

The experiences of Finnish large
companies with startups

DIET FIIR INT

Produced by Hoodie Dude

Confederation of Finnish Industries



Tekes

Contents

Foreword – 3

THE FIRST ROUND – 4

The race for startups is getting harder – 4

What's holding us back? – 6

Why partner with startups? – 7

Demand for industrial startups as well – 8

A partner may even be found nearby – 9

COMPANY EXAMPLES – 10

Starting the journey – 10

Konecranes is looking for the startup spirit – 12

Fonecta recreated itself – 14

The S Group opened up for startups – 16

SITA is growing its reputation with robot co-operation – 18

Nelonen works like a startup – 20

Fortum looks to the future startups – 22

CONCLUSIONS – 24

A summary of the findings – 24

Six tips for a startup – 26

Foreword

LET'S COMBINE OUR STRENGTHS!

Finland is undergoing a structural change never seen before. Our leading traditional companies are renewing themselves to ensure their place in the front line of global competition. At the same time, startup and growth entrepreneurs are revolutionising the Finnish innovation culture. Both have their sights set high.

There are solid examples of partnerships of traditional large corporations and young, innovative growth companies across the world. The first pioneers are on the move in Finland as well.

In Finland, in addition to differences of culture and scale, partnerships are hindered by the fact that established interfaces and operational models for co-operation are lacking. For that reason, we wanted to share the experiences and learnings of Finnish forerunners on their co-operation with startups.

In this study, we'll concentrate on startups, but many of our thoughts also apply to co-operation with more mature growth businesses.

We hope that this conversation starter will encourage companies to engage in co-operation, but also awaken discussion about reforms, that are needed in Finland to give birth to a wider ecosystem for co-operation between big corporations and small growth businesses.

For the publication, we would like to thank the dozens of executives that we interviewed for their time, valuable insight and openness. This work has also been facilitated and funded by Tekes, the Finnish Funding Agency for Innovation, which plays a key role in accelerating innovation co-operation between large enterprises and growth businesses in Finland. The Slush team and Finnish Industry Investment Ltd (Teollisuussijoitus) have also provided their valuable contributions.

Behind the production of this publication is Hoodie Dude, who represents small and innovative startup in its most genuine form. Learning from their startup approach has been eye-opening for us, too. Hoodie Dude writes with the voice of startups and it is important to understand their often stark views, even if we might not subscribe to all of them.

Right now is the right time to move forward and seize new opportunities. We can say that we have succeeded in this if the publication is already out of date in a year's time.

At Slush, November 2014

Jyri Häkämies
Director General
The Confederation of Finnish Industries EK

THE FIRST ROUND

The mature mainstream businesses and startups seem to be proceeding along separate paths in Finland. It is not always easy to team up when business models, cultures and operational methods differ. Change is, however, already under way. The first pioneers are on the move.

In this booklet, practical tips will be provided on how large corporations can approach startups and how they can benefit from co-operation.

We will also present six open-minded Finnish companies that have adopted startup partnerships as part of their strategy.

Many big Finnish companies have recognised the need to do something with new and fascinating growth companies. It is, however sometimes difficult to work out how to start activity of this kind when there are no ready-made models or direct benchmarks.

Despite this, the setting is promising. Finland is a particularly beneficial environment for co-operation between large corporations and startups. We have promising growth businesses, and not only in the media-sexy ICT or gaming fields. When, in addition to this, the bigger players have woken up to the opportunities offered by young growth companies, both can benefit from each other, even rapidly.

