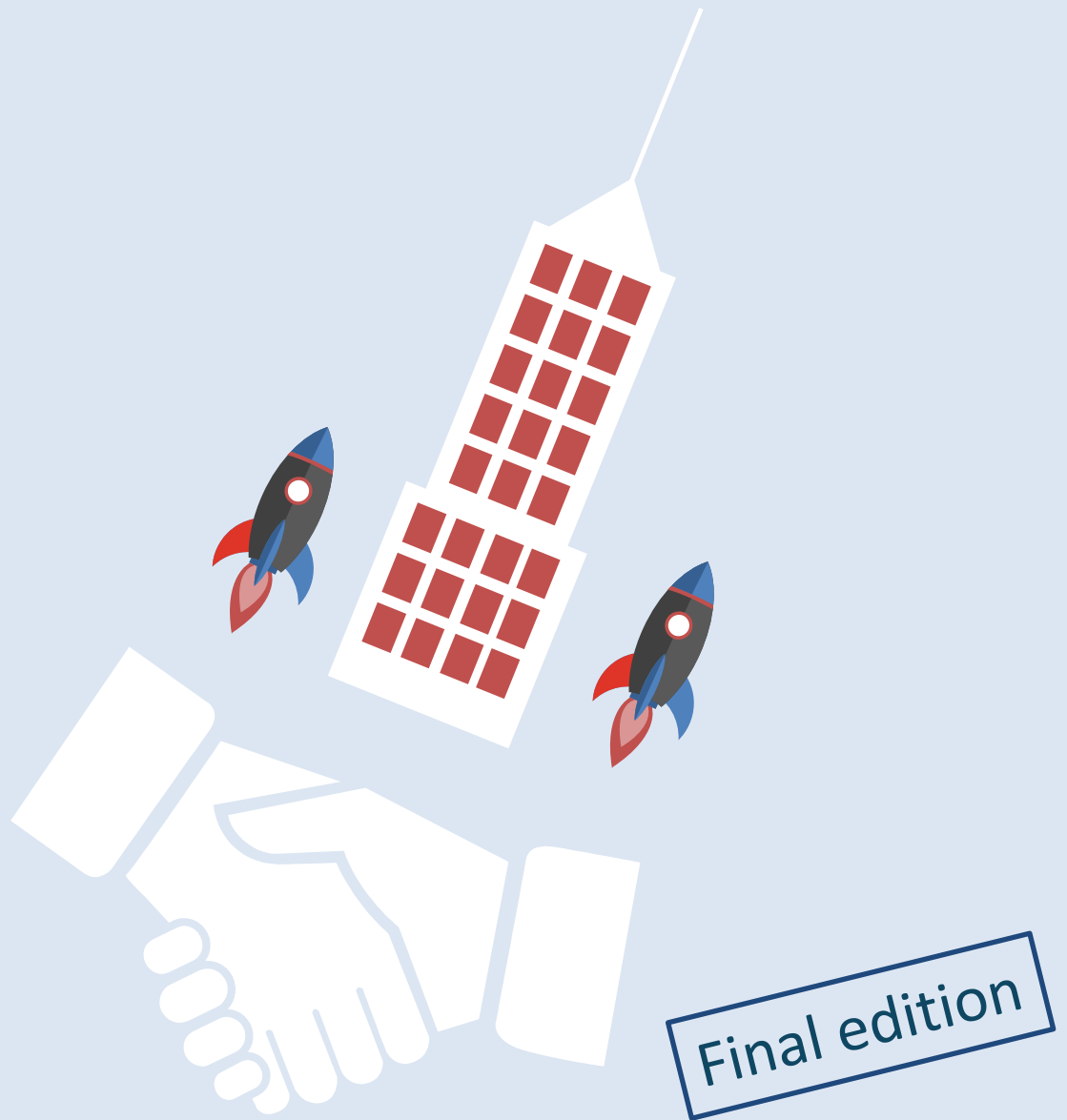


The Value Creation Observatory an EIPM Laboratory



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



About EIPM

EIPM is at the intersection of the business and academic worlds, with an approach to education (grounded) established in the reality of business.

Currently, with branches in Geneva and Shanghai and partnerships in Brazil, Mexico, USA, Canada, the United Arab Emirates and India, the Institute has developed a complete range of solutions to meet the training needs of its large base of international clients in all sectors of industry and service.

About CRG

Founded in 1972 by the Ecole Polytechnique (France), CRG (Management Research Center) is the first laboratory dedicated to research in management to have been recognized by the CNRS in 1980. It is an active component of the Interdisciplinary Institute for Innovation - i3 - (UMR CNRS 9217) which includes teams from Mines ParisTech and Telecom ParisTech.

The unit is organized into four programs: Strategies of Innovation and dynamic systems design; Strategies, structuring and regulation of markets; Information Technology and Communication: Organizations, markets; and Creation, organizational and societal creativity.

CRG approach brings together theory and practioner's perspectives to seek solutions to problems faced by managers and organizations, putting knowledge into action.

The Value Creation Observatory

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

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

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

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TIME TO PARTNER WITH START-UPS!

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

AUTHORS

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Romaric is an associate-researcher at the Management Research Center of Ecole Polytechnique and an entrepreneur. Specialist of innovation breakthrough management and open innovation management, he teaches, researches, consults and practices around these subjects. He began his career in LVMH group and further transferred to highly innovative BtoB environments the interest of building high quality relationships. The core of his research works, conducted together with entrepreneurs and with large firms, focus on three main questions: *How to industrialize collaborative innovation? What is the role of Purchasing in Open Innovation? What is the place of trust and interdependence in innovation cooperations?*

The specificity of his approach is its implication in the « how » and in the « what » of his missions. Based on an ethnographic approach, his work on Purchasing is rooted in his personal involvement in the Innovation-Purchasing of a multinational, scouting and integrating innovative organizations to their innovation processes and continuously developing new management methods based on these experiences. He was awarded best French doctoral thesis in 2017 for Purchasing, and best French academic work « Purchasing Trophy » by CDAF in 2016.

