

**35th IASP World Conference  
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**Corporates Seduced by Startups - or Vice Versa?**

*Plenary session 6:*

*Entrepreneurship for growth and sustainability in STPs and AOIs*

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## **35th IASP World Conference on Science Parks and Areas of Innovation in Isfahan, Iran**

### **Topic: Entrepreneurship for Growth and Sustainability in STPs and AOIs**

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## **Corporates Seduced by Startups - or Vice Versa?**

### Executive Summary

Until recently, the corporate and startup world have been at the different ends of the scale of how to do business and who to partner with. Today we see that mindset steadily changing and both sides opening up and looking for ways to cooperate. By today, startups have proven their innovation capacity and efficient innovation methodology which require to take them seriously. Corporates have increased their value as a credible implementation and launch partner in the environment of growing competition for investor money and customers. As a result, corporates and startups are taking on more and more cooperation initiatives and thus create the demand for new innovation services to support them in these. Tallinn Science Park Tehnopol is addressing this demand by offering new innovation programmes that result in new revenue streams and create synergy and value in combination with Tehnopol's other businesses.

### Content

#### **Corporates and startups hang out in the same circles**

The role of STPs, among other roles, is to foster entrepreneurial spirit, support entrepreneurship initiatives of different stakeholders and provide services that would result in founding new knowledge and technology-based ventures. Majority of the STPs have therefore focused on new businesses creation and have set up tools such as startup incubators, business accelerators or spin-off mechanisms to create and grow startups. Most of the STPs also have services and support systems available for scale ups who are SMEs in legal point of view and need assistance mostly in expanding their cross-border networks, exploring and entering new markets and building up their organisation and processes into a sustainably growing system. As a result, new and young entrepreneurs have an abundant choice of support and business development services available whereas mature companies and big corporations are not catered when it comes to encouraging and enabling entrepreneurship.

Nevertheless, corporations have their own role in the triple helix approach that most of the STP follow, it's just different from smaller companies' role of a support receiver. Corporations' focus normally lies in cooperation projects with the universities in a two-way traffic - technology transfer initiatives from the universities bringing research and product development innovations to the market and R&D initiatives from the corporations looking for academic partnership in corporate innovation. Also, big enterprises as industry leaders and organisations with impact have their influencer and lobbyist role in the ecosystem in helping configure governmental policies and regulations that shape the economic environment where all - startups, SMEs and corporates - operate. So yes, corporations usually do not pop up in one's head first when thinking of STPs' "customers" but we cannot deny their relevant role in the ecosystem and among the stakeholders of STPs and AOIs.

Still, at the same time, those two - startups and corporates - this far have existed and operated in somewhat parallel universes. In the same physical space and time frame they both do their own thing in their own way and quite clearly identify themselves with the role and context where they have been defined by the society. Until recently.

## Corporates and startups start dating

At Tallinn Science Park Tehnopol in our daily project work and constant services development process we see the recent mindset steadily changing. The two different worlds that used to be far apart at different ends of how-to-do-business scale, proudly oppose to each other and even disapprove of each other's methodologies, processes and culture are now moving closer together and searching for common touchpoints to create synergy that would benefit both sides. In parallel to the "startup boom" we see an increasing interest from corporates, but also public sector institutions, in innovating like startups - renewal by ideas and knowledge throughout their whole organisation, but also open innovation. More traditional and established enterprises have seen how innovative startups disrupt different markets and sectors, suffered the consequences and realised the need to act upon this if they want to stay competitive and in business. They have learned to appreciate the agility and customer focus of the successful startups and become interested to apply their methodology and create a similar mindset and culture in their organisations. As a result, more and more corporates turn to the innovation hubs at universities, startup communities but also STPs to find innovative approach, apply new concepts and establish strategic partnerships. To address this opportunity there are new and great initiatives emerging on the market in the form of matchmaking events, tailor-made innovation programmes, cooperation projects, different purpose joint hackathons etc.

## The game of seduction

What is it then that has changed in the relationship between the small and the big, the young and the old, the dynamic and the innovative and the slow and the traditional? Who has seduced the other one so that them who used to stay in the circles of their own kind are now starting to pay attention to each other and find ways to build relationships? Why are both sides ready to get committed to something, or somebody, that they didn't think was their type?

Before launching a startup-corporate cooperation programme in autumn of 2017, Tehnopol conducted an online survey among both, corporates and startups, and ran two focus group interviews to collect input for the content design of the programme. Among other topics we aimed to find out the value in potential cooperation that they had not seen before but had come to realise by that time. Even though only 57 companies responded to the survey, quite clear patterns and preferences emerged from their answers.