The race for startups is getting harder

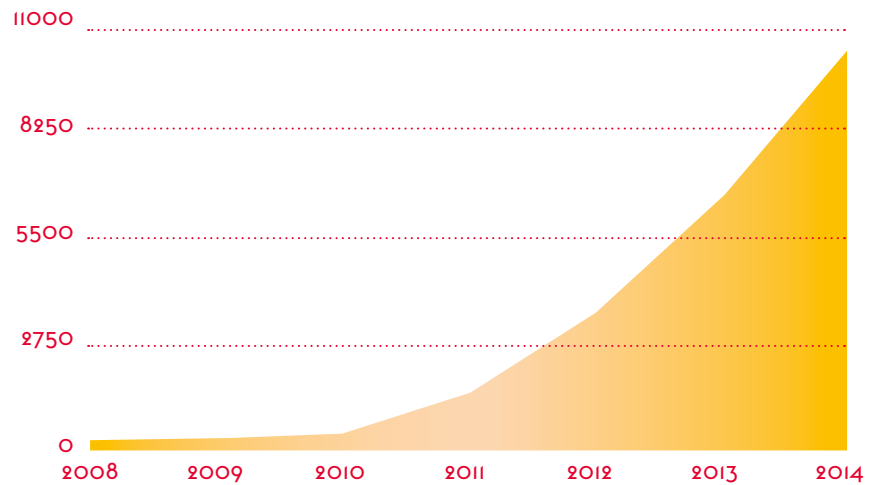
The activation of startup co-operation in Finland is in a hurry. As bigger Finnish companies are still taking their first steps in the startup world, their international competitors are avidly courting our country's next generation growth companies.

We have an unprecedented startup boom under way in this country. This is, for example, evident in the huge growth in the number of visitors to the annual Slush startup conference in Helsinki, or the attention Finland has received in the international media. The reporters of financial journals from around the world are travelling here to get acquainted with the 'Nordic Silicon Valley'.

What on earth is a startup?

A startup has many definitions. For this publication, we defined a startup more broadly. For example, the size or age of a startup is not relevant. The most important characteristics are courage, agility, a strong aim to grow and a 'born global' attitude. Startups have also been described as more of 'a state of mind'. Here are a few common features of a startup

- × A company looking for rapid growth with a narrow scope
- × Generally finances its activity through investment rounds
- × The objective of the owners and founders is usually to make an exit
- × Startup guru Steve Blank: "Startup is a temporary organization designed to search for a repeatable and scalable business model"
- × A readiness to take bigger risks
- × A desire to change the world



The visitor totals of the Slush conference, source: Slush

The best companies and brains are being acquired from Finland at an accelerating rate. Facebook and Google, for example, bought many top Finnish startups in the first half of 2014.

Although the acquisition of a business is great news for the owners of a startup, the added value of the investment does not always maximise the benefit to Finnish society. Many startup businesses are sold abroad at a very early stage because their growth and operational opportunities are often limited in the domestic market.

“From the point of view of a public financier, a company that is sold abroad and ends its business in Finland as a result of the sale can also be a missed opportunity, if one looks at how much of the mental capital and money of society has been put into them,” considers Tekes director responsible for large corporations, **Ilona Lundström**. Tekes is a governmental owned funding agency for innovation.

On the other hand, it also says something about the success of development work. Foreign companies have recognised the possibilities of the Finnish startup field. Amongst others, Huawei, Ericsson and General Electric have set up units in Finland to keep an eye on startups and the talented people working in them.

Foreign corporations have an important role in offering new opportunities and gateways for internationalisation to small Finnish businesses. Domestic companies could also work with our startups in this respect.

”The best businesses and brains are being bought from Finland at an accelerating rate”

So although the startup interest of Finnish corporations is clearly growing, there is catching up to do in comparison to foreign competitors. The experiences at Tekes also tell the same story.

“Many times a month, we get enquiries from large foreign companies,” says Lundström from Tekes. “They ask for lists of Finnish

startups that we have funded when looking for partners or acquisition targets.”

And what about Finnish companies?

“During the last year and a half, only four Finnish large corporations have contacted us in the same manner,” states Lundström.

The same is also indicated by the partnerships director of the Slush conference, **Riku Mäkelä**.

“We meet international corporations almost daily, who ask how they can get on board here in Finland. Looking for the best startups is an everyday thing for them,” says Mäkelä.

Their Finnish counterparts, on the other hand, have not been knocking on Slush’s doors much.

“Even those who are interested have not quite figured out what they should do with us.”

What’s holding us back?

What is the reason for the slowness of Finnish startups and corporations getting to know each other? How have we ended up in a situation where the structural transition of traditional industries and the startup boom happen at the same time and yet neither makes use of the other’s expertise and strengths?

The main owner and Chairman of the board of the ST1 energy company, **Mika Anttonen**, refers to mutual prejudice, even mistrust.

