to consider when implementing it. The relationship between different organizations is always difficult and the next paragraph will better analyze these factors.

2.3 Venture Client does not come without risks

The model has many benefits, but it also comes with different risks that companies and startups need to consider. The relationship between organizations that are different in dimension and structure can sometimes be hard to manage. Startups are known to be agile and dynamic, while big corporations can sometimes have more structured hierarchies and the decision process can be much different. The analysis will focus on both sides and will analyze which could be the main pain points for companies and startups to install this partnership.

2.3.1 Companies

Although the startup acts as a supplier and the company buys its products, it will always be a startup. As said, differences in organization and structure can lead to mismatches and problems between the two entities. Without doubts, a corporation has its pro-priced divisions. This structure helps big companies to be able to track all the work and understand if there is anything that can be improved or substituted. This, moreover, requires all employees to follow specific rules and follow set guidelines.

This fact can cause many problems for corporations that want to engage with a startup as their supplier. Typically, before signing any contract, the counterparty needs to satisfy many requirements that the main company specifies. Mostly in the case of big corporations, it would not be possible to enter business with companies that do not have every bureaucratic document in order. Many companies must establish a procurement department to check on the supplier and understand if the collaboration can proceed or if it needs more attention.

This can be a problem for startups that want to engage with companies. They, in fact, as opposed to more established suppliers, do have not the same characteristics. As a definition, a startup is a risky corporation that aims to scale in a short period. The riskiness of these new ventures sometimes does not perfectly match the needs and requirements of corporations. The first thing that a startup can miss, as opposed to other suppliers, is reputation. While it is the reason why they would join a venture client program, it can be difficult for a corporation to sign important contracts without previous references. A firm that has a high production number needs to be sure that its partners are reliable. When a corporate sign a deal there must be a degree of certainty that the counterpart will be able to deliver the required products. If this does not happen, the entire supply chain can suffer incredible delays, leading to massive losses. This is a pain point that carries many risks and that corporates suffer when engaging and start collaborating with new ventures.

Startups are volatile and risky, no doubt about it. It is Gimmy who says that the name Venture Client comes from the rollercoaster ride that companies start when decide to work closely with startups. These are entities that might exist one year and disappear the day after. Most startups, when receiving the first funding, do not even have the first revenues. A consequence of this is the missing of many bureaucratic documents, such as balance sheets and income statements that sometimes, due to the age of the venture, do not represent an urgency. In some cases, even if startups are a great fit for corporates and the idea has a lot of potential, there are legal matters that can preclude the partnership to happen.

The last point to touch on in this analysis is the stage of the product itself. As said before, many times corporates should target already developed products that are in their scale-up phase. The reason behind this choice is the time required to collaborate and integrate innovation in the supply chain. The less is the time for a product to be ready to be adopted, the faster will be the results. This can sometimes be a problem for companies that are still early stage. Risks of unsuccess raise as the time to co-create a product increases. This is a choice that companies need to make and need to assess which are the risks related to it. An important aspect, when starting a collaboration, is to set deliverables and milestones that are reachable and possible for the startup.

2.3.2 Startups Problems

As for every relationship, both parts have their needs and necessities. Startups, on the other side, are much more flexible organizations that try to build a product based on their vision. They move at a fast pace and try to get the best opportunities present on the market to grow exponentially. Every new venture wants to be the next unicorn and go globally. To do so, and to gain high market shares and beat the competition, startups need to grow incredibly fast. Time is a resource that cannot be wasted and sometimes partnering with big corporations could not be the right choice.

Continuing this flow, the first pain point those startups suffer from when engaging with corporations is the huge amount of time needed to make decisions. When startups start to have their first talk with companies, they need to be sure to rely on the company to help them develop their product. When making every decision, however, depending on the people interested, it can take a long time. These delays are costly for the startup because of the time lost on an important resource that will not be back. Startups, as opposed to big corporations, most often do not have enough budget to survive for long periods without results. The first money coming from investment rounds can run out quickly. The delays that can be caused by a big organization can harm the relationship and startups might not get all the expected benefits.

Another trouble that startups can run into is the excessive power that a corporation can have over them. As for every supplier relationship, the two parties negotiate over specific topics and come up with a final contract. In this specific case, as seen before, startups, not having a strong reputation, can suffer from the bargaining power of firms. These can impose strict clauses and force the startup to sign unfair deals just because of the power they have. With smaller startups, the negotiation power increments, and there can be the danger to feel suffocated by the situation and fail.

2.3.3 Summing up the Venture client and next steps

The Venture Client model is the name given to a kind of partnership that has existed for many years. The name, first coined by Gregor Jimmy at the BMW Group during his years as an innovation manager, summarizes the two main characteristics of this approach: it is a venture, in the sense that is not a straightforward model, but it carries some risks and that it creates a client-supplier relationship. As highlighted many times, the venture client is a win-win model and both startups and corporates need to work with the same vision and goals. Only by doing so, both can reach their goals and make a successful partnership. Every time a company looks for innovation and wants to develop a venture client model, it needs to follow specific guidelines and a framework.

While this model is growing rapidly and many corporations are starting to use it, there are still many missing points that need to be studied. This model has been developed firstly by managers and then will be studied by researchers. This timeline has not yet allowed scholars to give their own opinion and study the full potential of the model. In this scenario, there is a lot of space and needs for improvement in the research. It is important, first, to build a framework that can be used by companies to extract their full potential. Only by researching and divulgating its results, it will be possible to reach the final goal that the model proposes to reach democratize innovation, help companies to be competitive, and cooperate with startups and VCs to build a better future.

The next chapter will report some empirical evidence that has been collected from interviews. Startups, companies, and innovation consultants are the main actors of this partnership, and for this reason, their experience so far is valuable to the purpose of the research. This data will allow the research to understand if this model is today applied and which are the industries that can profit the most from it.

3 Third Chapter: On the field analysis

3.1 Methodology

The methodology utilizes to test the hypothesis has been to run direct interviews. Different players, Italian and foreigners, have shared their experiences. Thanks to their testimonials, it has been possible to understand how the relationship between companies and startups happens today. To give a broader view of the study, it has been necessary to interview the two parties involved: startups and companies. The double perspective approach has highlighted paths pros and cons ns of this method and has helped to understand which are the main characteristics of the Venture Client model.

These interviews have been crucial to answering the research question of the study: can the Venture Client Model help companies to reach their innovation strategic goals? Can it solve the main problems that other innovation models, such as the CVcapital have, and what are startups looking for? All the testimonials will help to find an answer to these questions and understand better the application of the model and its peculiarities.

As said in the beginning, the Venture Client Model is based on partnerships and procurement contracts. Many companies have used it in the past, but it has only been formalized in the latest years by the BMW group. This is an important aspect to keep in mind because all the interviewed companies and startups have dealt with an approach that can be approximated to the model discussed. For this reason, during the dialogues, it has been necessary to spot the main characteristics that can link each situation to the model in question. Only with this approach, it has been possible to gather information and study the entire phenomenon.

Depending on the entities, the interviews have had different purposes. As regards companies, it has focused more on analyzing the history and structure of innovation departments, their operability, and the decision-making process. These questions have led to understanding the attitude that corporates have toward innovation and the challenges that today's big corporations face. On the other side, the questions addressed to startups have had the purpose to understand their history, ambitions, and reasons behind the collaboration. The dialogue has highlighted some of the main challenges, but also synergies that could emerge from this model.

It is now time to analyze the interviews and the topics discussed. It has been possible to dialogue with two startups and four multinational companies. All of these, somehow, have had relevant experience that adds value to the research. More in the specific, the interviews have been done to:

Startups: Ecosteer and Eye4Nir

Companies: Edison, major energy Italian conglomerate, Nestlé Spain and Portugal, and Delta Cafés

As regards the target of the analysis, it differs between corporates and startups. In the first case, the study has focused on big international corporations. It has been necessary to analyze companies that have already experienced these processes and that are developing an internal innovation strategy. The purpose of this choice has been to understand and evaluate thoughts and results. Even if the model is suitable also for smaller companies, it has not been the first aim of this study. Analyzing the regional branches of each corporate, however, it will be possible to spot some similarities with most SMEs.

About startups, instead, the sample is composed of two startups, both in their testing phase and focused on the B2B market. Ecosteer has already developed and patented the technology and now needs to make its first commercial product in partnership with major clients. Eye4Nir, instead, is developing its technology and needs the support of specialized companies to test and progress in the definition of its product.

3.1.1 Limitation of the study

All the interviews added value to the research. It is true, however, that the low number does not allow to have a variegated and heterogeneous group. This specific characteristic is a limitation to the study and does not allow to comprehend properly how the model could work for companies and startups different in structure and size. The insufficient sample size does not allow to draw precise conclusions.

Another problem that must be considered in the short period of the research. This time has had an impact on both the low number of entities analyzed and the consistency of the analysis. More time would have been necessary to spot a particular collaboration and analyze it step by step, having the possibility to gather more valuable data. A pre-and post-analysis could add high value to the research.

Overall, this analysis must be considered a good starting point to study the model further and to understand its beneficial factors. Only after understanding the benefits that this approach can offer to organizations; it will be possible to frame and share the results. This will be crucial to the development and the ovation strategies of many companies and startups.

