EXECUTIVE BRIEF

Innovating with Startups:
Crafting a Strategic Approach to External Innovation
Moderated by Mike Slawson, Director, Georgia-Pacific Ventures

No matter their size, enterprises still need to effectively harness external innovation to thrive and even survive in this climate of increased disruption. They need to regularly decide when to seek external partners, what types of partnership structures to consider, and what types of ecosystem players to partner with.

Action Items

- ✓ Understanding the build/buy/partner rubric and when to use each tool
- ✓ Identifying the common sources of external innovation and the pros and cons of working with each
- ✓ Evaluating the spectrum of partnership structures and choosing the best one for the situation
- ✓ Facilitating effective, efficient, and sustainable relationships with external innovation sources

Introduction

Innovation leader Mike Slawson began the virtual, members-only event by introducing himself, noting that he was trained as an electrical engineer, and holds an M.B.A. as well. He is currently a Director at Georgia-Pacific Ventures, a leading supplier of forest products. Mike previously worked at organizations including Hewlett-Packard, Siemens and Alliance Technology Ventures. He commented that he had experienced innovation from all three sides: in a start-up, in a corporate environment and as a financial investor.

Georgia Pacific Ventures offers a full spectrum of innovation services and capabilities. The enterprise has a network that includes internal subsidiaries and external venture capital firms, corporate partners, research firms, universities and startups. This ecosystem provides an ongoing connection to innovators and trends, aiding them in sourcing ideas and assessing their fitness for innovation partnerships. Their capabilities include determining when to move toward partnership discussions as well as staying involved post-deal to help ensure continued success.

There's no formula for innovation

When Mike asked the members about their innovation roles and how they approached innovation, the responses were varied. One member shared that his company was focused on digital capabilities and surveying where they needed to collaborate externally. Another shared that their organization preferred to keep most of their innovation in house. Another member shared that his organization was focused on innovation strategy and keeping expenses to a minimum.

As stated, there's no right or wrong way to do innovation. Much depends on the philosophy and strategy of the company and the available resources. The importance of getting strategic alignment up front, before the innovation process starts, was emphasized. Avoiding the "shiny new object syndrome," aka buying and using new technologies just for the sake of doing so, was advised. Challenges around securing a budget and clearly defining project goals were referenced.

Navigating mid and long-term innovation

As the discussion progressed, Mike shared that he was currently more focused on mid and long-term innovation projects. As stated, near term challenges tend to be more incremental. Timelines and brief definitions can be found below:

Near-term innovation = 0-18 months

Mid-term innovation = 18 months to 5 years

(Example: adjacent products that leverage current capabilities)

Long-term innovation = 5 years +

(Example: disruptive innovation; usually trying to anticipate dramatic industry changes)

Approaches to Accessing Mid- and Long-term Innovation

Georgia-Pacific

Approach	Advantages	Disadvantages
Internal R&D or Venture Studio	• clear ownership of IP • easier communication of results • venture studio enables business model experimentation	• >99% of global innovation occurs outside of any given company's R&D team • Distracts from R&D focus on near-term • Basic research can be very expensive
Active Industry and Trend Monitoring	• Lower resource commitment	• Difficult or impossible to gain detailed "inside scoop." Generally limited to public info. • Loose relationship with innovators
Indirect Investment via Venture Capital Firms	• More thorough "inside scoop" than industry monitoring • Generally positive IRR, cash return multiple • May enable selected direct investment	• Difficult to find firm with "aligned" investment strategy • Still not a true insider. Learning incomplete. Dependent on VC firm for learnings • Upfront cash commitment is high (J-curve)
Participation in University Research Consortia	• Assess to basic research programs and IP • Can customize research toward commercial goals	• Difficult to gain "aligned" research interests • Competitors may be present • Tightly focused research scope • Research my not address commercialization
Direct Investment in Startups (Corporate Venture Capital)	• Full insider status is generally available. Nuanced, proprietary learnings can be gained. • Full control of investment strategy. Individual investment decisions aligned with corporate goals. • CVC investment programs are often IRR positive with return multiples. • Strategic partnerships are more easily developed	• Upfront cash commitment is high (J-curve) • Requires skilled investment professionals. Making investments and managing portfolio companies is a challenging endeavor. • Requires coordinated effort to communicate learnings back to the mothership.

Some of the associations or tools available to companies focused on mid or long-term innovation include Venture Capital (VC) firms and University Research. Mike described associating with VC firms as "having a front row seat at a concert." They provide great exposure. He also noted that most VC firms don't lose money and earn returns. Connecting to University Research Consortia is another good avenue, especially those conducting pre-commercial research.