“It’s hard for the large ones to admit that someone outside the organisation can do their things better. The small ones, on the other hand, fear that their ideas will be stolen.”

According to Anttonen, the rise of startups and entrepreneurship has made the innovativeness of traditional business harder than before.

“Radical innovations are no longer developed in corporations, and if they are, the guys leave and set up their own company.”

Perhaps there’s an opportunity here? If inventions were created in agile startups, the efficiency of product development would grow and a bigger corporation could become a partner with the company of its former employees, for example. Or acquire the startup and benefit from product development made in an agile environment, as is often done around the world.

Cultural differences also cause tension.

In big companies, startup activity is easily seen as mere dabbling.

“We held a startup event in the lobby of our head office. One of our top directors came to whisper into my ear “let’s hope they’re not drawing on our tables”. Some sheepish laughter ensued,” tells the director of a certain well-known Finnish company.

One problem is also that the sizes simply do not correspond: we are talking about activities on a completely different scale.

GE Healthcare hosts a start-up community

In spring 2014, General Electric’s GE Healthcare set up a unit in Vallila in Helsinki. In the Innovation Village – or Silicon Vallila, as the site is also called – top startups in the medical sector get premises and a short cut to co-operation with the giant GE Healthcare.

“We are primarily looking for good guys. The product of the startup does not have to be perfect at once. A good team working on the right technology can create something great when they get to innovate close to GE,” says Mikko Kauppinen, the Financial Director of GE Healthcare, responsible for startups.

With its startup activity, GE Finland is looking for new ideas, people and the best companies, as well as to expand its giant parent company’s interest in the Finnish subsidiary.

“A big corporation does not look at funny little businesses, and yet nothing becomes a business worth hundreds of millions overnight,” comments the Director of Finnish Industry Investment Ltd (Teollisuussijoitus), **Jussi Hattula**.

But it’s pointless to blame only the giants. In fact, preconceptions are often stronger amongst startups.

Finnish startups often boast about how corporations are boring. The entrepreneurs of the new world do not realise that the people in large companies are hungry for new ideas. People in big businesses know what works in the real world. Many startups think they can do anything even though process development and scaling up the business, for example, are still ahead of them.

What if these parties, that at first glance seem to be on opposing ends, helped each other? Wouldn’t the business world flourish when different-sized companies came together as genuine partners? We, at least, believe that everyone would benefit.

Even though startups aren’t a short cut to heaven, big companies and startups getting closer to one another can invigorate the whole national economy.

Why partner with startups?



So, globally many large companies keep startups and growth companies close to business as a part of their strategy. Why do they do this?

A large part of the product development of the internet giant Google is based on partnering and carefully targeted company acquisitions. It would not succeed on its own. The retail chain Wal-Mart also runs a startup accelerator in Silicon Valley. In Europe, as examples, the T-Ventures, the venture capital company of Deutsche Telecom, has invested in 190 companies and the Norwegian media company Schibsted is developing its digital operations through its investment fund.

“When you work in a similar line of business for a long time, you think you’ve got the world figured out. But the world is always three steps ahead and someone else looking at the same reality might look at it differently,” commented the Director of Saint-Gobain **Rakesh Kapoor** to the Financial Times in 2012, when leading the startup activity of the French construction materials giant.

Saint-Gobain invests seriously in startups. Its NOVA Corporate Venturing department says that it has familiarised itself with 2,200

“We held a startup event in the lobby of our head office. One of our top directors came to whisper into my ear “let’s hope they’re not drawing on our tables”. Some sheepish laughter ensued,” tells the director of a certain well-known company.

startups and formed over 60 strategic partnerships with startup companies. NOVA was set up in 2006.

A corporation can approach startups in three different ways: carrying out strategic co-operation, investing or company acquisitions.

Often, the motive is to look for new innovations and talent, as well as new business areas. Startups also help in the renewal of the corporate cultures.

The President & CEO of Finnish textile and clothing design company Marimekko, **Mika Ihamuotila**, also considers that co-operation with new kinds of partners can help in the development of the company's culture.

"The job of the management is to build diversity into the company. Send your employees to mix with startups, the organisations and companies where innovations are born. This will inspire and motivate your employees and helps to encounter innovations and working practices outside their own field."