3.2 Startups

3.2.1 EcoSteer

The interview has been done with Giada Zanatta, the business developer at Ecosteer. Thanks to her contribution, it has been possible to analyze and understand the development of Ecosteer, its current collaborations, and the possible future developments.

Ecosteer is a startup that is trying to build a product that gives customers ownership of their data. The initial focus of the startup was not the same as today. In the beginning, Ecosteer was more focused on industrial IoT. When the founders noticed the great potential that fintech and blockchain could have, they decided to pivot the business model to build a data-ownership platform. A great competitive advantage and proof that the product is valuable came from the USA, where the patent was filed and registered after only 2 months. Given the average timing of 23,3 months to obtain a patent in (Heer, Cerilli, & Monemdjou, 2020), this must be considered a big achievement by the startup. Other than the US, the patent has been also granted in Canada, and South Coria, and the next will be in Singapore and Europe.

Talking about the platform in the specific, it allows the decentralization of the ownership of the data. Today, as it happens in most cases, the data gathered are owned by companies and then these sell them to third parties for a profit. This practice is defined as data-brokerage, and the added revenues given by these actions can be significant. Ecosteer wants to give ownership of the data to those who generate it. Databases are made of data inserted by people and only companies that own them can have access. This process allows big corporations to leverage data and increase their profit by switching their business model. Google, Tesla, and Facebook make the most of their revenues by selling customers' data. The new approach that Ecosteer is aiming to build takes a different approach from this and tries to give these revenues to the real owner of these data. Users produce a huge amount of data with their daily actions. What the startup offers is a system that will continue to allow companies to store data, but this will be encrypted and only the generator will be able to take decisions over it. Users will be able to picture the value of their data and eventually sell them to third parties to monetize. This entire process is based on a blockchain, and users can allow or stop the sharing of their data through smart contracts.

Given the focus of the business and the collaboration with companies that gather and own a big amount of data, the startup's target is big corporations. The model of selling must be identified as a B2B model. Ecosteer sells the platform and the technology to big corporations that can generate and manage high quantities of data. The technology, in a more practical sense, gives the chance for every company to build a marketplace where the owners of the data (Users) are matched with companies that want to buy them. On the marketplace, every data is encrypted and only the users have the key to access them. Interested companies will be able to ask for specific data, but until users allow it, they won't be able to access it. The client that buys the platform from Ecosteer will earn a fee over every single transaction that happens in the marketplace.

Ecosteer aims to allow companies to be neutral intermediaries of data, a figure identified by the European Commission that will gain importance in the next future. It will be the place where demand and supply of data are matched, but it won't be allowed to see the actual data. Since the regulation aims to build a transparent supply chain of data, the product of Ecosteer aims to be a perfect solution for it. This innovative idea can help the company to save high amounts of money since they will not be any more in charge of storing and protecting all the data.

As regards the status of the startup, the team has developed its product and is now looking for clients to test it and grow. Giada says that Ecosteer's customer journey today is divided into different steps. Starting from a first analysis, the startup maps the new business model and the possible early adopters that will join the platform developed for the main company. The commercial partner that the client has are crucial at this stage because they can be the first to take advantage of the platform. They can receive more specific and detailed data for their offering. This phase goes in parallel with the definition of the revenue model and the future application. After the product is installed and the company decides to build the platform, Ecosteer proceeds with the creation of the front-end interface, which differs for every single client.

As Giada affirms, Ecosteer is not really to offer a solution to companies but is more capable of offering a new opportunity to exploit. In the case of banks, for example, data are not their core business, and the startup helps them to leverage their existing asset to grow revenues. They are trying to bring innovation in a disruptive way by opening new markets for companies. The paradigm of decentralization is something new that organizations still do not have clear and are trying to explore.

3.2.1.1 The Collaboration with BPER Banca

In the specific, Ecosteer will be important for our analysis of the collaboration that has been installed with a major Italian bank: BPER Banca. This relationship has started thanks to a program run by the innovative ecosystem Elis Open Italy. Elis is a consortium of major Italian companies that try to innovate and get closer to startups. Some of the most important brands in the Italian market, such as Edison, Leonardo, and many more participate in it. The innovation program aims to select startups that are closer to the innovation needs of the partner companies. These needs are not necessarily related to the core business but can refer to a particular area or topic. Ecosteer, when participating in the program, was not able to solve any problem, but it gave them the possibility to explore and try a new market. In the case of BPER, the incremental interest in the data industry led them to try an innovative approach with the startup.

Since the first contact, Ecosteer has received an amount of money to start developing and validating the business opportunity. BPER has also supported the development by collaborating with external consulting companies. These have been important in the customer and price discovery. The first phase, in collaboration with the bank, has been important to validate and understand what this new solution could bring to companies. The peculiar tests that have been done in this case have led the startup to validate the business model that can be presented also to prospects. After 3 months of validation, the startup today is on the way to taking the next step and building the front-end solution for its first customers.

The link with BPER Banca has allowed Ecosteer to get in touch with many new prospects. The new business model introduced by the startup has attracted the attention of other competitors and partners of the bank. This collaboration, then, has allowed Ecosteer to try, show, and increase awareness of its product.

The communication and interaction with the big corporate started after the participation in Open Elis Italia. The first interactions have taken place with the innovation and the privacy department. After this first contact, Ecosteer interacted with the other interested head of departments. As already reported, BPER has engaged with external consulting societies to help the startup and the company to understand the real potential of the business. While this operation has been smooth in the first part, the future commitment to the project requires decisions made by the top management. This decision-making process can sometimes require a lot of time, and Ecosteer has noticed it during its collaboration. One disadvantage of collaborating with big corporations can be the different organization and speed of decision-making. This long time can sometimes be dangerous because can sometimes put financial pressure on startups and organizations.

3.2.1.2 Intellectual property

An important aspect that has emerged in the interview, given the nature of the startup, is intellectual property. Ecosteer is in the deep tech industry and patents play a big part in it. When starting to collaborate with corporations, both parties require the protection of their assets and knowledge. As analyzed in the previous paragraphs, most of the problems come from the company that must allow the startup to access and build their product on internal processes and private material.

It is usual that when startups engage with investors or other companies, both sign an NDA (Non-disclosure agreement), that protects the intellectual property of the startup. In the case of Ecosteer, the technology is already protected by a patent, and there has not been a real need for it. Being public, its characteristics can be accessed by everyone. The actual challenge faced in the collaboration with BPER Banca has been on the company side. The need to participate in the business strategy, in its processes, and see its technology, has made it necessary a kind of protection by the corporate. This is interesting evidence that shows how in this specific collaboration the need for signing such a contract came directly from the corporation and not from the startup.

3.2.1.3 Investment

When asked about a possible investment, Giada has stated that there are different options that Ecosteer would be willing to take into consideration and each of them has pros and cons. Being a B2B business model, corporates that invest in the startup can add a lot of value in terms of network and operational capabilities. The opportunity that comes from this type of investment can help the startup to scale and gain its first major clients. As opposed to these opportunities, the startup also points out which could be the problem related to it. The lack of flexibility and the commitment to serve one corporation might not allow them to scale as they want.

While on the one side Ecosteer might be skeptical to accept investment from corporates, as a startup it is what really could allow them to boost and grow fast. It is a need that every startup must-have. Funding means a great opportunity to boost growth and find new clients. Given the industry and the target of Ecosteer, this funding might be more than necessary, given the long waiting period necessary to get approvals from the top management of the different clients.

Another important figure that Giada has said to be crucial in the development of the business, is the senior advisors that collaborate with the startup. Their network and knowledge have helped them to find new clients, validate their solutions, and understand which would be the best way to proceed. Their role in the business development strategy is important and has helped the startup to grow and gain references. In an industry that is still not fully developed and big companies do not know the benefits of it, an advisor can help the penetration of the idea and engagement of new and potential prospects.

3.2.2 Eye4Nir

EYE4NIR

Eye4Nir was born from a project developed at Politecnico di Milano. Andrea Ballabio is one of the three co-founders and has shared his view about some collaborations with various major Italian companies. The company is focused on the B2B market, by developing solutions for the automotive industry. The analysis of this experience will add a lot of value to the research since the startup has many characteristics in line with its focus.

Eyr4Nir is developing a technology that has started in the laboratories of the Research institution. The startup focuses on developing image sensors for the automotive industry. As for Ecosteer, the startup needs to collaborate with big corporations to validate the product and understand future actions. Eye4Nir has been founded in April 2021 and today is in its early stage and is developing its product. Given the focus and difficulty of the technology, much time and resources are required to test and advance in its development. The sensor, once finalized, will be produced in microelectronic foundries.

To build the technology, the startup requires to collaborate with organized laboratories and companies. The real investment that is required, at least in this first period, is to utilize the company assets, such as machinery and structures. This kind of commitment requires companies to give up production time. Even if there is no financial requirement, the startup now must convince big players to join its journey and help them grow.

3.2.2.1 Collaborations

Since the foundation, Andrea and the other co-founders have been in contact with different realities, both from the automotive market and not. The engagement with them has had different touchpoints. Some of the companies have been approached thanks to the network that Eye4Nir has established. Some others, instead, have been the result of proactive research by the founders.