From the corporate point of view, only 1/3 of the companies had worked with startups in the past but more than 2/3 (77%) were willing to do so in the near future. Three main motivators to do so were

- 1) testing and piloting new ideas (75% of respondents)
- 2) access to new technologies and business models (65% of respondents), and
- 3) jointly developing new products or services (52% of respondents).

Intriguingly enough, bringing the startup methodologies and mindset to a big corporation was just the next most important benefit that big enterprises saw in collaboration with startups (42% of respondents).

This shows that startups, in the eyes of the traditional enterprises, have proven their ability to be innovative and creative both in sensing the market opportunities and business model design, excel at creating and deploying new technologies and operate in an efficient mode in terms of methodology and culture. And all that to the level where corporates admit that these are the things worth learning from startups meaning that they bring value to corporations.

From the startup point of view, the picture looks even more optimistic - or desperate, if you prefer. Almost 2/3 of the startups (62%) had been engaged in some kind of cooperation project with a corporation and all of them - 100% - were willing to do so in the near future. The main value that the startups saw was

- 1) growing their company's value by having a well-known reference partner (65% of respondents)
- 2) access to corporation's customer base (54% of respondents)
- 3) access to new markets (geographical or new customer segments) (50% of respondents).

Reasons that follow are about corporates' resources, network, know-how and ability to cope with risks. This clearly shows that yes, startups are equally interested in corporates as well but completely for different reasons.

The results showed that the reasons for startup interest in corporates are mainly related to their size and age-related credibility, whereas corporate interest in startups is mainly driven by admiration of their creativity, innovativeness and efficiency. So, like in personal life and relationships, people fall in love with each other for qualities that they lack themselves but would love to possess, and - the opposites attract. What has changed over time until recently is that startups have managed to prove themselves and erased all doubts that they would be just “one season stars”. Today everybody is convinced that startups are able to transform industries and have a global impact, so it’s long about time to start taking them seriously. At the same time, the startup founders today find themselves amidst a “startup boom” where new startups are born every moment in every area of the world. With new advanced technologies, more entrepreneurship-focused educational system, social pressure and abundant support systems contributing to the growing competition for investor money and customers, excellent implementation capacity is becoming more and more important. This is where a reliable and strong corporate partner has the potential to make a difference.

Even though we can see the change in the mindset and readiness to collaborate there are still many obstacles that need to be overcome to improve the practical and administrative organisation of the cooperation. For instance, corporates admit that often there is no intrapreneur position in the company - the person who would be the main contact between them and startups and who would be able to assess and prioritise the topics of interest and potential joint opportunities. As a result, it’s difficult to sell a project internally and the scepticism towards the startup ability to perform and provide value remains. Also, corporate regulations, decision making and budget related processes are still too strict and slow to accommodate innovative joint projects with startups. On top of that, even if corporates are willing to take the leap and open themselves up to new opportunities they often don’t know how and where to start and lack information about the startups and their solutions.

Whereas startups confirm the challenges related to innovation management, corporate bureaucracy and not suitable corporate processes, they claim that it is often difficult to identify and define corporates’ specific needs and pain in order to help them with fitting solutions as corporates do not know what their problems are. This indicates that in product development still today many corporations have not adopted the needs-based innovation approach and ultimate customer focus and apply more the approach where they have built the solution before defining the real problem.

The main outcome of the survey and interviews though is that there is a strong mutual interest and willingness to find common ground and set up joint initiatives.

### **Dating assistance at Tallinn Science Park Tehnopol**

With a variety of stakeholder groups, abundance of business services available and numerous players in the ecosystem, STPs are still often struggling to reach and maintain a remarkable degree of financial sustainability around their core activities (business development services, incubation services, real-estate related services, technology transfer etc). Still today, in many cases it’s the real estate management that keeps the STPs in operation, plus “public” money from the EU projects, state or regional government. Neither of these funding strategies is sustainable in the long run, in the first case an STP would lose its sense of purpose by becoming primarily a real estate management project, in the second case it would depend on funding with a short deadline and dependant on external factors. This means that developing new value-adding services to well-paying stakeholders for creating new revenue streams should be the priority of any STP who strives to be resilient in their operations.