According to corporate executives, startup activity may also help differentiate a company in competitive bidding. The innovation of a startup can help a large company to distinguish itself to its benefit when the product offering and prices of all the competitors are nearly identical.

Demand for industrial startups, too

The startup boom across the world has been particularly strong in the ICT, media and commerce sectors, which have been heavily hit by structural change and, especially, digitalisation. Many companies active in the startup world do business in these sectors, such as Apple, Google, Cisco or the Finnish company Fonecta.

The reason for the slow development of startup co-operation in Finland may be found in our country's business structure. The majority of Finland's large companies are in traditional manufacturing industry. The industry has confronted a need for profound transformation only quite recently as a result of the financial crisis and the global recession. Their serious interest in new technologies has only arisen as old business models have lost their efficacy. Could startups be of help here?

A general misconception is that all startups are gaming or consumer internet companies looking for a quick exit. This is not the case. There are startups in nearly every field, also in traditional industry. Especially through digitalisation, new kinds of solutions are sought everywhere, industrial internet applications being one example. Sensor and network technologies have for instance developed so much that the Internet of Things has become a real improver of productivity. Many large Finnish companies are now

A general misconception is that all startups are gaming or consumer internet companies looking for a quick exit. This is not the case. There are startups in nearly every field, also in traditional industry.

The advantage of geographical location cannot be overemphasised. When there are no cultural differences and distances are short, there are savings in costs and risk is reduced.

looking for new competitive advantages and services from outside their own areas of expertise.

In capital-intensive business sectors, large companies are important partners for startups. Industrial startup activity is, however, still in its starting blocks in Finland. Its development will require great openness and a desire to change, also from large industrial companies.

On the other hand, we need a lot of new kinds of startups with something to offer to basic industry. For example, the partner of waste management company SITA Finland, ZenRobotics, understands that in traditional industry business activity is long-term and often heavily regulated. Capital is also needed more than in IT companies. Growth companies in traditional industry are in fact often at a slightly riper stage than fast-paced startups working on the idea and concept level.

We need more growth companies that understand the slowness of the market and hold on to their word. An industrial startup must take into account the high requirements related to the reliability of delivery, for example.

”Delivery reliability is a big challenge from the point of view of reputation management. If a startup cannot guarantee an external customer the promised results, the reputation of Metso suffers in terms of customer confidence,” says the President and CEO Finnish industrial giant Metso, **Matti Kähkönen**.

A partner may even be found nearby

So where does one find startups? Do you have to go out and explore the world with a suitcase full of money?

Finnish companies have often looked for partners and acquisition targets outside Finland’s borders.

Although it is, of course, up to companies to find the best partners or acquisition targets from which ever part of the world, it’s not always necessary to go too far out into the sea.

”There are examples from many big companies where a good Finnish company has been missed and instead they have ended up buying a company at a higher price from a country where the buyer has had no significant product development activity before,” commented the Chairman of the Nokia Board, **Risto Siilasmaa** in the ‘Hoodie Dude and the Businessman’ pamphlet (EVA, 2013).

The advantage of geographical location cannot be overemphasised. When there are no cultural differences and distances are short, there are cost savings to be gained and risks to be reduced.

So Finnish partners should seize the opportunity and combine their strengths. At best, a large ecosystem of different-sized companies could arise in Finland, driving the renewal and growth of the entire business field.

Company examples

STARTING THE JOURNEY

We are proud to present six open-minded Finnish companies which have understood that it is worth joining forces with new kinds of growth companies.

All the executives interviewed admitted that the journey is only beginning. The investment in startups of almost all large companies is still only small in comparison with other operations and clear operating models are lacking. Something, however, is already happening; the pioneers are on the move.

The companies we present next have already started telling startups where they need help.

According to the CEO of Finland's most active startup buyer, Fonecta, it's a question of survival. And savings.

"We've saved time and money by buying startups," says **Timo Hiltunen**. "Startups are in charge of their own product development. We just identify the ones that fit in with our vision."

Juho Malmberg, who has moved from the multinational elevator manufacturer Kone to the ZenRobotics startup, has experienced both worlds. He knows why it's worth paying attention to startups.