All the interactions, so far, have had the purpose to present the technology to potential companies. One of the most significant collaborations that Andrea pointed out, is with an Italian company. The company, in this research, will remain secret due to the signing of an NDA. Even if it will not be possible to share details, it is interesting to analyze the way they generated the contact. This company has known about Eye4Nir thanks to the network of their investing venture client. After first scouting, the company showed interest in continuing to collaborate and discovering more about the technology and its potential.

In particular, the discussion has focused on the possible integration of the technology in their production processes. The sensors would help the company to increase the efficiency of its internal units. Starting with the first call, the company has shown interest in the technology and has asked the startup to continue to collaborate. This has led to the stipulation of an NDA and Eye4Nir will now test similar existing technologies, to understand if the development of the technology can be worth it or not. The technology, in a certain way, already exists and Eye4Nir is trying to increase its efficiency. Since the company does not has the capabilities to test and improve it, the first phase of this collaboration will consist in developing a Proof of Concept for future developments. However, the startup still has not started any practical action.

3.2.2.2 Investment

The interested company, as Andrea says, is in a moment that is looking to innovate. This proactive behavior has made it possible to create a connection with Eye4Nir to save up on internal processes. The way this collaboration will evolve is still not clear and will depend on the results of the first tests. If these will be positive, the company might be willing to buy the technology or continue to buy it.

Based on his experience, Andrea offered his view on the difference between investing in a startup or buying its product. There are advantages and disadvantages to each model, but he pointed out one interesting difference. While bigger companies might be able to have established venture capital units, for smaller companies it might be easier to engage startups by simply buying their product.

When asked about the Venture Client Model, Andrea said that has already engaged with a similar method and has talked to interested companies that were adopting it. Its view is interesting and gives different perspectives and raises some concerns about the model. While it can surely be a substitute for the Corporate Venture Capital approach and help startups grow, it can show two main problems: limitation and excessive production requirements. About the first point, Andrea has shown concerns about the exclusiveness that a corporate, after a collaboration, might want on their product. This limitation would prevent the startup from growing and reaching new customers. This contributes to enforcing the studies made in the previous chapters. As regards the excessive production requirement, the startup could be worried about the huge demand that a corporation can make. If this production reaches numbers that the startup has difficulty keeping up with, then it could lose focus on other opportunities. This is an aspect that has not been considered previously and that adds a big concern that a startup might have.

The last focus of the interview has been on the characteristics of the B2B market they want to tackle. The automotive, o the industrial industry in general is highly interconnected and the network can lead to many opportunities. This is a reason why Andrea and its team are leveraging companies they are in contact with, to find other prospects and close other contracts in the future. Once a company has invested or bought the technology of the startup, all the others in the market will be much keener to follow the same path.

3.2.3 Key Takeaways Startups

The startups interviewed, even if operating in two different industries, have shown many similarities, both in their attitude and way of thinking. Once spotted, these characteristics are important to understand their approach and future expectations that companies need to consider. Both experiences have been successful so far and this kind of approach has started to show its first positive results. It is true, however, that the match between startups and companies, as said in the beginning, can cause some frictions. From the interviews, it has turned out that this difference in size, organization, and goals can be the cause of potential clashes. If correctly evaluated, however, startups can

The key takeaways will be summarized in the following points:

- **Startups collaborate with companies to increase their network and gain credibility:** In all the cases, the startups have stated that it has been important for them the collaboration with a company to increase their network and potential clients. In high specialized B2B industries, the networking and sharing of knowledge among different companies are significant. It is very common that when a company innovates, many others in the sector follow. This is the logic that start-ups follow. By collaborating with one important corporation, they are looking to establish a presence in the industry and develop their business from the inside

- **B2B businesses are keen on this approach. Deep tech and industrial technologies can boost their development with a big partner:** This is a common finding. The two B2B companies operate in difficult and peculiar industries. One common characteristic is the difficulty to test and develop the product, given its complexity and requirements. In the case of Ecosteer, a big amount of data and many partner companies are required to get the first reliable results. In the case of Eyr4Nir, instead, the startup requires industrial machinery and operating factories. These are expensive and difficult to find elsewhere, and startups could benefit from collaborating with corporates.

- **The Decision-making Process of a corporation can potentially kill startups:** One factor that links the two startups is the challenge and the difficulty to deal with big and structured companies. Even small but drastic decisions sometimes can take a lot of time. This is a resource, however, that is precious to startups, and it can drastically influence their future. New ventures may receive funding from investors and need to get tangible results. This mismatch is a potential source of friction and startup are worried about it.

- **Startups prefer to collaborate with companies and accept smart money from outside investors:** Control over the startup is something very important to funders and teams. This is a shared view and has a high priority when looking to expand the business. Both startups, indeed, are backed by investors, and in some cases, these have helped them to reach potential prospects. There are also some drawbacks to selling their shares. A common feeling is a fear to give up too much control and commit to only one reality. The act would close the doors to many opportunities and growth possibilities. A common factor is a search for investors that can help the startup to increase its network and don't take over the overall control. Smart money is the key world that commune the two experiences.

- **Startups are willing to participate in challenges to expand their network:** This is a common aspect that both startups have expressed and experienced. As in the case of Ecosteer, for example, the team, participating in the program "Elis Open Italy", got in contact with the innovation department of BPER Banca. This is a great factor that companies must focus on. By leveraging synergies with other investors and focusing on the pro-development, it can be possible to attract talent and access technologies before the competition.

3.3 The Corporate Side

3.3.1 Edison

Roberta Mallia, part of the team of Innovation and Venture Capital of Edison Italia, has given a valuable contribution to understanding how companies experience and deal with innovation. This evidence will be key to understanding the dynamics and future models that corporates in Italy and internationally will develop.

The Open Innovation team at Edison started in 2018/19. After 3 years of activity, the company is constantly evaluating its performance and deciding on future possible developments. Roberta entered Edison when the division was created and before was working at the Politecnico di Milano. Her previous experience has given her the possibility to collaborate closely with startups and corporates. The entire Innovation department is divided into different subunits: innovation, strategy, R&D, and digital. Let’s analyze its structure in a more detailed way.

Before the establishment of the innovation unit, the company was doing some innovative projects, in a non-structured way. In 2018, all the activities of innovation, strategy, and R&D came under the same umbrella. The first business unit, of which Roberta is part, is the Open Innovation and Intelligence. This department deals with the external world. The second is the “new business” that develops the operative side of the projects, while the third and last focus mostly on the electric mobility vertical. All these departments focus on areas that are not completely related to the core business, but that can still leverage operative synergies. To complete the innovation structure, Edison tries to develop projects closer to its core business that can add value to its already established network. There are two main departments based on client relations: B2C and B2B/G. Withing these two units, the other two innovation departments receive the client's needs and develop related solutions. Even if there are different innovation departments with different goals, these communicate with each other. The main innovation unit plays a key role and works horizontally to help the other business-related department to manage processes and projects. These units can communicate and work closely depending on the scope of the project. It can happen, as already did in the past, that these units work closely together and then continue independently depending on the project perimeter of interest.

3.3.1.1 Selection

The selection process by the business units usually happens in two different ways: proactive and passive. In the first case, the business units engage with the innovation team to solve specific problems. In other cases, instead, it is the innovation team to do proactive scouting and propose new opportunities to the interested departments. This proposal that is done by the innovation team, before happening, will receive positive, negative, or doubting feedback. Depending on this, whether the collaboration will continue or not.

The case of Vibre is an example of the selection started by the innovation department. Roberta and the team scouted the startup and proposed it to the Health and Security department. After showing interest, the relationship has developed and today the two entities are collaborating to improve the product. In the next steps, the innovation unit has involved the privacy team for legal matters and signed the necessary agreements about prices and data with the startup.

To select startups, Edison does not have a specific program where people can apply, but it participates in the already cited Open Elis Italy. But partnering with the organization, the innovation team can find the most appealing and promising startups. This approach is not new and reinforces the importance of developing synergies among different industries. Other than this specific partnership, the company has engaged with many different entities that operate in the market. Venture capital and research institutes directly collaborate with Edison and help it with the needs that the different business units can have.

3.3.1.2 Collaboration

The collaboration between startup and Edison varies depending on different factors. One specific case in which there is evidence in the company is the case in which a new venture produces services and products that Edison can sell or offer to its clients. In this case, the company established the program "EdisonRisolve" to establish commercial relations with startups. In other cases, if the startup offers a tool to make processes more efficient or that allow saving time, then they can start a procurement relationship to buy it.

As a specific example of this procurement relationship, Edison is now jointly working with startups in the Health and Security at work industry to increase their performances. In this specific case, the company is collaborating with Viber, a venture that has built a prototype of safety helmets. The collaboration consists in testing the product and understanding its benefits. If the results of the Proof of Concept will be positive, then the company will start to buy the product for all the interested employees (D'Elia, 2022). Another example of this approach is the availability given by Edison to test the prototype that helps inspect industrial pipelines. This collaboration creates a win-win situation because the company will provide its already operating assets and the startup will test its concept, which would have been impossible instead. In case the tests will be successful, Edison will benefit from this relationship.