Hervé Legenvre, PhD

Hervé blends the best of the academic and practitioner thinking to create a unique learning experience and engaging articles. He continuously looks at the trends that will shape the business world in the future. He believes that the competitive edge of companies will increasingly be co-created with suppliers as innovation needs to be seized outside. He builds on his wide knowledge of invention, innovation and business excellence to create new tools and practices that help engage everyone on what counts most in a fast changing world.

Hervé worked for Renault Consulting where he transferred some of the first lean six sigma programs to Europe. He later joined EFQM where he led the latest major revision of the EFQM Excellence Model and the European Excellence Award. At EIPM, he was responsible for the EIPM Executive MBA since September 2011. Presently, Hervé acts as an assessor for the EIPM-Peter Kraljic Awards and is the Director of the Value Creation Observatory. Hervé is a regular speaker during in-company and public conferences, he is also the author of two books and he frequently writes articles and research reports

METHODOLOGY

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

CONTENT

Executive Summary	page 6
1. The Rise of Dynamic Ecosystems	page 7 – 10
Traditional Value Chains are being replaced by Dynamic Ecosystems	page 9 – 10
2. David and Goliath are Ready to Work Together	page 11 – 14
Why Start-ups & Large Corporations want to Work Together	page 12
Interview: Start-ups, Procurement and the Pharma Industry	page 13 – 14
3. Roadblock Ahead!	page 15 – 18
Why is it so Hard to Realize	Page 16 – 17
The Collaboration Landscape	Page 18
4. The Collaboration Framework	Page 19 – 22
Purchasing Involvement in Successful Start-Up Relationships	Page 20
Interview: Open Innovation at Veolia	page 21 – 22
5. Some Tips and Tricks	Page 23 – 34
5 Tips to Find Start-Ups You Could Work With	Page 26
5 Tips to Manage Early Exchanges with Start-Ups	Page 27
5 Tips to Build and Sustain Solid Partnerships with a Start-Up	Page 28
5 Tips to Overcome the Scalability Challenge	Page 29
Interview: Partnering with Start-ups at Faurecia Seating	page 30 – 32
Interview: Partnering with Start-ups at Vodafone	page 33 – 34