"A startup may have an innovation that brings its corporate partner a competitive advantage worth billions."

"Everything is small when it begins," says Hiltunen, who sees investing in startups as essential to the future of his company.

There are fine companies of different sizes in Finland and a huge amount of expertise and energy. That's a good starting position.





12

KONECRANES

14

FONECTA

16

S GROUP

18

SITA

20

NELONEN

22

FORTUM



Image: Konecranes

Konecranes

is looking for the startup spirit

Digitalisation is changing operational models in traditional industry. In the lifting equipment company Konecranes, the Industrial Internet is at the core of the strategy.

The Industrial Internet megatrend is an area that modern industrial companies cannot overlook. Great investments are made in digital operational models. Konecranes' objective is to create an internal startup spirit, with which it seeks to make use of Industrial Internet rapidly.

"Finland has a great opportunity to work as a forerunner of the Industrial Internet," explains the CEO Pekka Lundmark.

The physical world, such as machines and modes of transport, is equipped with sensors and connected to the internet. There is also a connection here for startups.

"There are a lot of possibilities here," assures Lundmark. "We require sensors, analytics and user interfaces, which are not a part of the traditional expertise of Konecranes, and it's not worth doing everything yourself."

"There are good opportunities in Finland for co-operation between large and startup companies. In Germany, for example, many major companies are modernising through automation technology and the German state has begun a

project to digitalise service business as well."

At Konecranes, a member of the management group assumes responsibility for creating the startup spirit and co-operation. According to Lundmark, it's important that there is an 'internal sponsor' for startup issues, who takes care of the progress of work within the large organization. The same view is shared by almost all company leaders who have woken up to startups.

"The goal should be as short a command chain as possible between the CEO, the company vision and the startups."

IT Director Antti Koskelin works as

Within the corporation, it is important to appoint an internal sponsor for startups.

A startup is not a traditional subcontractor.

The internal culture must become more up-to-date.

the startup sponsor in the company. "About ten contacts per week are made by startups," Antti Koskelin says.

There is, however, room for improvement in the preparation of startups, as Koskelin remarks. All too often, a large company is approached through cold calling or mass e-mails. That is not the right way to proceed. If successful, co-operation with Konecranes can lead to great results. For that, careful preparation, an acute perception of needs and an insight into what help the startup can offer to Konecranes in particular are required.

Konecranes has increased its understanding of the startup world by setting up an internal accelerator. Within the company, it is understood that when working with new kinds of growth businesses, the internal culture must

also become more modern.

"The purpose of the accelerator is to drive forward trying out new things and at the same time work as a point of contact with startup companies," says Lundmark.

According to Lundmark, it must be understood that a startup is not a traditional subcontractor. For that reason, it's important to keep a small distance to partners – and encourage them to be free.

"Startups cannot be dependent just on us."

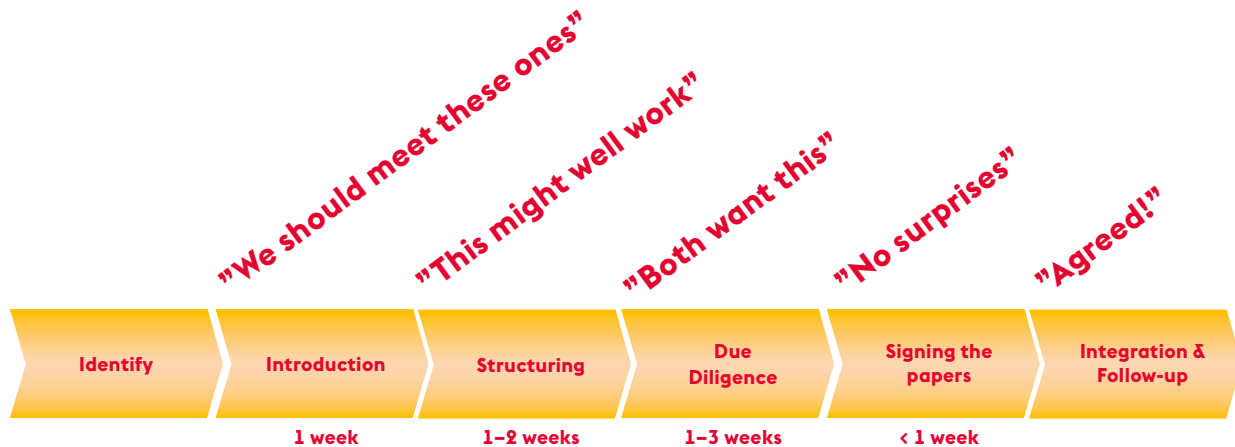
Koskelin, responsible for startups, also sees dangers if a startup becomes too dependent on Konecranes.