The collaboration with Vibra has had two different stages. During the first period, the team helped the employees to understand the functionalities and the way to use the helmets. The second phase, instead, consists of the collection of data by Edison for some months. After this information will be analyzed, a final decision will be taken if to proceed or not by integrating the product into the internal operations. If the project will scale and will be useful for the organization, then Edison will buy the needed number of helmets from Vibra.

Interesting evidence that came out from the interview is the flexibility of the corporation to collaborate with startups. The innovation unit does not target one specific stage of start-up. Depending on the stage and the development of the product, different areas can interact and engage with the startup. As in the case of an early stage, the R&D might be involved in testing the product, while if the team is in an advanced phase, Edison will provide them with the necessary contacts and assets within the organization. Depending on the case, the company tries to form groups of useful internal resources that can add value to the project.

3.3.1.3 Investments

The collaboration explored so far is characterized by low economic rewards to develop and test the products. As Roberta states, it is rare now, that the company would invest heavily in the equity of a startup. The act could happen only in the case of a real strategy-related factor. An investment would allow the company to retain the technology and exploit it as a competitive advantage. This practice is not structured and might develop in the future, based on strategic and operative goals. One approach that the company is today applying, is the investment in venture capital funds that are specialized to select and help startups grow and succeed.

3.3.1.4 Decision Making

The decision process that starts a collaboration is smooth. These kinds of partnerships with startups do not require heavy investments and this makes it easier to decentralize the final decision to the different units. The crucial role of the innovation department is to support and guide the interested business units. Only after having approval from the departments about their interest and commitment, then the innovation team close a deal. This process is made possible thanks to the resource commitment required by the company. Since for a big company amounts of 10/15K€ do not require the approval of the higher management, then the process can run easier. The crucial step required, as Roberta remarks, is the interest and approval of the business unit that will collaborate with the startup.

As highlighted before, depending on the kind of interest, the company takes a different approach. In the case of simple testing and future procurement, the higher management is hardly involved. In the case of strategic interests and products related to the core business, higher-ranked profiles may be approached. The two dimensions that catch the attention are strategic fit and investment required.

3.3.1.5 Speed of developing

The deployment of a product varies on the kind of project and interest of business units. This is an interesting point that highlights their role in the collaboration. They play a key part, and the timing depends upon their commitment. If they communicate a need to the innovation department, it will be a much faster process that will lead to effective collaboration. On the other way around, instead, times can be longer, and the innovation team must find the right business unit to interact with and collaborate with.

The time aspect, then, really depends upon the kind of relationship. As Roberta says, usually procurement initiatives can move much faster than other kinds of initiatives, since the flow is smoother, and the required documentation and decision making is significantly lower.

3.3.1.6 Documentation for the Collaboration

Most often, the company requires specific startups to sign a pre-formed NDA. This document is important for both parties and ensures the company that the startup respects most of the requirements. While this is an important step in the definition of collaboration, not all startups are required to sign and comply with it. The other notable aspect that comes out of the interview, is the absence of a no competition clause in the contract in procurement relations. Only in the case of commercial agreements to sell specific products, does Edison requires the startup not to do any similar offer with other companies, for obvious reasons.

3.3.1.7 Differences in structure and Conclusion

The major challenge that Roberta has found in the innovation process comes from the inside. The focus on the need, the strategy, and the engagement with the business unit require most of the effort. The timing and difficulty of collaborations depend significantly upon these factors. To overcome any issue, then, the innovation team is now focusing on starting to plan all these phases to look after startups having the attention and commitment of business units can be the key to successful collaborations. This is the reason why; the innovation unit of Edison is planning to define common needs in collaboration with the business units to scout and engage with promising and interesting startups.

3.3.3 ITALIAN ENERGY OPERATOR

This interview has been done with a manager of a major energy company in Italy. Its results are interesting given the importance and the commitment to finding new and more sustainable ways to collaborate and innovate with startups. As for other many Italian companies, the innovation department was established around 2018 and 2019. However, before that date, the company already tried other collaboration models without a structured way. Let's analyze more in-depth their type of collaboration and strategy.

This year, the company opened the calls for a special program that is in line with the core of this study. It is an open initiative that allows startups to participate and compete to be a supplier of the company. It is an interesting example because being a company owned by the Italian government, it needs to respect certain requirements to engage and buy from private entities. The company has detected four main streams with each specific need. Startups, depending on their product, will participate in the specific calls and will compete to get the procurement contract. One interesting aspect of these agreements is the specifics of suppliers' capacity that are required. This shows the importance, for corporations, to ensure that the startups will deliver the required amounts, and not cause any major losses.

3.3.3.1 The structure of the Innovation Unit

As of today, the innovation department of the company is composed of three sub-units: the innovation management, the Proof-of-concept team, and the Corporate Venture capital team. While the first two are focused on collaborating with startups to co-create products and innovation, the third is more focused on investing in exchange for equity. This last unit, however, has not made any investment so far and the first two will be the main interest of this analysis. There is an operational difference between the first two units. While the innovation management oversees the scouting and due diligence and collaborates with technological-related startups, the POC focuses more on core business-related projects.

3.3.3.2 Investment Decision

What the innovation management tries to do starting from the first recruitment stage, is to involve the interested business lines. The unit proactively updates and educates the different departments about trends and outside opportunities. Trying to map the different possibilities, innovation management aims to provide them with startups and projects that can add value to their operations. This first approach allows employees to be more in contact with themes external to their core business. When these show interest, then, the company proceeds with the scouting and testing. The input for needs can also come directly from the business units and in this case, the innovation management has the task to find the startups that can solve it.

An interesting factor that comes out of the conversation is the difficulty to organize and collaborate with the business units once a startup is selected. To remedy this problem, besides updating the business lines, they must try tries to facilitate their job as much as possible. These departments, in the first phase, are not required to commit to the proof-of-concept phase. The innovation management and the POC, in this case, must do their jobs and help the startup as much as possible until the final decision, whether to buy or not the product. Another initiative that has been introduced to speed up operations and foster innovation, is the bonuses connected to innovation KPIs. This will incentivize the different business lines to commit to innovative projects and complete designated tasks.

3.3.3.4 Stage of Startups

As the interviewee reports, the company mainly collaborates with already established and running businesses. Collaborating with early-stage startups, based on his point of view, is in most cases unsustainable. This opinion assumes that while the company has the time to collaborate and co-create products, the startup cannot wait without funding and sales. The other two factors that negatively influence this type of collaboration are the specificity of the business and the intellectual property implications. Startups, to develop innovative products, must invest much time and resources. This will require the company to invest more than necessary and will probably ask to register the intellectual property for itself. By doing so, startups might be forced to only collaborate with that specific company and close the door to other probable clients in the future. This situation, however, might change depending on the product and the area that is impacted. Being a technological innovation, it might be easier to incorporate concerning a more core business product.

Following the intellectual property issue, it varies on the stage of the startup. As reported by the company, if the company helps a new venture to build a product from a simple idea, then it will get most of the rights of the discovery. On the opposite, when a startup reaches the company and asks to test an already developed product on their assets, then they will establish an agreement that is like a procurement. There is another possible scenario in which the company is partially involved in the development of the product. In this case, there can be two possibilities. Or the two enter into a sharing intellectual property agreement or install a formal commercial partnership. In both cases, the company acquires part of the rights to sell and distribute the product and divides the profits.

3.3.3 Delta Cafés

Delta Cafés was funded in 1961 and is the major coffee producer in Portugal. Being headquartered in Alentejo, today the company has a turnover of around 750 million Euros and about 4000 employees (Zoominfo, 2020). With 61 years of history, innovation has always been a strategic priority to survive and compete in a global market. As of today, international expansion and innovation are the two main focuses of management. Pedro Castro, director of international business development and director of Delta ventures, has offered a valuable contribution by sharing his experience in the company.

The innovation department was built two years ago and is composed of two main business units: Diverge and Delta ventures. Respectively, the two deal with internal and external initiatives. Intrapreneurship is an important model that has been developed and has helped the company to grow and allow its employees to work on innovative projects. Delta Venture, on the opposite, fosters open innovation and tries to engage with startups and ideas outside of the company. These programs are developed and structured with the final goal to increase the presence of Delta Cafés and improve its relations with its customers.

Focusing on Delta Ventures, the business unit focuses its activity on empowering here different pillars: increasing consumers, creating more sustainable products, and accelerating the digital transformation of the processes. These three pillars are the core of the strategy and Delta is scouting the best startups that can help it to improve in one of them. In the last program and collaboration, one new venture for each area was engaged and invested.

As a difference from the other analyzed companies, Delta Cafés operates a pure venture capital strategy which consists of direct investments into startups and teams. There have been cases in which the company has provided funding and resources to prove a concept or test a prototype. While these collaborations have been done, the final goal of the company has been to test the performance of the collaboration and invest in it when more mature. This experience is important because allows an understanding of the factors that have allowed these collaborations to succeed. Delta directly invests in startups for strategic to pursue strategic objectives and increase its customer base and to be able to have control over new technologies and opportunities.

3.3.3.1 Support of startups

One interesting insight that came out of the conversation with Pedro Castro has been the relationship with the startup and its support throughout the entire collaboration. One key aspect that has been highlighted is the attention that Delta has toward the selected startups and its ongoing activities.