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

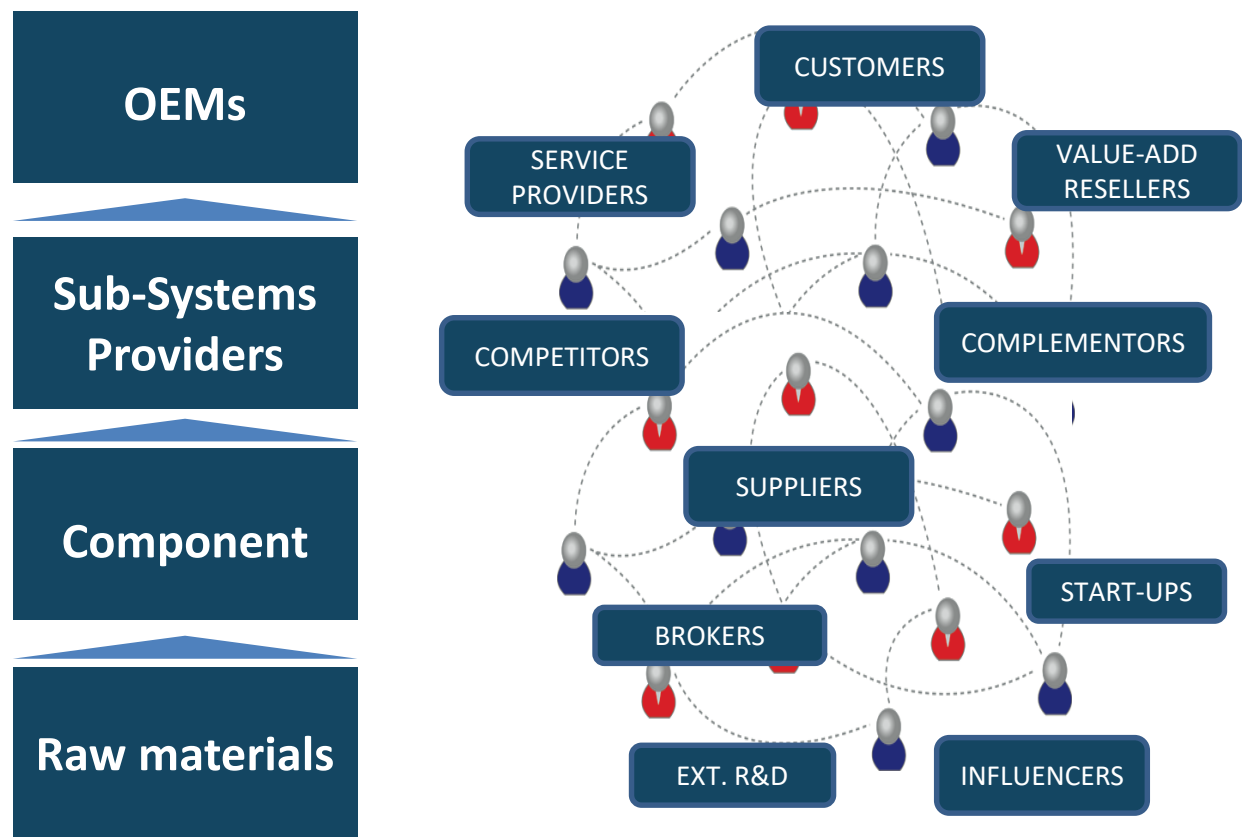
1. THE RISE OF DYNAMIC ECOSYSTEMS

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

TRADITIONAL VALUE CHAINS ARE BEING REPLACED BY DYNAMIC ECOSYSTEMS

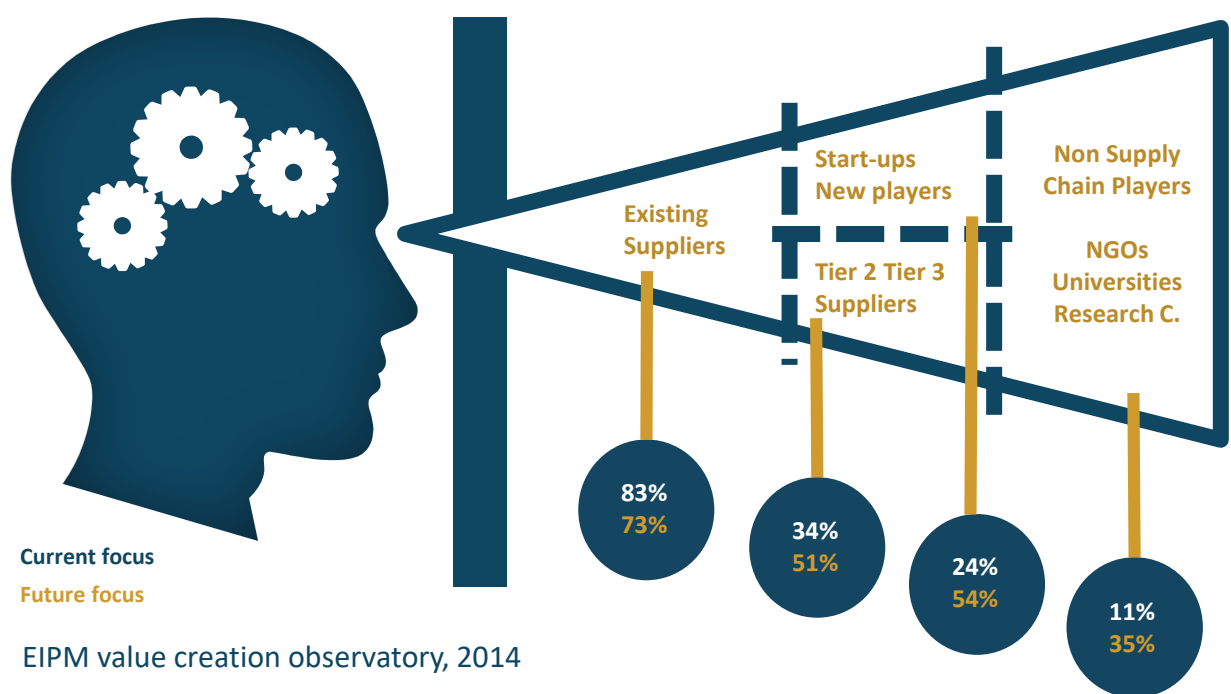
IBM used to be a vertically integrated company capable of transforming sand into algorithms. Today IBM is one layer within a broad ecosystem of companies and innovators. Thirty years ago Industries were depicted as a chain of players with sequential inputs and outputs. Today these giant economic silos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

From Value Chains to Ecosystem



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

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



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



Fishing in the neighbourhood

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



Shaping future fishing grounds

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



Fishing in unknown territories

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

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

2. DAVID AND GOLIATH ARE READY TO WORK TOGETHER

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

WHY START-UPS & LARGE CORPORATIONS WANT TO WORK TOGETHER

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

<i>The Start-up Agenda</i>		<i>The Corporate agenda</i>	
01	Get important and stable clients and markets	01	Early access to new ideas, skills, talents and business models
02	Obtain references; reputation enhancement	01	Follow the trend ; Image and brand enhancement
03	Cash	03	Access to new markets
04	Accelerate growth	04	Get a shot of Entrepreneurship culture
05	Mature idea / Technology with client	05	Test innovation outside the firm's boundaries



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

Start-ups, Procurement and the Pharma Industry

Interview with an EIPM Executive MBA Alumni working on a procurement digital initiative in the pharma industry

Question: What does digital mean in the pharma industry?

Healthcare will go through a major digital transformation in the years to come. This is rapidly becoming the innovation focus in our company. Machine learning will transform how we capture value from data across all our activities, from advanced research to patient relationship management. Health related apps are becoming increasingly common; they are used by customers, doctors and patients. Technology giants such as IBM, Microsoft and Apple are becoming active players in our industry. We have collaborations with some of these companies; we recognise them as both partners and competitors. In my company we have had some recent top executive appointments of people who have a clear mandate and a vision to drive this digital transformation.

Question: What will be the main digital priorities for pharma companies?

We will need digital capabilities across the whole business, but yes, we can outline three main areas with a more strategic focus. First on the R&D side, we have a very large drug research database and machine learning will play a key role in extracting new insights, even from old data. This will radically transform how we accomplish research. In drug development, this is all about getting faster to market. Digital innovation will re-invent how we design, initiate and manage clinical trials. Secondly in the commercial area; our industry is moving towards more outcome-based pricing models. So instead of paying for the pill, we could be rewarded for the final results, when the patient is cured or when some statistics show positive trends. Therefore, this will change how we work with data. Also on the commercial theme we will have new and more diverse offerings powered by the internet of things. Connected devices and sensors will gather data and health applications will be used by patients and doctors. In November 2017 the American Food and Drug Administration has approved the first pill with a sensor inside that will inform doctors about the usage of the drug. It will be it for the treatment of schizophrenia, but this is only a start. And finally, the digital transformation should also bring support with automation and achieve more efficiency in our internal business processes.