"The risk in co-operation is that the big company starts treating the startup as a supplier like all the others. What isn't realised is that the most important interest of the startup is to expand its own business," notes Koskelin.

Startup facts Konecranes

- x The Industrial Internet as the point of focus**
- x The company's internal startup accelerator as a changer of the corporate culture**
- x A few acquired startup companies (incl. Suomen Teollisuusosa, which develops automated warehouse management)**
- x Contact person: Juha Pankakoski**

**<http://www.konecranes.com>
Manufacturer of cranes and lifting equipment.
Revenue 2013: EUR 2,1 billion**



Fonecta

recreated itself

The telephone directory firm had the courage to replace its old business with a new digital one. Five years and numerous startup acquisitions later, Fonecta has modernised itself and digitalised thousands of SMEs. The latest strategy also includes minority stakes in startups. Outsourcing product development has saved time and money.

Only a short while ago, the contact details of people and companies were dug up from paper phone directories. Then the internet revolutionised everything and brick-sized bundles of paper became symbols of the past. Fonecta, which sells contact details and company data, had to change its core business in a hurry with a speed in which a less agile company would have put the brakes on – and been destroyed.

Fonecta's big change began in 2009.

"We boiled down our vision into the idea that we wanted to take Finnish SMEs into digital channels," says the CEO of Fonecta, Timo Hiltunen. "When our future had taken shape, it was no longer difficult to think about what kind of companies and talents were needed on board."

"It was quite clear that we could not have all the expertise in-house that was needed for a rapid structural change."

During the last five years, Fonecta has acquired numerous startup companies. Amongst the best-known startup sector acquisitions are Kotisivukone, which offers a web page platform for SMEs, and the web analytics firm Snoobi.

Fonecta is also specialised in the successful disruption of its own business. The Fonecta Caller num-

ber service application is a good example of this, since it offers contact details for free and instead collects revenue from payable number services.

Timo Hiltunen does not believe in minor experiments when the core business is changed into a more modern one. This particularly applies to company acquisitions.

"If you decide to go shopping, you have to do it big."

Fonecta is an extreme example of a company caught up in the grip of structural change. Finland's most active startup buyer had only a short time to change the principles of its whole business. Even though Fonecta's field of business is extremely suitable for startup activity, Hiltunen's teachings apply to many companies facing transformation.

With its company acquisitions, Fonecta has acquired both prod-

**If there is
no tribe, the
smartest ones
get bored.**

*Change has also required
the successful disruption of
the old business model.*

**If you
decide to go
shopping,
you have to
do it big.**

ucts and top-quality people. By now, already a third of Fonecta personnel have come into the company through company acquisitions. Of the company's turnover, too, a quarter is already accounted for as a result of startup acquisitions. The big change has happened in five years.

"There are exactly two reasons for company acquisitions: competent people and innovations. These go hand in hand. Good guys do great things and have the ability to turn a mediocre solution into a cutting edge innovation," analyses Hiltunen.

Hiltunen also stresses the importance of good resourcing in the acquisition of personnel through company acquisitions. It is not worth getting just a few bright startup minds in the organisation. This will only cause financial expenditure and resentment.

"You cannot buy some startup of three engineers and force on the sidelines of a large corporation. That won't change the company's DNA. But if, through startup purchases, you acquire dozens of people with skills in high technology, the goal is attained."

Indeed, dozens of startup people already form a tribe. According to Hiltunen, only a decent-sized bunch can achieve a change. Top talents want challenges and those

are offered by other top people in the same field. If a company buys a startup without understanding the new kind of business culture it brings, the benefits of acquiring the people are lost and the acquisition is sure to result in failure.

"If there is no tribe, the smartest ones will get bored."