With the aim of increasing its long-term financial sustainability Tehnopol has developed two new knowledge-based initiatives into its business services portfolio which are targeting both of the discussed valuable stakeholder groups, startups and big corporations. One of the initiatives, Level11 programme is funded by the allocations from the EU structural funds and allows Tehnopol to enrich the scope of value provided to incubation or later stage startups and medium size and large corporates. The other, Momentum, is a paid innovation service targeting medium size and big enterprises plus public sector institutions and is designed to boost innovation within and throughout organisations. Both programmes run at the forefront of the up-and-coming trend of doing innovation in a more collaborative and less traditional way.

Neither of the programmes does not have any implementation limitations in terms of specific industries, only smart specialisation component is required of Level11 projects. Nevertheless, as Tehnopol's core competences focus around three business areas - ICT, green tech and health tech - it means that with programme activities with a focus in any of these three Tehnopol contributes to the UN SDGs number 3 (good health & well-being), number 6 (clean water & sanitation) and number 7 (affordable & clean energy). SDG number 8 (decent work & economic growth) is addressed with innovation-for-growth services in all cases by default.

On top of those two recently initiated innovation programmes Tallinn Science Park Tehnopol provides business incubation services for startup companies, business development services for growing companies and SMEs, and real estate services for tech companies mostly. The main source of income today is the real estate that brings revenues to cover the cost of providing business services. Today there are more than 200 tech companies and around 40 startups in Tehnopol.

#### *Case study 1 - Level11 corporate-startup cooperation programme*

Level11 programme is initiated to connect Estonian corporations with Estonian startups to encourage joint innovation initiatives. Over two years' time it aims to bring together at least 50 corporations and 60 startups to build at least 7 success stories of collaborative R&D, product development, product validation, cross-marketing or any other joint activity between the big and the small. The programme is financed by the EU structural funds and implemented together with a partner organisation. Therefore, all Level11 services are free for those subscribed to the programme.

For both target groups, corporates and startups, the programme offers a variety of services, some very customised, some less so - events, innovation audits, workshops, Innovation Leaders' Club meetings, matchmaking services and joint project accelerator. The ultimate goal of each of the activities is matchmaking to identify and then accelerate joint innovation projects where a corporate and a startup engage in mutually beneficial cooperation in product development, market research, product testing, development of bundle offering, or any other area of their business where they can find touch points.

The number of people currently participating in Level11 events and the attendance rate compared to registrations has exceeded our expectations. We clearly see a remarkable interest, in corporations especially, for knowledge and practice sharing, for learning about latest innovation cases - both successful and not - in their industry, for finding out all about how to become but also how to look more agile, more innovative, more open to doing things differently from today (Innovation Leaders' Club). Interest in the innovation audit service within Level11 programme is a welcome indication of corporates' willingness to dedicate energy and resources into developing innovative solutions even though they don't know today where exactly to start from.

For Tehnopol, Level11 is highly beneficial mainly in three aspects.

First, it brings together the majority of Estonian medium size and big enterprises and startups and therefore builds a valuable collection of professional contacts and knowledge about the problems and solutions of some of them. As a free of charge and innovative programme attracting a lot of attention it is helping Tehnopol to broaden its professional network and successfully expand it beyond its three focus areas. We already see and deploy the synergy that derives from the Level11 contacts passed on into Tehnopol's other projects, or the other way around. For instance, since this year Tehnopol is also starting a deep dive into the digitisation of industry topics and we address our Level11 contacts within manufacturing sectors to involve them in the smart industry events that we organise. Or, we pass on some new startups that we have identified during Level11 matchmaking events to our green tech projects to apply for a grant for their product development. Or, we identify and use good mentors that we have met at some of our Level11 events in hackathons that we run for other projects or companies. The Level11 contact network has turned out to offer a variety of input into Tehnopol's other activities and even though not all matchings within the programme do not necessarily end up with a Level11 cooperation project they might lead to a valuable outcome in a different context within Tehnopol's framework.

Secondly, related to the previous point, Level11 serves to build a sales pipeline for Tehnopol for Momentum innovation services where Tehnopol can offer more advanced content to Level11 participant companies but not for free any more. This has mostly to do with two aspects - firstly,

innovation audits, and secondly, the credibility of Tehnopol as an innovation expert. In the process of innovation audits for corporations we learn about their pains and innovation opportunities in their organisation. In case we don't have a matching startup solution to propose for their challenges at the time we can still help them with a Momentum innovation programme and still help work out a solution for them, no matter that it does not involve cooperation with startups. And, once having seen and participated in Level11 programme activities and having had their first positive experience with Tehnopol as an organisation the corporations are much more willing to buy a paid service from us or at least ask for a proposal.

