Fortune 500’s: How They Think About Partnering With Startups

UNIVERSITY STARTUP DEVELOPMENT WEBINAR SERIES
Engage with NCET2 and the SDOs

1. Submit your IP or startups to NCET2
   • The SDOs and Corporates can review your IP or startup to determine if you are a good candidate for the Startup Development Program
   • Email us at startupdevelopment@ncet2.org to request a copy of the sample Application Forms (so you can prepare the information)
   • Formally accepting new submissions in November

2. Become an NCET2 SDO
   • Open to: Ex-Corporates in Open Innovation/Venture Capital, Serial Entrepreneurs, Active Angel Investors
   • Send your CV and with a short note about wanting to know more about being an SDO to startupdevelopment@ncet2.org
SPEAKERS

Glenn Vonk, PhD
Director of Business Development and Alliances
Former Director of Advanced Technology, BD

Michael Blaustein, PhD
NCET2 Startup Development Officer
Former Director of Corporate Venture Capital, DuPont

Steven C. Freilich
Director of Corporate Strategy
University of Delaware Energy Institute
BACKGROUND ON THE STARTUP DEVELOPMENT PROGRAM
Commercialization Model Timeline

Congress seeks to understand commercialization of $B137 annual R&D in Fed Labs / Universities

NCET2 Congressional Commercialization Summit – Corporate Sub-committee Formed

First Model Proposed

Model Vetting Roadshows: CA; PA; NY

Congressional Briefs

(Pilot) First Demo Day

Second Demo Day

Startup Development Officers Pgm Announced

IP2 Startup Pgm Announced

2015

2016

2017
This chart, the CCC, and the information presented here are the property of NCET2.
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Startup Development Program

• Congress funds $137 billion in federal funded research at universities and federal labs

• Excellent opportunity for researchers and entrepreneurs to build a university startup around that IP
  – Universities have programs to help you

• NCET2 Fortune 500 members and SDOs who will partner with university startups to help develop and fund those startups
Startup Development Program

• NCET2 Startup Development Officer will also help university entrepreneurs, faculty, researchers, and students create, develop and fund market aligned university startups (http://ncet2.org/sdo)
SDO SERVICES

• Early management teams of university entrepreneurs, graduating students, faculty, and researchers
  • Business plan
  • proof-of-concept
  • prototyping
  • early product development
  • SBIR, Angel, and VC funding

– “Commercialization Experiments”
  • Get to work with Fortune 500 companies, angels, VCs, and serial entrepreneurs to help commercialize university and Federal Lab technologies
Benefits

• Startups/Entrepreneurs/Faculty/Researchers/Students
  – Access to professional SDO talent to help create, develop, and fund your startup

• Universities
  – Moving IP to market for significant market impacts
  – Graduating students into startups and working with Fortune 500 and SDOs
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UNIVERSITY STARTUP DEVELOPMENT WEBINAR SERIES

Steven Freilich, Ph.D.
Michael Blaustein Ph.D.
Topics for Today’s Webinar

**Portfolio Management:** How science-driven companies think about their innovation portfolios and the role for start-ups.

**Partnering:** Considerations about partnering between large companies and start-ups.
Key Messages

• Large companies view partnerships with start-ups as an element of their innovation portfolio strategy

• Start-ups must define the role for large company partnerships in their development plan

• Imbalances inherent to these partnerships must be addressed through proper design and execution
3 characteristics enable a profitable science-based company

- Uncertainty Management
  - Balanced portfolio
  - Absorption of failure

- Knowledge Acquisition
  - Sensing
  - Absorb/Learn/Create

- Integrated Development
  - Across divisions
  - Throughout stages

Global Dynamics Challenge Science Companies

Markets rapidly commoditized

- Tough times for chemical and materials companies
- Margins squeezed; R&D becomes cost

Long innovation delivery times

- Requires funding by cash businesses
- Low success probabilities

Materials & Chemicals Profit Performance

J. Boring, T.J. Simons, McKinsey, Commoditization in chemicals 12/16

C. Musso et al, McKinsey Chemical Innovation 5/13
Businesses React To Market Pressures

- Businesses become “focused” - i.e. less diversified with a shorter-term mentality
- Shift spending from research to application development
- Eliminates front-end functions not required for short-term strategy and sales
- Violates characteristics of science-based business
  - Breaks the connection from discovery to commercialization
  - Reduces the ability to sense and incorporate new opportunities
- Businesses now need help to:
  - Know you are there
  - Leverage cost
  - Reduce uncertainties further down the chain
Start-up Partnerships: Portfolio Disrupters