Integrating startups has not always been easy for Fonecta either. In some cases, the team acquired has been kept very independent to preserve its agility.

Fonecta has generally paid 1-5 million euros for the companies it has acquired. Is buying startups expensive? According to Hiltunen, it would be much more expensive to try to do everything oneself. When product development has been outsourced, the company has saved both time and money. Without an aggressive approach, development would have been too slow.

Recently, Fonecta's strategy has changed. When the tribe has been created, it is possible to concentrate on investment and new kinds of co-operation models instead of company acquisitions.

"Now we can go on board in companies with minority stakes," says Hiltunen.

During 2014, Fonecta invested in, amongst others, the feedback service Taputa and began co-operation with Arkkeo, which concen-

trates on web archiving.

Investment may also be the best solution for those companies that want to develop their understanding of startups gradually.

"If you are not making a major transformation, you may choose to minimize risks through a minority investment."

So in Fonecta's new model we see that a 20 percent share may be many times more valuable than a company acquisition that is done at too early a stage. But first the company had to go out and acquire a lot of companies in order to create change in the business.

Startup-faktat Fonecta

x Numerous startup company acquisitions in five years

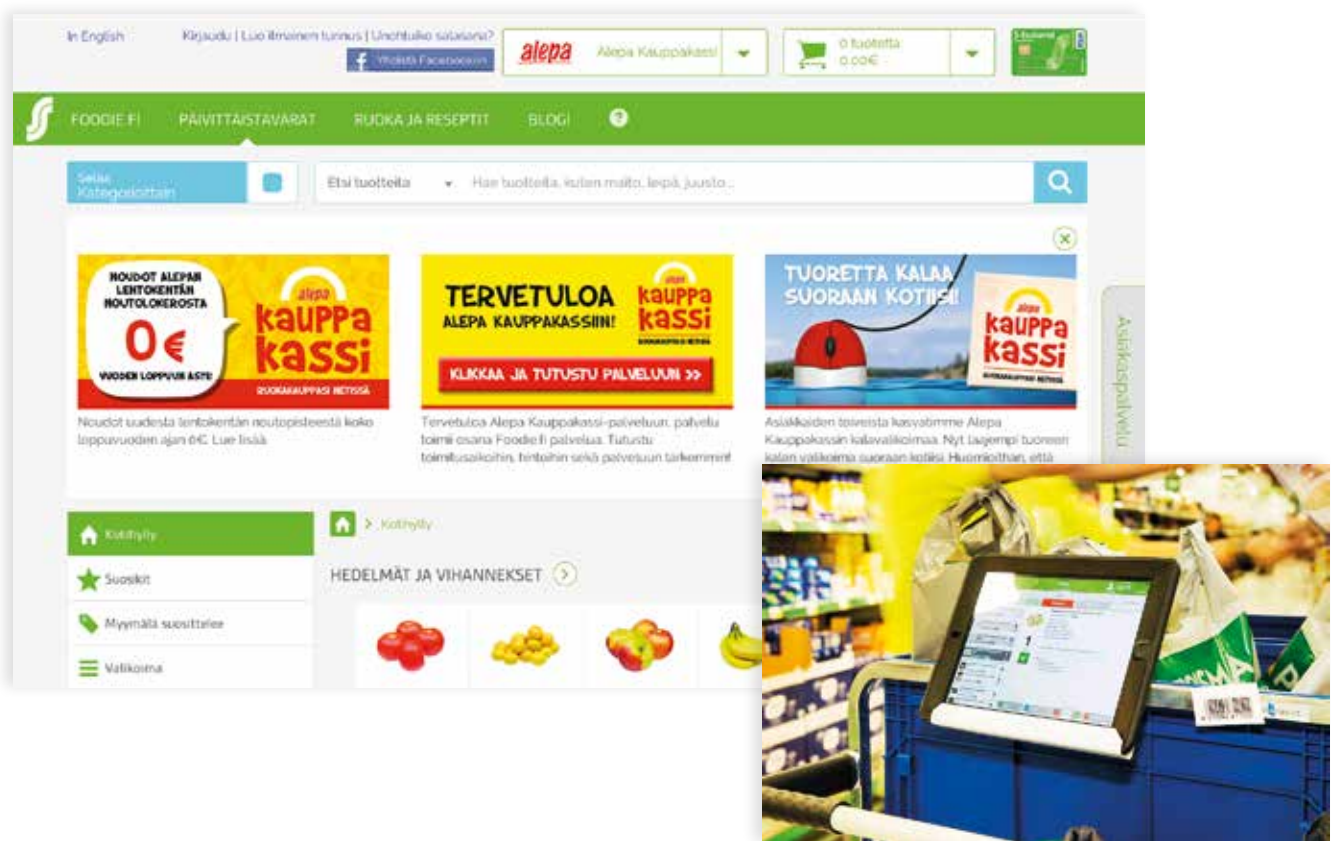
x A third of employees from company acquisitions