When selected, startups start proving their business model, Delta staffs a team that collaborates and work closely with it. As in a pure Venture Capital, the innovation unit of the company helps startups to grow their venture and explode in the future. This aspect highlights the effort that the management has made during the years and the importance that gives to these programs. If approved by the innovation unit and the higher management, the startups receive funding in exchange for equity and start to collaborate with inside business units. This is a crucial aspect of Delta’s strategy and Pedro Costa remarks on its importance for the entire innovation strategy. When a startup feels engaged with the operation of the company and feels valuable, then its performances show benefit from it. This aspect is also possible thanks to the spirit of the entire company and the openness to innovation that has been always a distinct factor of it.

3.3.3.2 Collaboration Phases

Delta Ventures uses different channels to engage with external entities and select the most promising ones. As stated by Pedro Castro, there are three main stages in every collaboration: recruitment, integration, and acceleration. Going in order, each of the steps is key to the success of the innovation strategy. Recruitment is the step that focuses on finding startups and new business opportunities. The search for startups comes both from the inside and outside of the company. Delta collaborates with national innovation entities, such as Portugal Ventures, and universities, such as Católica in Lisbon. These partnerships allow the company to have a broader reach and get in touch with different realities. Another possible way to reach interesting startups comes directly from the business units. These express specific needs and the Venture unit tries to satisfy them with the best opportunities on the market.

Once onboarded, startups pass to a second phase defined as an integration phase. This is a transition period that allows Delta to get to know better the startup to build a productive collaboration. An interesting aspect that has emerged from the discussion is the tension that the startups have when collaborating with the company. This is an ongoing tension that has been noticed and can be caused by many factors. First, the difference in size and structure can make it difficult for fast-growing ventures to openly collaborate. The integration phase has shown to be crucial for mitigating this friction as Pedro states. It is the moment for both the startup and the company to get to know each other better. Delta is really on finding good entrepreneurs that share the same values and are ready to build on them. The company's culture plays a big role in the entire collaboration.

Lastly, when a startup has convinced the innovation department, it must be approved by the top management, and by the CEO. The innovation department, in the specific, does not have any specific budget but has the flexibility to value each opportunity and decide accordingly. The startup, then, enters the acceleration phase, and as for most of their programs, must deliver specific results.

3.3.3.3 The Collaboration with Nãm

Católica University has been the point of touch between Delta Cafés and the startup that aims to produce mushrooms out of coffee wastes. This business idea matches two of the pillars that Delta is developing: new customer products and sustainable business models. After a first scouting period, the innovation unit has met the Belgian funder that has created the venture. The collaboration has been productive for both the company and the startup. The first collaboration has been a co-development of an urban farm in the city of Lisbon that has helped to prove the concept and advance in the collaboration. From this on, the startup now targets to reach 1 million in sales in the next years.

This collaboration is the perfect description of Delta's strategy. Being a multinational company with high turnover, as Pedro Castro states, profits are not the main goal of these collaborations. These investments have mainly strategic purposes and help Delta innovate and differentiate its businesses. These external startups help the company to foster Corporate Responsibility toward the environment and reach new customers, nationally and internationally.

As of today, Delta is not funding startups to be their future client. The innovation strategy is mainly focused on finding startups and investing in them. Even if this is not a practice today, Pedro Castro does not deny that this method will be utilized in the future. The interesting finding of this position is given by the fact that the company is looking for services to offer to its end-users. As for Nãm, the startup has added a new product and has not caused major changes in the company's operations. This is a key finding that helps understand which could be the perimeter of interest of the corporates applying the Venture Client model.

3.3.4 Nestlé Spain and Portugal

Nestlé is a public multinational company based in Switzerland with a turnover of more than 80 billion euros. Being the largest food company in the world for many years, innovation has played a crucial role in it. The company has many offices around the world and for this research, I had the chance to interview Luis Pinto, ex-head of innovation in Portugal and now working in Spain. The evidence that came out of this conversation will add much value to the analysis and will offer an international perspective.

Luis has left Nestlé Portugal in 2019, after successfully funding different initiatives. One of these was related to intrapreneurship and the other to open innovation. While the first will not be the subject of the analysis, it is important to highlight that it has positively contributed to the innovation culture of the Portuguese branch. This second initiative, instead, is more in line with our study and is a program in collaboration with NOVA SBE University in Lisbon. Today it is still running and has developed over the years.

The program will be analyzed starting from the recruitment process of the startups. It consists of an open call-in in which teams must give a solution to a specific need that the company is pointing out. The challenge is shared with the main national and international organizations that collaborate with startups, to find the best prospects. After a first selection, the funders were invited to present their ideas and companies in front of the Portuguese management. As Luis states, even this little event has contributed to the increased attention toward innovation of the entire branch. For the first time, the senior management interacted with a world that in many aspects can be different from the corporate world.

After the presentation and the interest shown by the Portuguese committee, the startups and the company analyze the mutual opportunities that could arise from collaborating. On the one side, Nestlé is looking for innovation, on the other side, the startup is looking to leverage connections and assets to grow. If the two parties decide to officialize the partnership, then they enter a 6-months program that sees the startup physically co-creating and testing its ideas in the Portuguese office. This closeness to the corporate assures a win-win situation, in which employees get involved in innovation projects, and the startup can leverage the knowledge and resources of Nestlé. One aspect that catches the attention in Luis's words is the humbleness that requires by the company when interacting with these startups. As he points out, only a 50-50 relationship can create a positive and productive collaboration.

The balanced relationship between Nestlé and startups is what Luis thinks has made a major difference. With this approach, the innovation team and the entire company make startups and their teams feel at home and welcomed. This is a key aspect that helps the two entities to collaborate and find a common ground, even if different in structure and processes. Being humble is what matters to the team and they want to establish a give and get back program. Today the program continues and develops every year.

Another interesting challenge that has appeared during the programs run in Portugal, as Luis says, is the attitude of the management. As already said, higher management has been introduced to this world which is radically different and faster than big corporates. Another enormous difference that the innovation team encountered derived from performance measurement. As for processes and structure, also KPIs and objectives are completely different between the two entities. The management of an established company is careful about the return of every investment and is used to evaluate it based on simple financials. However, the startup world works differently and has many other indicators that need to be evaluated. Traction, future trends, and opportunities are the key components. Especially, when investing at an early age startup, nine out of ten statistically of failing. This high uncertainty makes it difficult for a board to make decisions and invest money in certain startups. Again, what is required by the company, in this case, is flexibility and openness to different and challenging scenarios.

3.3.4.1 The Structure of innovation at Nestlè

The main innovation decisions made by Nestlé Corporation are taken at the headquarter in Switzerland. The company has a structure that allows all the regional offices to run programs of joint innovation, in which startups receive funding to develop the prototypes and test ideas. Only once teams gain traction and show that can be successful, advance to the next funding stage. When a startup proves to be worth it, its investment opportunities are valued at the headquarters level. In this stage, the main offices decide whether the venture is worth being invested in or if it will just continue to develop the product at a regional level.

The program that runs at the Portuguese and Spanish levels, is mainly on an open innovation scheme. These two hubs form the Iberian level. The regional offices work closely with the startups by supporting them with relatively little funding. As Luis says, this characteristic empowers the program because allows Nestlé and its employees to experience innovation and test new solutions without investing huge amounts of money. The main aim is to scout and identify projects that can be successful in the future and avoid buying them too late at higher prices.

The activity of the regional offices is to map the needs of the company at all levels. The questions that are shared in the call with startups are born from this analysis and try to solve the internal problem or catch various opportunities. After gaining traction and attention at a regional level, the startups are presented to the main offices to evaluate future opportunities and expand further.

As already analyzed, one pain point that these collaborations between startups and corporates have is created by the different structures. Luis since the start of each program acknowledges this failure and tends to warn startups about a possible slow decision-making process. This is a shared problem that all the interviews have faced and that keeps presenting each time. To avoid this problem, Nestlé focuses on managing expectations. The collaboration, as shown, must be equally weighted and both parties must feel fulfilled by it to succeed. An important job that the innovation team must do is communicate and understand the way startups can collaborate with the different business units. Being a diverse organization, each country and division might have different characteristics. By keeping this in mind, the innovation department enters into discussion and evaluates the willingness to collaborate and the possible commitment.

3.3.4.2 Targeted startups

The program in Portugal, following the strategy of Nestlé, does not look for specific businesses related to the core activities but is open to new opportunities. Relating to the already cited humbleness, Luis frankly admits that such a big and successful company is very specialized in its processes but lacks in many other areas. Data-driven business, services, and many more are the area that Nestlé looks at when analyzing startups. In his words, it is possible to understand how this value is crucial to the people in the company and how it positively influences the performances of the program itself.

Given the structure of the program and the goals of the regional departments, most of the startups that engage with the company are early stage. These propose an idea and Nestlé decides whether to help them prove it or not. It has happened, however, that also more advanced ventures, with some established traction, have engaged and co-created with the innovation team.