Internal and external innovation considerations

Getting organizational alignment around short-term or long-term innovation projects is critical. One member shared that their company struggled with project hand-offs as well as determining what groups would focus on short term initiatives versus longer ones. Another member shared that they conducted regular meetings and open discussions with senior leadership to track trends and potential opportunities, especially with start-up companies. Yet other members stated that their companies had more traditional R&D departments in place. Again, the take-away was that there is no fixed innovation formula, per se.

External innovation sources include:

- University Research
- Industry Consortia
- Contract Research Organizations
- Start-up Companies
- Large, Established Companies

When evaluating potential external partners, members were advised to consider questions such as:

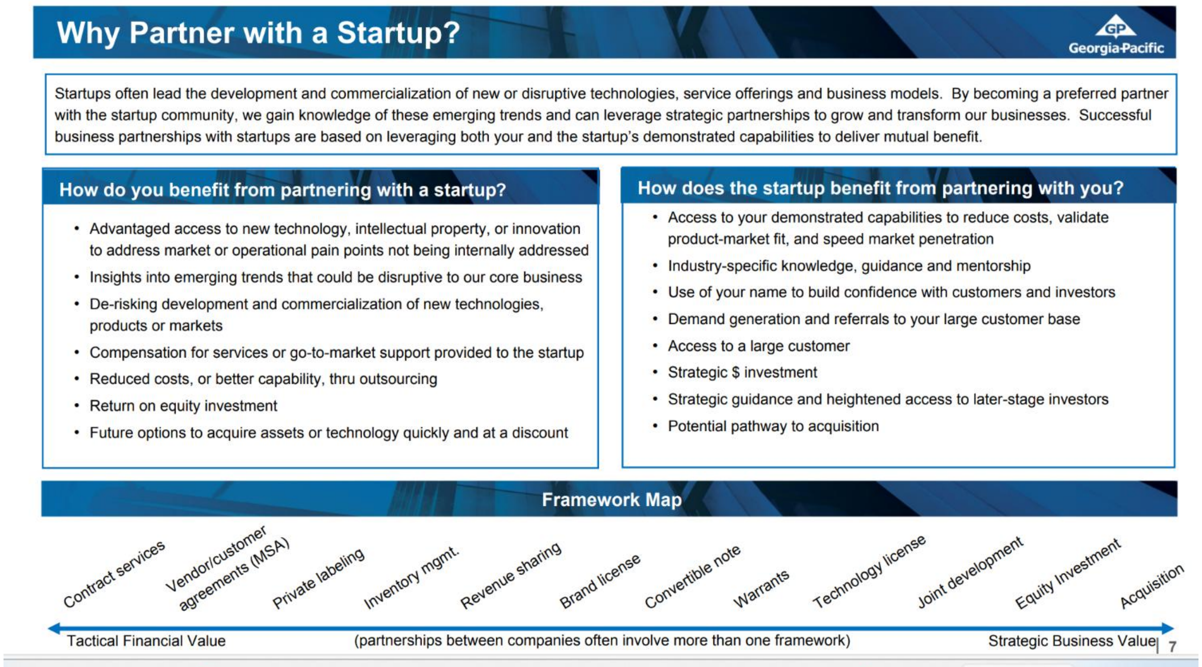
- Is the organization financially stable? (applies especially to startups)
- Are research and business goals aligned?
- Are intellectual property (IP) designations clear and in writing?
- Who will own what technology?
- Is the organization prepared and able to take on a lengthy process?
- How will payments be made or staged?
- How will the deal or partnership evolve over time?

There are many more questions to consider, depending on the type of partnership or alliance and the entities involved.

Why partner with a start-up?

Mike emphasized the mutual benefits of partnering with a start-up. As shared in the presentation, "startups often lead the development and commercialization of new or disruptive technologies, service offerings and business models. By becoming a preferred partner with the startup community, you can gain knowledge of emerging trends and leverage strategic partnerships to grow and transform your businesses." Startups can provide a glimpse into future technologies and their applications.

The graphic below details partnership benefits for both startups and more established companies:



As the discussion drew to a close, Mike recommended a classic book, *Lead and Disrupt : How to Solve the Innovator's Dilemma, Second Edition*, by Charles A. O'Reilly, III, Michael L. Tushman, from Stanford University Press.

To view the Virtual Event recording and find additional information about innovation resources and challenges, visit the Growth Innovation Leadership Council site here.

Patricia Jacoby
Senior Content Specialist
Frost & Sullivan