Question: So what are the implications for Procurement?

Our Chief Purchasing Officer wanted us to be on the forefront of this transformation. I was therefore appointed to a new role on digital procurement. Our mission is to support with innovation, to help access digital capabilities and to support the business' digital agenda. We will need to access such external capabilities from technology firms and from start-ups to progress in our digital agenda. The focus is not on how to make the procurement process more digital and more efficient, but to support the business with a broader agenda. We have already identified different priorities across our procurement category landscape. Some of our categories were digital from the start. Here we need to build on what exists and improve. Other procurement categories are going through a major shift with radical innovation and new players coming in. Digital marketing or Clinical trials are a good example of this. Here our role is to support this change as we are talking about game changers with key business impacts. These impacts invariably mean reduced cost (in the long term) and/or improved user experience. Then we have other categories where digital transformation will act as an enabler. This is the case of logistics and distribution for instance. Here we also need to identify and encourage solutions that will bring business value.

Question: Will managing relationships with start-ups be important?

Yes! There are indeed some critical expectations here. Procurement needs to find ways to help the business work with small niche strategic start-ups as they will contribute to the ambition we already discussed. Clearly this will mean putting traditional methods of buying aside and approaching procurement with fresh perspectives. We already have cases where we established collaborations with mobile app pioneers for specific health issues. As I jumped into my new role, I could see the immense gaps we could be confronted with in the future. This start-up had a scarce understanding of our business practices which are incredibly heavy in such a context. A series of interviews with internal stakeholders and the history of some of the start-ups we have worked with already helped me to understand what will be at stake. For a start-up, the main challenge was to cope with multiple points of contact and our complexities. For them, changes in the organisation were also an issue. When one of their contacts left the company or changed jobs, they had real difficulties in figuring out what to do. In a nutshell, we need to offer them: visibility, simplicity and some terms and conditions appropriate to their financial situation. On our side we need to improve our ability to manage issues related to data security, data ownership and intellectual property.

Question: So what is the value of procurement here?

We have made a promise to the business that it will be infinitely easier to take on-board strategic start-ups in the future. We mapped our processes, contemplated our own complexities and it is clear that our first priority is to set up what I describe as a “concierge service” (caretaker service) for a strategic start-up. This sounds basic, but it is critical. We need to have a special lane for the strategic start-ups that could contribute to the strategic areas mentioned above. This will not be applied to any start-up that someone in the company may want to work with in the future. We will be selective. Beyond this, we also need to support the company’s decision making processes, especially on the trade-off between risk and opportunities. We have a duty to patients and the broader industry to manage data and information responsibly.

Question: And beyond these specific services, where would you see future development?

In the long term we believe there are opportunities to support the business more with mapping ecosystems, scouting and screening interesting digital partners and start-ups. We also believe that more can be done in terms of the management of relationships. But for today, our priorities are set and the challenge is high. As we demonstrate our relevance and our capabilities, I am confident we can provide more value. This will be a demanding, but an exciting journey.

