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CUSTOMER DISCOVERY: Module 5, Episode 2 – The Innovator's Dilemma

TITLE:

Why Some Startups Get Corporate Attention, Others Don't

DESCRIPTION:

Learn how scale, the "Law of Large Numbers," and a corporate's vision of the future all determine whether your startup will be interesting to them

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[LEARN@LIFT Episode Intro]

Hello again everyone. In our last episode, we discussed the different incentive structures that are in place for startups and large companies, and how those structures impact the level of risk each tolerate, and the deal-making process. In this episode, we'll dig into a related, but slightly different topic: why some startups are more interesting to potential corporate partners than others.

To begin, let's think about the basic reasons behind why large companies would find your startup interesting. A few that immediately come to mind are:

1 — you have a truly unique technology the corporate hasn't created

2 — you're operating with an innovative business model

3 — you can show a compelling level of traction in their market

Other less obvious reasons might be that your startup allows the corporate partner to enter into a brand new market — a market which they won't otherwise dedicate internal resources to explore — or, you can help make sure they're protected from a potentially-disruptive threat.

There are, however, an endless number of opportunities that are constantly being shared with corporate innovators. “Endless” is the word to focus on here. Some opportunities are sent by the innovator’s senior executives, others by their business unit leaders. Venture capitalists and investors also send their portfolio companies to corporate innovation teams. Their LinkedIn messages and emails pile up every week. And last but not least, the corporate innovation team itself usually scouts through different databases to find the opportunities that they believe best fit their focus areas. So, how can your startup break through all this noise?

Well, there are certain signals corporate innovators use to determine whether to pay attention to a particular startup, or ignore it. But before we go there, let’s put ourselves in the corporate innovator’s shoes and look at this from their perspective.

Whether or not it’s explicitly stated, every large company, as well as every internal department, has a vision for how the future will look. They actively think about which technologies will be relevant, where their existing business model is heading, where the disruptive threats will come from, and any adjacent trends that may affect them.

This isn’t always written down in some master document. Rather, it’s a mental framework that individual innovators develop over time, and disseminate in a more ad-hoc way to their colleagues through various conversations, meetings, and presentations. Some of their vision for the future will come from an internal “consumer insights” team. Other elements of their vision may come from consulting companies who their organization works closely with. Another chunk may be informed by the media and different anecdotes. And, a significant portion of their vision will be defined by the company’s employees based on what they’re experiencing.

Now, all of us operate with a certain level of confirmation bias. We look for information that validates the beliefs we already hold, rather than intentionally seeking out new information that points to a reality that’s contrary to our convictions. When you combine this with what we discussed in the previous episode — there are incentives that can make employees blind to future trends — it’s entirely possible that the corporate innovator will ignore, at least in part, a

new development that could impact them. For example, if your promotions and pay structure depends on physical, in-store retail success, it's easier to ignore an eCommerce innovation.

The Startup Engagement team at Comcast NBCUniversal, for example, conducts ongoing interviews with executives and leadership teams to identify the company's top strategic priorities. This results in a set of core focus areas that become the common thread across all programs for the year, and these focus areas are used to develop new programming, startup education series, and to guide scouting for their LIFT Labs accelerator and LIFToff business development program. All of this ensures the startups they connect with are aligned with current and near-future goals and therefore, the startups are most likely to find an internal mentor or leader.

So then, if your startup directly aligns with the corporate's vision for the future of their industry, there's a greater chance that your deal happens, simply because there's already a higher level of motivation on the corporate's side to *do something*.

This can happen regardless of the market traction you've achieved, which is why sometimes strange or puzzling deals can happen. If you've ever seen a startup with little to no revenue be acquired for an enormous amount of money, there's a good chance the startup's technology aligns very closely with the acquirer's vision for the future. Some well-known examples of this are Facebook acquiring Oculus for $2 billion, for their virtual reality technology, or General Motors acquiring Cruise for $1 billion to jumpstart their autonomous vehicle development. Neither Oculus nor Cruise were purchased because of their profits — there were none. They were acquired for one reason: they were the best-in-class working on a specific problem that the large company had already deemed incredibly important for its future endeavors.

In other instances, a startup can be intriguing to a potential partner because of the impact they'd have when applied at an extreme level of scale through the corporate's operations. For example, project management software sounds like an incredibly basic tool that may be interesting, but it's definitely not groundbreaking, right? But, if you're an oil & gas company that spends $20 billion in capital expenditures for infrastructure projects every year, a project management tool that reduces wasted time and money by just 1% creates $200 million in

value! Talk about impact. On the other hand, a company that spends $100 million dollars on these types of projects would only save $1 million by implementing the same software. That's not bad, but it's a small fraction of the savings an oil & gas company would generate.

A similar example is a startup that develops a more efficient way to pack and ship canned beverages. The scale of this would be enormous — the world consumes 180 billion beverages in aluminum cans every year. So if a more efficient "pack-and-ship" method saved even $0.01 per can, the impact is $1.8 billion dollars per year. While it can be hard to picture this level of scale, rest assured that if you're working on an area that's this large, and you can quantify your improvement, there will be plenty of corporate suitors wanting to work with you.

However, one of the most common errors that startups make when pitching large companies is growing too focused on their impact to revenue. If you feel your startup can drive $10 million in incremental revenue to a corporate partner, that sounds pretty great, right? Could any company turn down an easy $10 million? They can — and they do all the time.

So the flipside to the enormous scale with which large companies operate is that it can be seriously difficult to make an impact on their revenue. The $10 million dollars in incremental revenue you were excited about wouldn't even qualify as a rounding error for a company like Procter & Gamble, for example. They did close to $71 billion dollars in sales in 2020.

With that said, discussing the impact to revenue with a potential corporate partner isn't in and of itself a mistake. The mistake is believing that revenue by itself is what's going to motivate your corporate counterpart. Instead, the way to position this type of deal is to demonstrate that your startup will help enable the corporate's vision of the future, and that $10M in revenue you're likely to generate together is an early proof point for a long-term, mutually-beneficial partnership.

To summarize this lesson, remember the Law of Large Numbers. Corporates pay more attention to the startups who align with their vision for the future, and those who can make an impact to their operations when applied at scale. Finally, as we'll see in the next episode, corporate scale and the magnitude of their existing operations can also be a curse which

prevents innovation — creating an opportunity for you, the startup, to partner with them. This concept is called 'The Innovator's Dilemma,' and we'll unpack this concept more together.

[Insert Episode Closing]