3.3.5 Key Takeaways Companies

The research has started with a simple problem statement and the analysis of the evidence has given some interesting insights. Collaboration with startups, in cases and under specific circumstances, can help corporates to grow and reach their strategic targets. The approach to innovation that many realities adopt can drastically change in the future. What makes the sample companies like each other is their dimension and need to innovate. Even if they operate in different sectors, all of them share a similar experience and similar goals. An interesting aspect that they have in common is the history of the innovation department. All the interviewed corporations have started to structure their innovation processes starting in 2018 and recent years are still developing and testing different approaches. This is a good sign for the market and startups. These interviews have shown that companies are always more and more open to entering a discussion with startups and are now starting to understand the benefit and how to spot it.

To sum up the finding, it is possible to list the takeaways to better understand the perspective of the companies and their experience. They a will be listed as follows:

- **The innovation goals of each program must be shared and backed up by the interested business unit:** As reported by all the companies, having horizontal communication with the different business units is the key to a successful collaboration. To do so, they apply different approaches. In some cases, the needs come from the innovation units and the others must accept them, in other situations, instead, they are decided directly by who will work closely with them. The shared vision, however, is that it is crucial to have a unique strategy and communication between departments to be successful.

- **The low-investment approach allows to streamline the decision-making, decentralizing the decision power:** All the companies, with some exceptions for Delta Cafés (Only one to apply a Venture Capital model), have said to have flexible decision-making processes. The reason behind this success is the low investment required. When companies collaborate with startups, they are required to reward them with small prices and offer them their infrastructure. This is an important point that permits decentralizing the decision-making and allows the innovation team to make faster decisions: an aspect that can benefit the interaction with startups.

- **Startups can be complementary to the core business because they have another way of thinking:** In many cases, the closeness of the startups to the corporate has allowed a connection with its employees. As Luis Pinto states: “The closeness of our employees to an innovative environment has made us realize that we need external expertise to complement our capabilities. Nestlé is great at selling food worldwide but can be better in data-related markets or the service industry, this is an enormous opportunity that we need to exploit” (Pinto, 2022). This statement gives an idea about the importance of the connections and the synergies that can arise.

- **It is important to switch the evaluation process. Traction and potential growth are more important than budgeting and decks:** Corporates are used to meetings with decks, budgets, and financial results. It is important, for companies’ management to change this perspective and understand the mechanism behind the startup world. In this case, it is the task of the innovation units to change the culture and make the upper management used to different kinds of results. Traction, potential growth, and people are just some of the KPIs that are important to evaluate in startups and new ventures.

- **Establish a trustful relationship with startups and point out how the collaboration will develop:** As already mentioned, startups are worried about the clash of culture and size with bigger organizations. This is something that corporates know and need to tackle. One interesting approach, which is done by Nestlé and its team of Luis, can help solve this problem. By being humble and welcoming the startup into the regional branch, it is important to share goals and inform about possible problems that might appear in the future. One of them, for example, could be to inform the startup of the structure of the company and anticipate that there might be different timing to act between the two. It is a great example of leadership and creates a balance between the two realities. This is an approach that has proven to be successful and that can and must be replicated by other companies.
- **Companies leverage external partners to learn more about startups and solve their problems.** This is a recurring finding. Each company, in most cases, relates to external investors or networks. In many cases, these connections help companies save time so that they can focus more on the operational side. Companies, startups, and investors, all of them benefit from this collaboration. By doing each their job they are specialized in, there is a saving of time and resources. This is an important factor that adds value to the research and its conclusions.

Conclusions

After all the findings, it is important to structure and frame a conclusion to extract their value. The analysis has started from the simple question: how do corporates innovate? After a first panoramic and historical investigation, the research has focalized on the different open innovation approaches and their characteristics. Chronologically speaking, starting from the Venture Capital, the research has investigated whether there could be more efficient and rapid ways to collaborate with startups. To conclude, it has been necessary to investigate and understand all the players involved in these collaborations: corporates and startups. Only by doing so, it has been possible to find a middle ground and understand how to possibly solve the pain points that today are still on the market. The analysis has focused on a model that can be of great help for many realities, big and small. It allows to leverage resources and peculiar characteristics, as will be presented in the next lines.

It is possible to state, that the Corporate Venture Client, even if not always called by its proper name, is today used by many realities. It usually goes under the name of "Open innovation programs" and companies partner with external organizations or funds to scout the best opportunities. Every time, the process starts with the needs of the company that must solve. Startups participate and try to find the best fit with these needs by offering ideas and already developed solutions. This is a win-win situation that allows companies to find answers outside of their boundaries and helps startups to get noticed and grow.

Its characteristics encourage the relationship between startups and companies. If structured correctly, it can overcome the main problem and concerns that usually arise. A balanced relationship between different organizations is what can assure most of the value is extracted. Humbleness and respect are the key components on which all must build.

The Venture Client approach is based on a procurement model, but it must be flexible to changes and to the needs that each situation presents. In conclusion of this analysis, it is difficult, today, to give a specific framework to the model, because it must adapt to each reality. As for other models, such as the Corporate Venture Capital, it should not be applied as a copy and paste strategy. Each company and startup have special peculiarities and it is important to leverage them differently.

A significant part of the research has been based on Corporate Venture Capital and its limitations and the Corporate Venture Client model has been presented as the probable solution to them. In many cases, this has proven to be right, and companies noticed many benefits. This "new" model promises to be smoother, easier, and faster. Its right application can overcome many limitations and decentralize the decision-making process, saving up much time. This is an opportunity that must be considered by companies and must be planned.

Summing up the findings and the key takeaways of this research, it is possible to state that the Corporate Venture Client can be a powerful tool that corporates and startups can use to reach their own strategic goals. The purpose of the analysis has not been to eliminate one specific approach, but it has been to understand which problems the Venture Client Model can solve. It seems clear now, that the evidence, even with its limitations, has proven that the model can be a solution for companies that want to innovate and for startups that need to grow. It solves many problems that corporates and startups have had in the past. This model allows startups to find their first customers without committing all their resources to them. It gives the possibility to test and develop their product further by utilizing companies' resources. On the other hand, corporates can engage with external realities without investing significant amounts. This factor allows them to have a more flexible and fast decision-making process. Decentralized decision-making helps to shorten decision times and can attract more startups. As said many times, if this approach is well structured and both players try to exploit the most out of it, with respect, it can be the tool that many will use in the future to innovate and grow.

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SUMMARY OF THE STUDY

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Introduction

Innovation is crucial for every company nowadays and there are different approaches that can help them keep up with the pace of the market. With respect to the past, corporations have slightly changed the way they foster innovation. Research and development departments always play a key role in this area, but collaboration with external organizations, such as startups seems to be prevailing.

Companies cannot miss this opportunity and need to take advantage of the situation. Today they collaborate with startups in many ways. Open innovation is a word that includes many approaches and models that can help corporates to engage with external ideas. Of all these, the Venture Capital model is one of the most known and used. Companies invest in startups, obtaining shares in return. The model requires companies to invest significant sums of money to buy shares. The company must have professional figures devolved completely to the growth of the startup. The possibility for big corporations to invest in many startups can lead to monopolistic problems. Companies suffer fierce competition from other kinds of investors and funds. There are many benefits that Corporate Venture Capital can offer, but there are also many challenges and adversities that need to be discussed.

Alongside investments, companies have collaborated in various ways with startups. Over the years, the open innovation approach has declined in different ways. One that has gained a lot of attention is the partnership and collaboration between startups and companies. In this case, these collaborate on specific challenges and try to build solutions. On this base, an approach born in Germany, at the BMW Group, the Venture Client Model, aims to solve the main challenges that the other models present.

The Venture Client model is based on a procurement collaboration between corporates and startups. Corporates are no anymore investing in startups in exchange for shares, but they are buying the product that they created. The procurement contract is signed after the startup tests and develops the product in collaboration with the company. In case of success, both companies and startups benefit from the collaboration, since the first has early access to the new technology, and the second gain the first important client and can grow externally.

Problem Statement and Objective of the Research

The venture client model is an advanced version of the partnerships that have existed for a long time between corporates and startups. There is today a need to understand whether this approach can be efficient and solve the main challenges of other open innovation approaches, such as corporate venture capital.

The objective of the research is to have a clear perspective of startups and corporate to evaluate which factors are important to building a successful partnership. Which are the startups' needs and goals, that companies need to understand to attract them and innovate.

Are Companies Innovating Today

Innovation is a key topic, and many big corporations invest to get the best out of it. However, even if this philosophy is starting to take hold in the international panorama, there is one form of innovation that in the latest years seems to have had an edge over all the others: start-ups. Startups are teams that start from scratch and build a scalable business model to obtain as much market share as possible. These companies have shown to be able to outperform big corporations on innovation matters. The clear vision, the low number of people in the teams, and their approach allow them to be more flexible and find innovative solutions faster and more efficiently than the others.

Corporates are changing the way they innovate. As of today, the three key pillars are R&D departments, Innovation Labs, and startups. The prospect of Capgemini suggests that while R&D departments are the first driver of innovation in companies today, this percentage will drastically decrease by 2025. On the opposite, Innovation Labs and Startups are projected to be implemented more and more, reaching incredible numbers, respectively 71% and 44%.