3. ROADBLOCKS AHEAD!

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

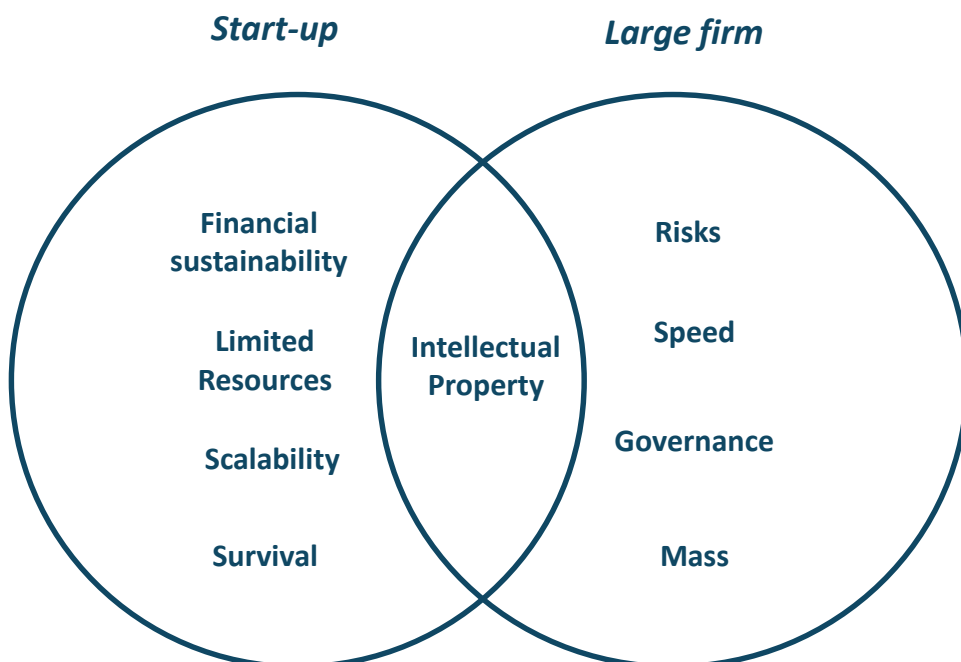
WHY IT IS SO HARD TO REALIZE

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

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

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

Main collaboration challenges to deal with

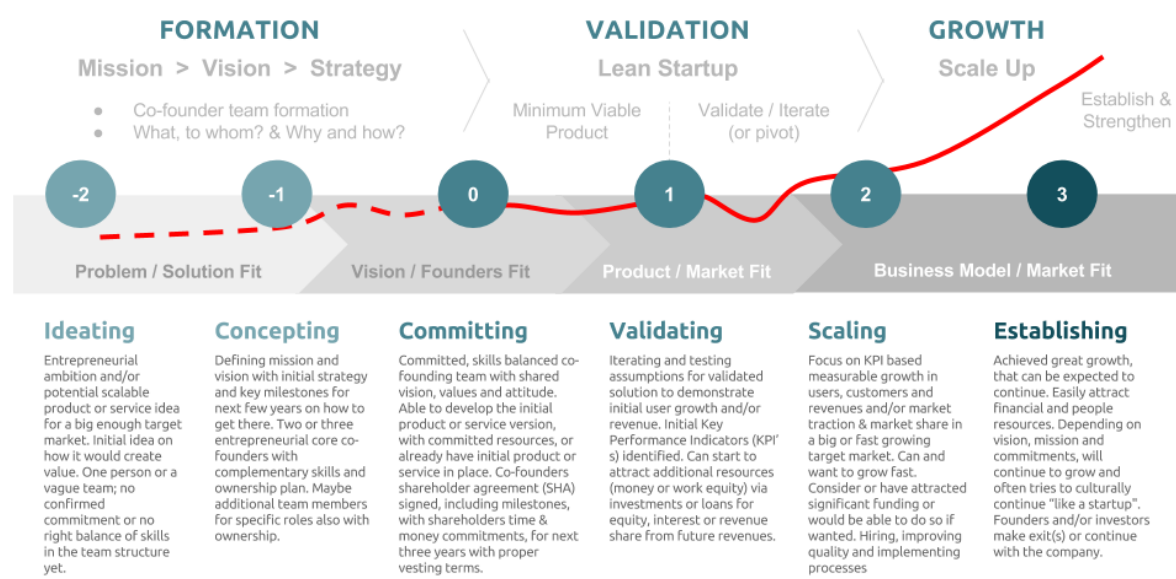


For the start-up, it is quite difficult to find the door to enter into the large firm, and then to find its ways inside the labyrinth of processes and organizations. With the proliferation of Open Innovation actions such as hackathons, corporate venture capital structures, incubators,... the dead ends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

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

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

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



Startup Development Phases - From idea to business and team to organization.

Version 3.0 - www.startupcommons.org



THE COLLABORATION LANDSCAPE

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

Type of engagements	Corporate venturing teams	Innovation team	Procurement team	Communication team
Hackathon and crowdsourcing		✓	✓	✓
Pitch competition		✓	✓	
Incubator		✓		✓
Corporate Venture Capital	✓	✓		
Accelerator		✓	✓	✓
Publicly funded research projects		✓	✓	
Innovation partnerships / co-development		✓	✓	
B2B meetings		✓	✓	
Procurement		✓	✓	

✓ Natural involvement
 ✓ Random involvement

Nevertheless, the majority of these new forms of engagement leads to communication successes rather than business successes. This can be explained by three main factors:

- the over-focus of large firms on market intelligence and communication
- the lack of maturity of start-ups that oversell their innovation
- the lack of knowledge on both sides on how to build up and manage such innovation partnerships

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

4. THE COLLABORATION FRAMEWORK

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

PURCHASING INVOLVEMENT IN SUCCESSFUL START-UP RELATIONSHIPS

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

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

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

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

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

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

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

Open Innovation at Veolia

Interview with Yann Moreau, Ph.D. Director Open Innovation & Innovation services. VEOLIA RESEARCH & INNOVATION

Question: Could you describe Veolia's Open Innovation programme?

Our Open Innovation programme has two main objectives. The first is to search for innovative technical solutions that could contribute to the improvement of our operational performance. The second is linked to the group's growth plan and the will to continuously make new offers available to our clients. In both cases, we endeavour to establish partnerships with start-ups or innovative companies. This enables our Business Units or Corporate Entities to benefit from emerging and innovative solutions. In practical terms, the partnerships can include Licence agreements, Co-distribution, Co-developments, Teaming agreements etc.

Question: Has this programme experienced major evolutions over time?

In the beginning the programme was very open. We presented our activities and invited Start-ups interested in collaboration to contact us. Once a contact had been established, our experts carried out a first technical evaluation. In cases where a potential was detected, we solicited our Business Units in order to identify collaboration opportunities. It was a purely exploratory and very opportunistic method. An assessment shows us that with this approach the work can be intensive, but the levels of transformation are weak.

Question: So, what have you changed?

To increase our efficiency, we inversed the logic. At present we begin with the needs or opportunities expressed by our Business Units. They call on our services when they have an innovation need which could be resolved via a partnership with an innovative Start-up or SME. Internally, our service comprises sourcing, benchmarking of solutions and support in establishing partnerships. Working up front with our Business Units is essential to precisely identify challenges and opportunities, to understand those which are eligible for Open Innovation and to organise the search for solutions. For serious challenges which are very close to our core business, and where it is preferable to hold on to our patent rights, we shall have a preference for internal R&D. Open Innovation will create more value where needs have been identified in fields where internal expertise is less developed.

Question: How is this Sourcing carried out?

We have several approaches. Our sourcing strategy is created in relation to the objective. We can either adopt a very open, public, visible to all approach or alternatively, a more confidential approach in order to avoid alerting competing market players. Our sourcing generally comprises a web search, a search on free or paying data bases, an internal investigation to identify any already known solutions, the use of platforms to post a call for innovative solutions and the soliciting of business incubators or accelerators in our network. Occasionally we use consultants to complete our sourcing. Currently, we integrate the team specialist of technology intelligence. This gives us a direct access to the search capacity for patents and scientific literature. The acquired experience in sourcing enables us to know which direction to gravitate towards and discover good sources of information. Some information sources are more useful than others, notably if they include technical details and analyses. This helps us to rapidly see if the Start-up could correspond to our needs.

Question: How are the first exchanges made?