Thirdly, Level11 programme implementation creates a structured need for Tehnopol for testing and developing different customised innovation services for companies, especially corporates. With Level11 activities we learn by doing, we see what works and what doesn't, we modify the programme content and focus on the go - one could say that we apply the startup methodology ourselves when carrying out the programme. For example, we have learned that startup-corporate matchmaking works better when introducing startups' solutions to corporates instead of introducing corporates' problems to startups. Also, that a third party guidance and structured approach is crucial in most cases where startups and corporates try to work together as they still need a "translator" who would help them speak the same language and interpret the other one's actions. These and all other findings in the process are valuable when we want to execute similar activities in Tehnopol's other projects and programmes.

By June 2018, a bit more than one year since the Level11 programme started, we have accepted the first four startup-corporation couples to the programme accelerator and they are starting their 6-9 month acceleration programme - 1) a project to develop a chatbot to help a person purchase and set up a security alarm kit and service at home, 2) a project to test and improve an online collaboration tool for construction sector to allow real-time modification and specification of project designs and blueprints, 3) a project to improve a sensor module and image processing camera and validate it for monitoring product quality in industry automatics domain, and 4) a project to develop and test an automated methodology of identifying potential HIV-patients during a regular doctor's check-up.

#### *Case study 2 - Momentum innovation services*

Momentum is a tailor-made innovation programme for corporates and for public sector institutions alike for kickstarting novel solutions in their organisations. The goal is to make them faster and more agile by leveraging the entrepreneurial potential of an organisation and apply startup innovation principles in their daily operations.

Traditional enterprises in a stable growth phase feel the pressure from the startups on the market in terms of them being faster, more adapted to the market needs and more competent in applying customer-focused and validation driven innovation processes. Startups are the ones shaking the markets more often and corporations want to keep up. With the innovation and R&D budgets increasing and with not many innovation service providers for corporates on the market yet, Tehnopol is seizing the opportunity to sell its startup innovation methodology expertise.

The different formats of activities within the Momentum "puzzle" are partly similar to Level11 offering (innovation audit, workshops, project mentoring) but partly different as designed to build on a company's own internal innovation resources (innovation inspiration events, hackathons, internal competitions). When for Level11 only startup-corporate cooperation projects are eligible, Momentum programmes can be offered either to one organisation only as an internal programme, or a group of organisations, or for the whole community including clients, suppliers etc, or a corporate and startup pair. When Level11 is available for Estonian companies only, Momentum innovation services can be requested by any organisation, no matter their origin, type or size. The Momentum programme in a company can be designed to last any time between one day and more than a year.

Momentum's main value for corporations lies mostly in four aspects

- 1) applying the lean, agile and customer-centric problem solving methodologies that startups practice
- 2) involving different external stakeholders into the innovation process, like customers, suppliers, partners, industry associations, scientists and students, public authorities, etc

- 3) engaging external mentors into the innovation process, both with industry and competence specific profiles
- 4) designing for long-term impact of each innovation project, starting from preparatory work of needs mapping and ending with months long incubation of the best ideas to guarantee ultimate market launch.

Momentum is not a one-off project for Tehnopol, it is a newly packaged permanently available paid service for corporates and other large organisations seeking to innovate. In addition to creating new revenue streams and thus serving as a means to build the highly sought for financial sustainability, Momentum innovation programme brings along other opportunities for Tehnopol. Via promoting and selling Momentum Tehnopol can find new potential customers for its business development services, new startups can be born which Tehnopol can invite and accept to its Startup Incubator and as a generic benefit, this all builds Tehnopol's reputation as a reliable innovation expert in the startup ecosystem, in the corporate world and equally, among the public sector organisations.

Today, in June 2018, Tehnopol is having seven Momentum proposals in the selling process while having implemented four projects since 2016 already which are Momentum projects by content but not by name yet at the time. The longest has been a 14-month project in health tech, HIVdigital, which resulted in developing two new digital health solutions and founding two new digital health startups.

### **Invitation to the wedding**

Today Tehnopol has two great innovation programmes running serving the needs of both, startups and corporates. These programmes conveniently complement each other, create synergy and bring along additional benefits while also resulting in new revenue streams for Tehnopol. In both programmes one of the innovation formats is corporates doing joint innovation projects with startups and we see that the interest in this kind of cooperation is constantly growing. Both partners have become aware of the opportunities that dating with the other one creates, they are opening up to build strong relationships and have already engaged in several projects hand-in-hand. This can mean only one thing - there are more weddings to come!