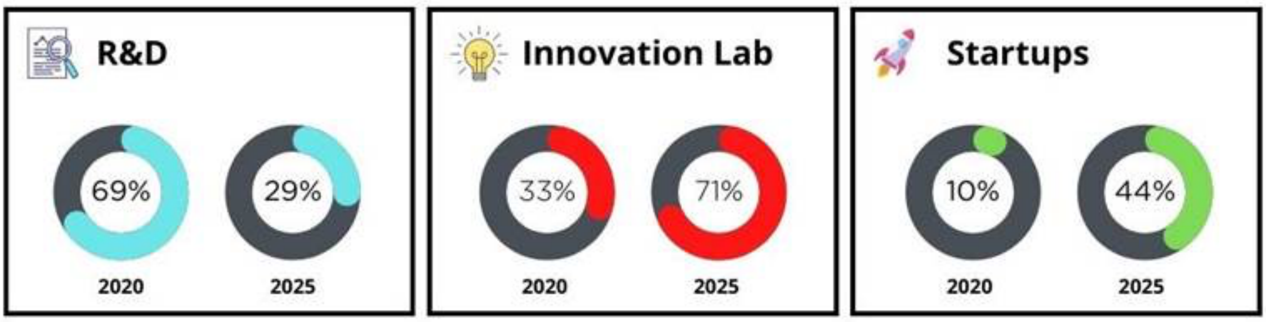

Figure 1 - Top innovation source for companies today and in five years (Source: MIT, Capgemini)

An Important aspect that needs attention is the approach that startups have to innovation and to new opportunities. As opposed to corporates, that adopt a waterfall approach, following specific rules, new ventures utilize a perpetual validation process. Start-ups build their ideas from scratches. They try to create innovative and scalable solutions with the lowest possible number of resources. This model allows the development of solutions minimizing errors, by constantly gathering feedback from the market. This enables them to understand when a product/service is bringing value to society and whether to continue the development or pivot on an idea that might be more successful and adopted by the consumers.

Open Innovation Approaches

Open innovation is one of the most talked-about models of collaboration in today's management practices. It refers to the process of gathering and developing ideas leveraging resources external to the company. It takes a different approach to the typical internal process. The ideation and implementation of a project can involve different people and sources, internal or external. Commonly, R&Ds departments in corporations develop all the projects internally by leveraging their own resources. By applying the Open Innovation approach, companies can merge their resources with external capabilities to build a product or service together.

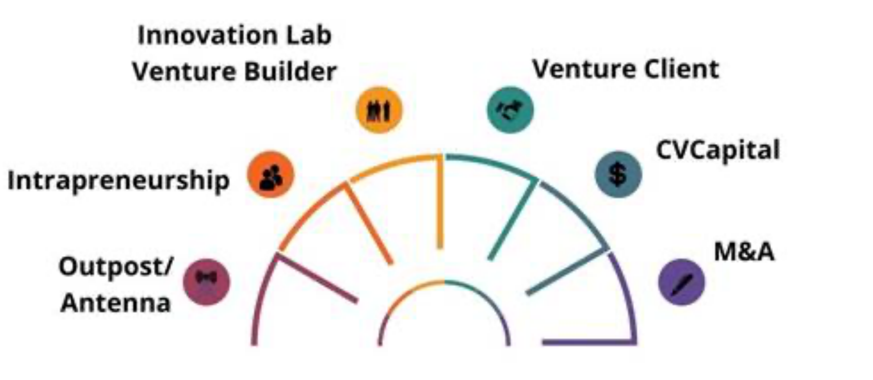

Figure 2 - Open Innovation Approaches

There are different approaches that companies can adopt, but this research will only focus on the *Corporate Venture Capital* and the new *Venture Client Model*.

- **Corporate Venture Capital**: Corporates invest important amounts of money in startups, to help them grow and scale, in exchange for equity. Companies can have financial or/and strategic purposes to adopt this approach.

- **Venture Client**: based on a partnership approach that does not comprehend any buying or selling of equities. The model is based on a collaborative approach in which, companies allow startups to grow by testing and buying their products.

The Startup Perspective

To have a broader view of these models and to understand all the advantages and disadvantages, it is necessary to define the interest of everyone that is involved in them. Start-ups play a huge role in this because they bring innovation and fresh perspective to the industry. While it is true that they are seeking investments, they also analyze very carefully every commitment, based on opportunities and obstacles.

There are many different investment solutions that startups can try to get. Venture Capitals, Private Equity, Corporate Venture Capital, and Angel Investors, and only some of the most known, and all of these come with their own advantage and challenge. Depending on the entity, different actors can have different strategies and ways to operate. Individual goals can influence the relationship with startups and can create an apparent limitation for startups. In the specific, let's analyze the main characteristics of each method:

ROLE	OPERATIONS	PRO	CONS
Venture Capital	Buys equity and requires high performances	Mentorship and Mentoring	They can't use the Product/Service internally but need partners
Private Equity	Buys equity and requires high performances	Experienced Management and clear vision	Forced Management; Low Control
Angel Investor	Buys equity and requires high performances	Mentorship and smart money	Can't use the Product/Service internally but need partners
CV Capital	Buys equity and wants to integrate technology	Industry Network and test the product	High dependence on companies' operations and strategy
CV Client	Collaborate to build a product and buys it	No loss of equity and first validation	High procurement commitment possible

The Corporate Venture Capital and its limitations

Companies invest in start-ups for two main reasons: to increase and expand their activities, or to gain new revenue streams. Given the same logic, businesses can distinguish themselves by the degree to which they are linked to the invested company's operations. Strong linkages can allow the start-up to utilize and take advantage of resources and processes, such as manufacturing, network, and any other services which can be exploited. The countereffect of the CVC can be the loss of control of the projects and the long-time

The competition in investing and partnering with start-ups is high. VCs, private equity, and many more financial institutions are trying to find the next unicorn to have incredible returns. This is a scenario in which the CVC stands and does not always win against its competitors. What they have to offer is not always in line with what start-ups are looking for and so they search for other opportunities.

Listed here are the main limitation of the Corporate Venture Capital Model:

- **Competition from Venture Capital:** The main goal of VCs is to support a startup in its growth and to make profits from its sale. As compared to Corporate Venture Capital, VCs can allow startups to be more flexible and have control over their operations. Another important factor to consider is that VCs are specialized investment funds and the personnel is highly competent. Not always do companies have the right figures and capabilities and VCs are preferred.
- **High dependency on corporate Management:** Corporate Venture Capital requires significant investments and most of the decisions must be evaluated by the top management, or by the board in exceptional cases. This process, especially in structured and big corporations, can take a lot of time and startups prefer other investors.
- **Time and Finance consuming:** Adding to the previous observations, once a corporate decides to engage with startups, it is not always easy to individuate the right business unit to collaborate with. This research can take some time and leads to time waste. Another factor to consider is the Return on investment and the percentage of successful startups. On average, just 1 out of 10 startups succeed and assuming an investment of 1 million for every single venture, there will be a difficulty in reaching the breakeven by being profitable.

The Venture Client Model

In 2012 Gregor Jimmy, a serial entrepreneur that has worked in the Silicon Valley for his entire life got proposed to rethink the innovation process of BMW. At the time, the company did not have a dedicated innovation arm to look after startups. This meant many opportunities lost by the group and its divisions. The first big changes done by Gimmy have been to establish a Corporate Venture Capital unit. Soon he realized that this model was not profitable and suited for a big corporation and started to rethink its approach. Gimmy came up with what companies can offer to startups that other funds cannot: being the first important client. From this intuition, BMW named this model the Venture Client. This solution has been applied by one corporate unit specifically established to proactively find startups to collaborate with. This is the history behind the birth of "The Startup Garage", the first known corporate unit that has given the name to this approach. Gregor Gimmy and the BMW Group have opened the road to an innovation process that will now be studied and adopted by many corporates around the world.

The Venture Client model is a new form of collaboration. It is a procurement partnership between corporates and startups. In easy words, one buys the product from the other, increasing the value of both. These partnerships have already been utilized for many years, and companies have worked alongside startups for a long time. With its development, there has been a necessity to better structure this approach to be replicated.

Being based on the procurement processes, the link that is established between the two comes down to a simple client-supplier approach. In this scenario, companies act as buyers of startups' products during their go-to-market phase. The corporate ensures new sources of finances without investing in them. After spotting startups that are developing promising products, companies engage with them to help in the development and growth. This process, if successful allows corporates to innovate and startups to gain confidence to go to the market.

To be competitive, companies have analyzed what is that they could offer that other innovation players cannot. Startups, when looking for partners, are mainly looking for three main factors: capital, coaching, and clients (Gimmy, 2017). As analyzed, new ventures are looking to build new and valuable relationships to grow their business. The first two dimensions, capital, and coaching are what VCs are focused on. When corporates engage with startups, they must understand what they can offer to attract them. They offer to be the first important client for the startups. With the Corporate Venture Client model, there is an ongoing exchange of resources and products between startups and corporations. This transfer happens in both directions, since corporates with their feedback, knowledge, and experience, help startups optimize and develop their products.