To begin with we use all available information to understand the maturity of the solution and its alignment with what we are looking for. It is important to be selective from the early stages. For the solutions which have been chosen, we seek to organise a first discussion with the Start-up to make their acquaintance and clarify expectations on both sides. If the opportunity is confirmed, we then sign an NDA (Non-Disclosure Agreement) to protect our mutual interests and progress in the technical analysis of the prospective solution. Sometimes there are notable differences between the initial pitch and the real state of progress in technology. From time to time we suggest tests in real operating conditions. It is often on the basis of these tests' results that the idea of a partnership is approved. In parallel, we initiate the first discussions on the terms and conditions of the agreement between the Business Unit and the Start-up. At this stage, we need to make sure that both sides have the same perception of the business and the market, this is essential.

Question: What are these agreements composed of?

These agreements exist in various forms such as co-development, licencing, co-distribution etc. For all these cases, discussions take place principally between the Start-up and our Business Unit. Our concern is to put agreements in place that will mutually benefit both entities. The concept of a partnership is essential. There must be an interest for everyone, we are aware that these are young enterprises and that they need to develop.

Our role is to guide and lead the members of the partnership to ask the right questions. Every case is unique; to succeed, one must be sure of a good strategic alignment.

Even though we are able to engage a discussion concerning the terms and conditions of a partnership, we also have our own ideas. A partnership is a means amongst others to obtain access to the sought after innovation. One must be aware on both sides that discussions do not always arrive at a successful conclusion. Both entities should protect themselves and remain vigilant. On our side, the in-house legal advisers and purchasing staff can take part in the discussions.

Question: How do you manage the concerns linked to scalability?

Sometimes we work with Start-ups who have not yet reached the commercialisation stage. We can achieve agreements in the form of co-development partnerships where we contribute to the technology development. In cases like this, we build the solution together. This supports our partner in its ascension to the TRL (Technology Readiness Level). We have also occasionally made our sites available so that a Start-up can obtain a first reference and test its innovations under real operating conditions. Commercially, it is really necessary to think with the Start-up in terms of synergy and the opportunity of additional business.

Question: What are the future challenges?

Open Innovation could be faced with a paradox. The innovative solutions close to our profession are initially attractive to our Business Units. Often they are well understood and aligned to our core business. However, in this configuration, ascertaining the value and utility that could be generated by a partnership is not always clear. In many cases, our technology and/or internal expertise could enable us to achieve the same or even better results than those proposed by the potential partner. Open Innovation will create more value in areas where a specific need is present, but our internal knowledge and savoir-faire is less developed. In the case of less known fields, the perception of risk is greater. We are working towards developing our approach to avoid this bias. Our internal offer for our Business Units is also to guide them in minimising risks in innovative solutions.

5. SOME TIPS AND TRICKS

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

TIPS AND TRICKS

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

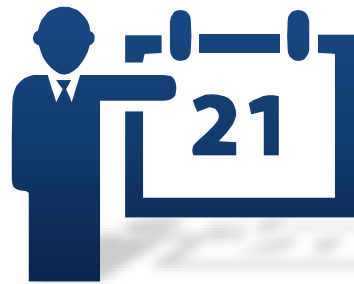
- Finding start-ups you can work with
- Managing effectively the early exchanges with start-ups
- Building and sustaining solid partnerships with start-ups
- Overcoming scalability challenges

These four dimensions and the items described for each of them can be used to assess and review your current experience managing relationships with start-ups.

You can look at each item, ask yourself about its importance in your context and then rate yourself from 1 to 5 depending on your maturity (from Ad Hoc experience to Systematic and Excellent)



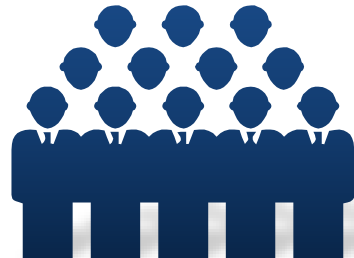
Finding good
Start-ups



Early
Exchanges



Scaling up



Solid
Partnership

5 TIPS TO FIND START-UPS YOU COULD WORK WITH

1

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

2

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

3

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

4

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

5

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

5 TIPS TO MANAGE EARLY EXCHANGES WITH START-UPS

1

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

2

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

3

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

4

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

5

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

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

1

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

2

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

3

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

4

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

5

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

5 TIPS TO OVERCOME THE SCALABILITY CHALLENGE

1

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

2

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

3

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

4

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

5

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

Partnering with Start-ups at Faurecia Seating

Interview with Hubert Delatte, Innovation-Purchasing Director of Faurecia Seating

Question: What are Faurecia's concerns for working with start-ups?

The first concern for Faurecia seating is to set in-motion new innovation themes. As such, start-ups are an excellent source for interesting and creative ideas providing value for us. They help to generate or complement future products and their functionality for our clients and end users. Furthermore, in comparison to certain more classical and greater sized suppliers, start-ups offer us a certain capacity of flexibility and reactivity, which is difficult to obtain by other means than by working with them. Through our experience, we have observed that start-ups are capable of responding to our needs, sometimes to pre-empt them with very short deadlines, occasionally by freeing themselves from internal administrative procedures that one usually finds in well established companies.

Moreover, joining forces with certain exceedingly technology oriented start-ups enables us to explore new ways of working not only on new products and/or fabrication processes, but also in the rules of conception and validation of our products.

Question: How is sourcing start-ups realised?

For Faurecia there are several ways. First, there are those who arrive directly via our internet site and who spontaneously send us their innovating ideas. Next, we are present and active in various ways within several innovation ecosystems around the world. Innovation Purchasing concentrates on Business oriented gatherings such as Techinnov or Les Rendez-vous Carnot in France. There, we meet start-ups who are looking for clients and seek to sell their products/services to test their business models and to confront possible clients in order to progress. At group level, there are Capital Venture Corporate funds and a corresponding global network in different countries (Israel, Silicon Valley, Canada, China etc.). The latter will source those start-ups whose technologies are linked to our strategic priorities. The group also participates in accelerators for start-ups' technologies and in academic networks which increase potential points of contact. Finally, we are also looking for direct suggestions from our internal experts and engineers.

