CUSTOMER DISCOVERY: Module 6, Episode 3 – The Inner Life of Corporates

TITLE:

Questions Corporates Ask When Evaluating Startups

DESCRIPTION:

Six questions to determine if your technology is interesting enough to convince a corporate to work with you

[LEARN@LIFT Episode Intro]

Welcome back everyone. In the last episode, you learned what the day-to-day reality for corporate innovators looks like, and in this module, we've been studying the Inner Life of Corporates to gain a greater sense of empathy for our potential partners.

In this episode, I'm going to share the common evaluation criteria that large companies use to determine whether or not to collaborate with a startup. Obviously, every company evaluates potential collaborations according to their own set of criteria and the needs of their business, but there are some general principles that every large company adheres to, and the key here is to begin thinking like your prospect. You need to evaluate your startup from their point of view, to know the best way to frame your technology, and determine if there's a good fit to partner together.

That's easier said than done, though. Our brains aren't naturally wired to think this way. In fact, all of us — and startup founders are especially guilty of this — fall prey to the Spotlight Effect. It's a cognitive bias popularized by the psychologists Gilovich and Medvec, and it says that we tend to dramatically overestimate how much others observe and care about our own actions and appearances. We believe that the social spotlight shines more brightly on us than it really does. Instead, your corporate partner will only be thinking about the benefits of partnering with you through the lens of their own needs and goals.

This means you need to learn to think just like your corporate partner, and ask yourself the same questions they'll ask themselves, without giving yourself the benefit of a glowing spotlight. This is critical because in most cases, a collaboration between your two organizations will make sense on paper. Your startup has built a unique technology or service that the corporate partner needs, and better yet, the corporate partner has the level of scale and distribution to customers you desperately need. What's not to love? But despite the match on paper, there are a number of other factors that go into determining if a company actually moves forward with your partnership.

The first factor is similar to what you've been learning so far: corporate vision. And the first question a large company will ask themselves when meeting with you is, "Does this startup align with my vision for the future?" Remember, it doesn't matter how exciting or lucrative your vision is. While no one can tell the future with any degree of certainty, large companies almost always have a hypothesis for what the future of their industry and business will look like. And despite the fact that these hypotheses are often wrong — again, no one can know the future — decision-making inside their organization will be strongly influenced by their hypotheses, and their view of the future. Not yours.

For example, if a corporate believes the future of their brand is investing in direct-to-consumer sales channels, and your technology helps them sell through big-box retailers, they may not be interested in engaging with you. Although your innovation can make a meaningful impact on their business today, collaborating with startups is all about building for the future. This is most definitely the case if you're interacting with the innovation group.

The reason for this is that bringing any innovation to market requires a lot of "string pulling" and politicking inside their organization. If you're not aligned with the company's long-term vision, there's simply no way your internal champion will spend their political capital to get a deal done. For this reason, it's useful to figure out how your prospective corporate partner views the future. Sometimes they'll be upfront about this during an introductory meeting. But you can usually figure this out from the outside looking in by researching their past collaborations, investments, and public statements. For public companies, an underrated source of information is investor disclosures, like annual reports and quarterly earnings calls. Listening to interviews with executives can also be helpful in understanding how the company views the future.

The second question corporate innovators will ask themselves when evaluating your startup is, "Will this product or service perform in real life?" This question can mean different things depending on the type of company you are. Many companies can create a prototype or a proof-of-concept inside of a controlled, small-scale environment. It's much more difficult to get consistent results in the "wild," where all sorts of things can go wrong. The best way to answer this question is to have a strong, growing base of customers who love your product — in their production environment. This will also help you answer the next question...

So the third question companies will ask themselves is, "Do our customers care about this?" There are generally two types of risks with startup collaborations — technical and commercial. Technical risk is whether your solution is technically feasible or not. Can it deliver the same level of results at scale? Will it work alongside our existing tech stack? And is the amount of customization or support required worth the investment? Commercial risk comes down to whether or not your startup has a commercially viable product, which is rooted in whether customers will love it, buy it, and produce favorable unit economics.

I'll make one extra note on this section, too: many founders, particularly first-time founders, get tripped up here. They, very logically, spend the majority of their efforts pursuing product perfection to ensure it's flawless and "enterprise grade." And while a strong, scalable product is undoubtedly very important, on its own, it's not enough to convince a corporate partner to work with you. A great product combined with strong customer traction is the recipe for success. You need both, and you can't have one without the other. I know that's easier said than done.

The fourth question corporates will ask themselves when evaluating your startup is, "Will this make a meaningful impact on our future business?" This relates back to the Law of Large

Numbers, which we covered during an earlier episode. When a company has revenues in the billions or tens of billions of dollars, it's difficult to make a meaningful impact immediately. And while no one expects you to be able to make a massive impact right away, a compelling solution would have the potential to meaningfully improve the business, as judged by one of their key metrics. And going back to an earlier point, if your startup addresses a specific pain point that's directly related to how the company views the future, they are much more likely to be interested in collaborating with you.

Now another question that prospective corporate partners will ask is, "How truly unique is this solution?" Are you the only company doing what you do? Or, are there alternative solutions who are solving the same problem, in just a slightly different way? Obviously, if you're a unique company with novel technology, you'll have more negotiating leverage, and the corporate will be more motivated to get a deal done with you. A related question here, that might raise a red flag for the corporate, is if you have no competitors. They'll wonder if there's a reason for that. Perhaps your solution is impractical, or has larger barriers to overcome, like legal and regulatory issues.

Next, an additional question large companies will ask themselves when evaluating your startup is, "What's required to implement this technology?" There's a big difference between an integration that requires one line of code and an integration which requires hardware, training, and reorganizing a physical environment, such as a warehouse or store. Companies will do a cost benefit analysis to figure out if it makes sense to work with you, and the longer the timeline to achieve payback on their investment, or the more expensive that investment is, the greater the likelihood that your potential partner decides to pass on you.

Lastly, just like any investor you're talking with, a corporate is going to dig into your business model. How do you acquire customers sustainably? Are you making money? How long is your runway, and will you have access to the capital you need to stay in business long-term? Not surprisingly, if a corporate senses there's a strong chance your business may fold in the next two years, they're unlikely to begin building a partnership around your technology.

So to recap, as you prepare to build your potential corporate collaborations, the questions presented in this episode are all things you should have answers for.

Number one — "Does this startup align with our vision for the future?"
Number two — "Will this product or service perform in real life?"
Three — "Do our customers care about this?"
Four — "Will this make a meaningful impact on our future business?"
Five — "How truly unique is this solution?"
Six — "What's required to implement this technology?
And seven — "Is this a viable, long-term partner with a sustainable business model?"

Working through these questions is an exercise I highly recommend, and in the Course Resources page, you'll find a guide that lists out a series of exercises that will help you team become more attuned to your corporate partner's needs, and learn to think and questions from their point of view. You can find a worksheet on the Resources Page that will help you think through potential collaborations from the perspective of your prospect.

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