Advantages of the Venture Client Model

Companies

1. **Access to top-notch startups:** The model is a powerful incentive that gets new ventures closer to corporates. By doing so, firms can attract new talents and ideas closer to their business.
2. **Access to innovative solutions:** Once companies buy these products, they can have many advantages, such as being the first movers or the first to adapt to a specific market need.
3. **Quick tangible results:** The proactive research done by business divisions assures that startups quickly find interesting counterparts to collaborate with.
4. **Reduced risk and full flexibility:** If the collaboration, perhaps, does not go in the right direction, companies might be able to step back without having invested more money than necessary in it.
5. **Reduced investment needs:** As opposed to other forms of partnership, the Venture Client model allows the company to spend the amount of money needed to buy and partially develop the product.

Startups

1. **Gain Client contacts and public reputation:** This relationship allows startups to test their products with an established company and at the same time increase their brand image in the market. This relationship can open the doors to many more prospects and companies will be interested in collaborating and trying the new solutions.
2. **Validate and improve prototypes:** Thanks to the relationship installed, companies acquire products from startups and test them. By doing so, startups have the chance to see the results of their developments on real-time bases.
3. **Gain industry knowledge:** Collaborating daily, the amount of knowledge that they can gain is incredible. Being in touch with a company that has established know-how and has been in the market for many years, can help to discover many insights.
4. **Increase professional network:** The close connection and the relationships that are created tend to increase the startups' network. Increasing the networks can overall help the startup to grow and to know more about the industry and its needs.
5. **Keep full equity and business autonomy:** When firms engage with startups and buy their products, they are not investing in exchange for equity. This is a crucial factor that leaves high

managerial flexibility to the startup that can decide how to better operate and develop their business. The Venture Client model is based on an agreement that does not force the startup to give up autonomy and does not force it to follow restrictive rules.

Competition

It is a normal standard that after big companies buy startups, they make them die, causing a loss of competition and innovation in the market. This practice is known as "anti-competitive acquisitions" (Waters, Lee, Murphy, & McGee, 2022). Companies acquire startups with patents to incorporate innovation into their operations and gain a competitive advantage. While on the one hand, this is a strategic choice and win for a company, because it possesses a technology that no one else can utilize, on the other hand, it can harm the competitive market and its efficiency. It is difficult, in fact, to compete and innovate in a world in which giant players with budgets can buy and exploit great innovations. About 75% of 616 deals signed by big tech giants, such as Apple, Facebook, Google, and Microsoft, included non-compete clauses.

The Venture Client model can play a crucial role in this view because companies do not directly buy startups, but they collaborate with them. In the venture client scheme, startups leverage companies to gain visibility and to get in contact with other clients. This model can be a solution to the monopolistic behavior that many corporations are showing today. It is important not to forget, that while a company aims to have competitive advantages to have margins, this does not have to interfere with the entire market and harm the final consumers.The model implies companies to collaborate with external VCs and investment funds that are more interested in the equity and growth of startups. The Venture client model, on the other side, does not prevent companies to be ahead of the competition, because early partnerships can easily lead to favorable bargaining power and other many benefits, as described before.

Drawbacks of the Venture Client Approach

Companies

1. **Bureaucracy due diligence:** Mostly in the case of big corporations, it would not be possible to enter business with companies that do not have every bureaucratic document in order. Many companies have the necessity to establish a procurement department to check on the supplier and understand if the collaboration can proceed or if it needs more attention.

2. **Startups/Supplier reputation:** The riskiness of these new ventures sometimes does not perfectly match the needs and requirements of corporations. The first thing that a startup can miss, as opposed to other suppliers, is reputation. While it is the reason why they would join a venture client program, it can be difficult for a corporation to sign important contracts without previous references.
3. **Startups are volatile and risky, no doubt about it:** if ventures are not capable of producing the right quantity of products, corporates might have delays in the final delivery. This is a serious problem that can cause massive losses for corporations.

Startups

1. **Corporate long decision-making process:** Businesses might need to involve top management in some strategic decisions, and this can be a time-consuming activity. Startups most often, do not have enough budget to survive for long periods without results. The first money coming from investment rounds can run out quickly. The delays that can be caused by a big organization can harm the relationship and startups might not get all the expected benefits.
2. **Excessive corporate bargaining power:** Startups, not having a strong reputation, can suffer from the bargaining power of firms. These can impose strict clauses and force the startup to sign unfair deals just because of the power they have. With smaller startups, the negotiation power increments, and there can be the danger to feel suffocated by the situation and fail.

On the Field Analysis

To answer the research question and to have a broad view of the argument, structured interviews were conducted with 6 participants, two startups and four multinational companies. All of them have taken part in a program that can be linked to the Venture Client Model. These interviews have been crucial to answering the research question: *can the Venture Client Model help companies to reach their innovation strategic goals? Can it solve the main problems that other innovation models, such as the CVcapital have, and what are startups looking for?*

As regards the target of the analysis, it differs between corporates and startups. In the first case, the study has focused on big international corporations. It has been necessary to analyze companies that have already experienced these processes and that are developing an internal innovation strategy. The purpose of this choice has been to understand and evaluate thoughts and results. Even if the model is suitable also for smaller companies, it has not been the first aim of this study. Analyzing the regional branches of each corporate, however, it will be possible to spot some similarities with most SMEs.

About startups, instead, the sample is composed of two startups, both in their testing phase and focused on the B2B market. Ecosteer has already developed and patented the technology and now needs to make its first commercial product in partnership with major clients. Eye4Nir, instead, is developing its technology and needs the support of specialized companies to test and progress in the definition of its product.

The interviewed realities are the following:

Companies (+1 Italian Major Energy Provider)

Startups

Limitations of study

- **Insufficient sample size:** not having the chance to analyze and interview a highly heterogeneous group, is not possible to assure the fairness of the results.
- **Short analysis period:** The timing of the research has allowed drawing conclusions from past experiences and does not provide with specific cases pre- and post-analysis. This does not allow for comparing performances and having precise results.

Results

Corporates

- **The innovation goals of each program must be shared and backed up by the interested business unit:** The shared vision is that it is crucial to have a unique strategy and communication between departments to be successful. The proactive attitude is key to success
- **The low-investment approach allows to streamline the decision-making, decentralizing the decision power:** The reason behind this success is the low investment required (prices and collaborations). It allows decentralizing the decision-making and speeding up decision processes.
- **Startups can be complementary to the core business because they have another way of thinking:** In many cases, the closeness of the startups to the corporate has allowed a connection with its employees. Many synergies and innovations are born.
- **It is important to switch the evaluation process. Traction and potential growth are more important than budgeting and decks:** Corporates are used to meetings with decks, budgets, and financial results. Traction, potential growth, and people are just some of the KPIs that are important to evaluate in startups and new ventures.
- **Establish a trustful relationship with startups and point out how the collaboration will develop:** By being humble and welcoming the startup into the regional branch, it is important to share goals and inform about possible problems that might appear in the future. One of them, for example, could be to inform the startup of the structure of the company and anticipate that there might be different timing to act between the two. It is a great example of leadership and creates a balance between the two realities. This is an approach that has proven to be successful and that can and must be replicated by other companies.
- **Companies leverage external partners to learn more about startups and solve their own problems.** Each company, in most cases, relates to external investors or networks. In many cases, these connections help companies save time so that they can focus more on the operational side. Companies, startups, and investors, all of them benefit from this collaboration.

Startups

- **Startups collaborate with companies to increase their network and gain credibility:** In high specialized B2B industries, the networking and sharing of knowledge among different companies are significant. It is very common that when a big company innovates, many others in the sector follow.
- **B2B businesses are keen on this approach. Deep tech and industrial technologies can boost their development with a big partner:** One common characteristic is the difficulty to test and develop the product, given its complexity and requirements. They require industrial machinery or access to internal processes. These are expensive and difficult to find elsewhere, and startups could benefit from collaborating with corporates.
- **Decision-making process of a corporation can potentially kill startups:** One factor that links the two startups is the challenge and the difficulty to deal with big and structured companies. This mismatch is a potential source of friction and startup are worried about it.
- **Startups prefer to collaborate with companies and accept smart money from outside investors:** Both the interviewed startups are backed by investors, and in some cases, these have helped them to reach potential prospects. A common feeling is a fear to give up too much control and commit to only one reality.
- **Startups are willing to participate in challenges to expand their network:** This is a great factor that companies must focus on. By leveraging synergies with other investors and focusing on the pro-development, it can be possible to attract talent and access technologies before the competition.

Conclusions

Summing up the findings and the key takeaways of this research, it is possible to state that the Corporate Venture Client can be a powerful tool that corporates and startups can use to reach their own strategic goals. The purpose of the analysis has not been to eliminate one specific approach, but it has been to understand which problems the Venture Client Model can solve. It seems clear now, that the evidence, even with its limitations, has proven that the model can really be a solution for companies that want to innovate and for startups that need to grow. It clearly solves many problems that corporates and startups have had in the past. This model allows startups to find their first customers without committing all their resources to them. It gives the possibility to test and develop their product further by utilizing companies' resources. On the other hand, corporates can engage with external realities without investing significant amounts. This factor allows them to have a more flexible and fast decision-making process. Decentralized decision-making helps to shorten decision times and can attract more startups. As said many times, if this approach is well structured and both players try to exploit the most out of it, with respect, it can be the tool that many will use in the future to innovate and grow.