However, sourcing is not only collecting start-up names and presentations; it is also a question of validating their potential for the company. Likewise, once a start-up has been identified as working on a potentially interesting subject, we in Innovation Purchasing will promote the idea internally to those experts and heads of innovation projects who are most likely to "buy" the idea. This is a question of personally presenting each start-up who falls into their field of competence and interest in order to realise an in depth investigation. An important concern here is that the person who will be in charge of the process of co-innovation with the start-up, if the co-innovation is accepted, should be involved from the beginning and should convince his/her hierarchy to engage in an interesting project.

When the initiative comes from Managers, there is a stronger compliance from internal innovators to engage in Innovation partnerships with start-ups. For Innovation Purchasing, this eventually requires a transfer of the start-up to the internal teams and to accompany them in the process of creating the partnership, so much so, that frequently internal teams declare themselves as those who have discovered the start-up – such is the proof that that Innovation Purchasing has made a successful transplant.

Question : What happens during the first exchanges?

There are two stages during the early exchanges of implementing the process in Innovation Purchasing. First, during the sourcing phase when we are rapidly discovering the start-up, we endeavour to identify the points of interest for the internal team and then present the validation process and partnership preparation. Next, are the exchanges with our experts and heads of Innovation. Between these two phases it is a question of identifying the latter, finding those which are pertinent in relation to the solutions brought by the start-up and to accompany them in their understanding of the solutions as well as imagining what could be envisaged with the start-up. Once the internal relay has been identified and the potential validated in theory, we organise a first meeting with the Start-up in order to make each other's acquaintance and measure potential possibilities. During two hours we exchange on our capacities, objectives and partnership management. This is about verifying that there is an interest on both sides to work together – not only from a technological and economic point of view, but also in the partnership philosophy.

Subsequently, once the idea has been judged internally as interesting, Innovation Purchasing organises an in-house meeting with R&D, Marketing, Purchasing and of course the project leader or expert who is the most motivated to work with the start-up. We then work together on drafting the functional & technical specifications, this action puts everyone in agreement on what we wish to develop with the Start-up, in which form, in which time frame and with which ideal economic model.

On this basis we return to the start-up in order to present a clear vision of Faurecia's decision and wish to work with them. It is also on these grounds that the negotiation for a partnership contract will be based. This in-house clarification before any external negotiation is key for the creation of mutual trust relationships.

Question: How do you overcome the concerns to increase capacity?

The ramp up in capacity of the start-up, that is to say its durability towards Faurecia will be at the heart of our first exchanges. It is particularly important when the product sold by the start-up is destined to be integrated into our products; indeed Faurecia's strength is to make their products available to our clients with the same level of quality and in large volumes all over the world. Thus, when we approach a Start-up with a first draft of functional and technical specifications, we endeavour to suggest a way to ensure this durability.

A first way of achieving this is to engage in iterations with the start-up; to do a series of orders and trials, to construct a line of innovations around projects defined together. This repetitive process helps to validate the pertinence of the start-up's products, as well as facilitating the progressive ramp up in capacity in order to be in line with Faurecia's operations. It also enables building relations with solid foundations in the fields of innovation and business. Afterwards, with each repetition we ensure that there is equal sharing of the intellectual property so that the start-up is able to explore other markets, sometimes with our recommendation or support. The challenge is for the start-up to be able to increase their client base and therefore finance their ramp-up in capacity. Also, if needed, we can suggest publishing our partnership in their fundraising deck or invest in their capital with our corporate funds.

Finally, in cases where there is a very rapid ramp-up in industrial capacity - and we have already experienced a case like this - we can put the start-up in contact with another supplier, whilst accompanying both parties in the formalisation of a contractual agreement. Subsequently, we continue to follow the relation's progress

Partnering with Start-ups at Vodafone

Interview with Neil Cocker, Director & Senior Partner - Tomorrow Street at Vodafone

Question: Why is working with start-ups key for Vodafone?

At the Vodafone Procurement Company (VPC), a key driver for our increased attention to start-ups is, of course, the digital revolution. While we recognise the ongoing importance of our established strategic suppliers, in our SCM 2020 strategy, we decided to specifically address how we manage small up-and-coming suppliers.

It is well-documented that digitalisation will bring a new wave of start-ups and smaller suppliers to every industry and we decided to be innovative ourselves in how we manage this change. Ad-hoc management of innovative small suppliers or treating them the same as larger suppliers is just not feasible anymore. Our Tomorrow Street initiative was built on that philosophy. The business case took shape very quickly and we launched in September 2017.

Question: What is Tomorrow Street?

Tomorrow Street is a new kind of innovation accelerator that focuses on growing late-stage start-ups. We focus on the verticals that are central to Vodafone's strategic priorities – Internet of Things, Cybersecurity, and Artificial Intelligence – but allow a bit of leeway for exciting companies working in other categories. Our team will work with them to facilitate opportunities for growth across Vodafone's footprint of operating companies and partners. Our focus is on delivering the right innovation quickly through Vodafone's supply chain and out to end customers.

Structurally, Tomorrow Street is a private-public partnership between the VPC and Technoport (Luxembourg's national incubator). The Luxembourg government has a visionary strategy to grow the country's tech sector and has been very supportive throughout the process of setting-up and launching our joint venture. Our model has been carefully designed to benefit everyone involved: the start-ups benefit from structured access to Vodafone's 500M+ customers, Vodafone benefits from quick and early access to innovation, and the Luxembourg economy benefits from the creation of jobs and the establishment of new tech companies in the economy.