- Manage with committed team within existing business using high level management oversight
- Manage with venture team or committed in-house team

- Manage within current organization using application development team
- Manage with venture team or committed in-house team

Good (incremental)  Poor (disruptive)

Fit with Company Momentum Strategy

Adapted from Christensen, HBR March 2000
**Potential partnerships with start-ups will be evaluated as innovation programs against a set of known success criteria**

<table>
<thead>
<tr>
<th>Management and Staff</th>
<th>Technical Uniqueness</th>
<th>Business Support</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well can this project be staffed across critical functions for each stage of development?</td>
<td>How sustainable is the IP position?</td>
<td>How engaged is business leadership?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business Model</th>
<th>Value Proposition</th>
<th>Validation in Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well-vetted and compatible is the business model?</td>
<td>How well-defined is the value proposition?</td>
<td>How well-validated is the value proposition?</td>
</tr>
</tbody>
</table>
• Compelling forces driving shift to externally-sourced innovation in science-based businesses, presenting both opportunities and challenges to start-ups

• Interplay with corporate strategy will govern the domains selected for externally-sourced innovation

• Program evaluation and management mindset will drive selection of specific companies within the chosen domains
Partnering with large companies delivers potential benefits...

- Market insight
- Early customer
- Access to expertise, resources, infrastructure, capability, IP
- Financial support (income and investment)

... with potential trade-offs for start-ups

- Reduced flexibility
- Demands on time and resources
- Perceived loss of independence and control
- Financial investor skepticism
Corporate Partnering Elements for Start-ups

- Partnership Purpose
- Attracting and Selecting a Partner
- Structures and Agreements
- Partnership Dynamics
- Exit Dynamics
Corporate Partnering Elements for Start-ups

Partnership Purpose

- Acquirer
- Co-Developer
- Supplier / Customer
- Evaluator

Critical Choices… Facilitated by NCET2 start-up Development Process

Mutual Strategic Commitment
Corporate Partnering Elements for Start-ups

Attracting and Selecting a Partner

• Break through the noise: Large companies are bombarded with possibilities

“In 3-5 years, where should our company be with the start-up? What do we need to do today to start on that journey?”

• Address the success criteria for a successful development in your partnership pitch: team, technology, IP, value proposition and validation

• Assess the potential partner’s commitment to your start-up

Partner Selection
Facilitated by NCET2 SDO’s with corporate experience
Corporate Partnering Elements for Start-ups

Structures and Agreements

• Driven by partnership purpose and strategy
• Area of investor sensitivity

<table>
<thead>
<tr>
<th>Agreement Type</th>
<th>Considerations</th>
</tr>
</thead>
</table>
| Confidential Information | • One way or two way?  
                           | • Cross contamination  
                           | • Protection of information |
| Licensing              | • Geographic and market fields of use  
                           | • Exclusivity  
                           | • Start-up → Company? Company → Start-up? |
| Joint Development      | • “Payment” for work by start-up and/or by Company  
                           | • Ownership of inventions  
                           | • Clarity of milestones and deliverables by both parties |
| Equity Investment      | • Start-up business model  
                           | • Additional strategic rights  
                           | • Board representation  
                           | • Participation in later rounds |
Corporate Partnering Elements for Start-ups

Partnership Dynamics

Start-up’s Concerns
• Corporate speed
• Corporate hierarchy and decision processes
  – Project / business team
  – Business Unit
  – Corporate Leadership
• Corporate commitment through business cycles
• Loss of IP control

Corporate’s Concerns
• Start-up’s capability to deliver
• Start-up’s appreciation of corporate realities
• Financial risk (investor)
• Start-up’s viability through financing cycles

Coaching on Dynamics
Facilitated by NCET2 SDO’s with corporate and entrepreneurial experiences
Corporate Partnering Elements for Start-ups

**Exit Dynamics**

**Start-up Considerations**
- Valuation at IPO or acquisition
- Impact of existing corporate partner/investor
- Financial investors’ drivers
  - Valuation
  - Timing

**Corporate Considerations**
- Strategic fit
- Asset vs. business acquisition
- Survival of rights when not the acquirer
- Rights to make offer
Summary

- Positioning a start-up for a partnership is tied to corporate portfolio management
  - Assessment of capabilities and risks
  - Assessment of program as an opportunity

- Address key factors to establish and execute a corporate partnership
  - Define the purpose
  - Find the right partner and structure for success
  - Balance benefits with constraints to keep all stakeholders on board