Question: How do you work with purchasing teams and other stakeholders?

We work very closely with Category Managers in the VPC and also with our supply chain teams around the world. In a nutshell, we help each other to drive the innovation agenda. The Category Managers have great expertise in their product categories and often provide start-up recommendations to us; likewise, they often connect with us to explain what they're looking for, and during scouting we focus on finding start-ups with these particular solutions. During our Proof of Concept phase we also work closely with multiple Vodafone stakeholders to understand if the solution is ready for Vodafone and if it will truly bring a competitive advantage and benefits to our customers.

Our scouting process is all about building relationships. From Luxembourg, we travel to many different start-up ecosystems to explore opportunities and build connections with all types of stakeholders including Venture Capitalists and Accelerators. By building this external network and connecting it through to the Vodafone footprint we build real global knowledge and scale.

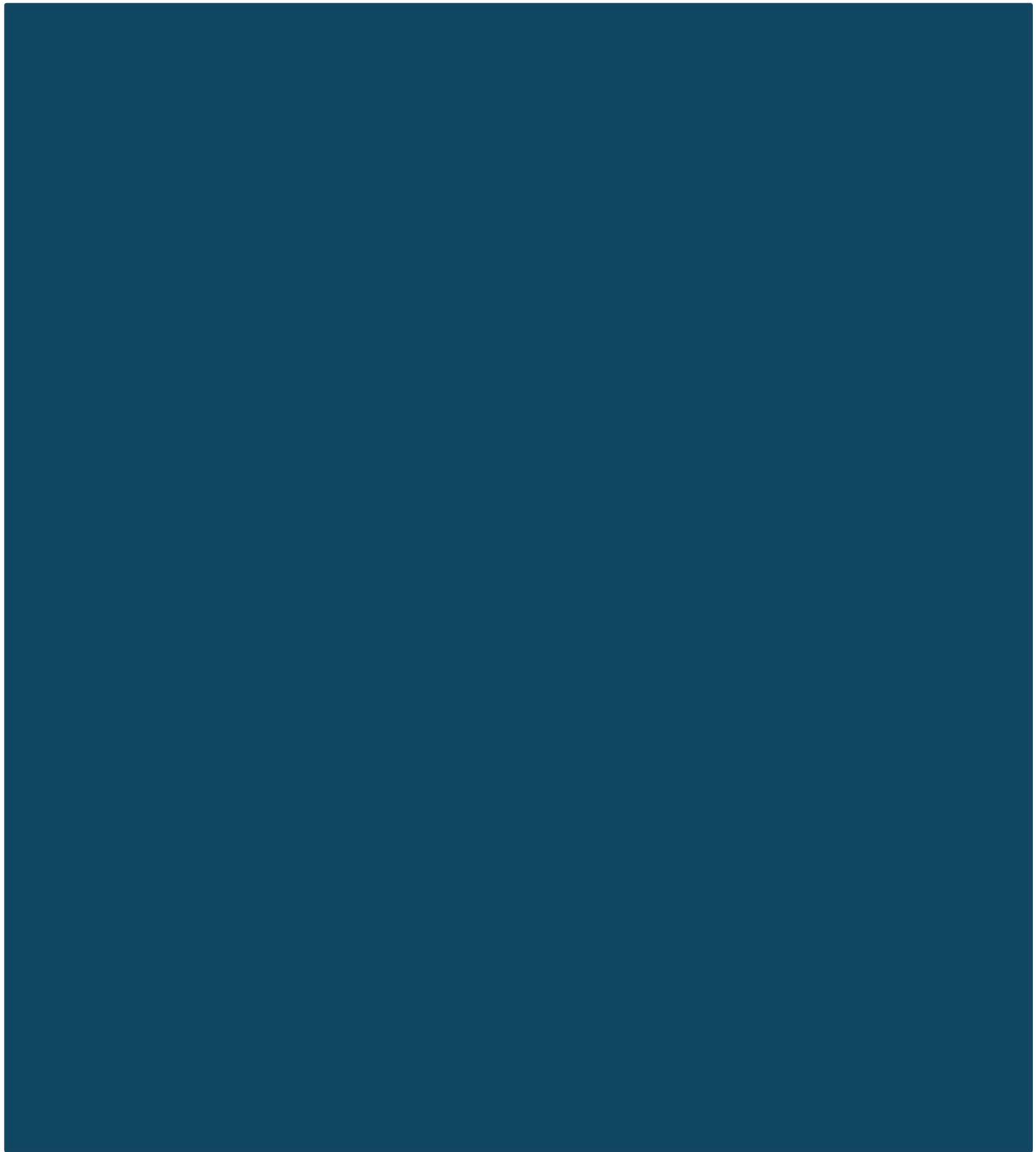
Questions: How does this work for the start-up after they join?

The human connection is really important – we have a team on the ground in Luxembourg and work face-to-face with the start-ups to help them tailor their product and pitches to maximise their opportunities. We help them understand the processes and speak the ‘language’ that is specific to every big company. Once the product is gaining traction in Vodafone, we then build a plan to take it to partners and 3rd parties, which may involve customisation. It is a bespoke experience for each start-up and their success is our success, so we work closely together with a common goal.

Question: And what about internal interaction with the procurement team?

Our lounge area has a very different atmosphere, and provides us with a unique space to welcome the Category Managers upstairs for a coffee and a catch-up on what’s happening in their category.

Overall, we are making great progress in our first year. If there’s one thing I learned about working with start-ups, it’s that the whole global scene runs on making connections and looking for ways to help each other. In this spirit, we are always very happy to connect with people worldwide, so if anybody would like to find out more about Tomorrow Street please feel free to get in touch.



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