x Over a quarter of the turnover through

**x Contact person:
Mikko Pirinen**

**<http://www.fonecta.fi/info/en>
Digital marketing and sales-
solutions.**

Revenue 2013: EUR 180 million



S Group opened up to startups

Startups got special attention in the new strategy of S Group, thanks to the new CEO. S Group is looking for partners, for example with the aid of the accelerator programme.

At the beginning of 2014, the S Group got a new CEO and a strategy in which innovations are emphasised and startups receive attention too.

"A part of our change programme is making use of outside ideas," says Development Manager Karlos Kotkas from the Group's strategy unit. For the first time, the need for outside contribution was stated in the strategy of the co-operative store giant.

Things started happening at once. S Group joined the Corporate Ventures Programme by LadeC, the Lahti Region Development Company, in which big companies offer mentoring and other help for 2 to 4 growth companies over the period of half a year.

"Not all ideas are born within S Group," stated the CEO Taavi Heikkilä in conjunction with the launch of the programme. "To modernise its business and meet the challenges of the changing commercial operating environment, S Group needs know-how, new creative ideas and innovative solutions for developing its activity, also from outside the company."

The field of commerce is indeed a fertile platform for new ideas. Throughout the ages, it has been easier for inventors to develop things that make everyday life easier than devices that require great specialisation. The journey from an idea to its execution is however long, let alone to becoming a real business. Many startups may have good ideas, but it is the team that makes the difference.

"We do not invest capital in the companies on the programme," says Karlos Kotkas, who is responsible for the startup matters of S Group. "The half a year is a trial period during which we look at how the process is developing.

Not all ideas are born within S Group.

A part of our change
programme is making
use of outside ideas.

*Many have ideas,
but it's the team
that counts.*

After that, we think about deeper co-operation.”

However, S Group primarily seeks partnerships. Co-operation with the Digital Foodie startup already began in 2009.

“For us, the best decision was to concentrate first on S Group before getting other customers,” says the CEO of Digital Foodie, Kalle Koutajoki.

Koutajoki emphasises that the startups need to approach potential partners case by case. “It’s not worth showing the same slides to all executives, regardless of their field of business. You have to concentrate on the company at hand and do the groundwork properly, not shoot in ten directions at the same time.”

With Foodie, S Group has made food online stores and food recommendation services. Other concepts are under discussion, too. During the co-operation, Foodie has grown from a firm of four people to one of 24.

“It was our good luck when they got in touch with us. We had a chance to get into the forefront of development,” says the S Group’s

market store’s Assortment Director, Ilkka Alarotu, beaming.

S Group does not own shares in Digital Foodie, nor is there any company acquisition on the cards.

The roles of S Group and Foodie are clear. Foodie gets to try out its concepts with Finland’s largest food store chain and in return for this, gives exclusive rights in Finland for its products to S Group.

“It has been clear to us all the time that the objective for Foodie is worldwide success. We want to help them in this, both by taking part in product development and acting as a reference.”

So now the search is on for other partners too, alongside Foodie, which has proven to be a reliable friend. There is no desire within S Group to define exactly what they are looking for.

“We wanted loose specs,” says Karlos Kotkas. “If we made the search parameters too narrow, we’d be looking for things that we already know or can do.”

“In principle, we’re interested in all new creative solutions that make it easier for the customer to do business, improve our under-

standing of customers and help us to offer better services,” adds CEO Taavi Heikkilä.

Startup-facts S-group

- x Startup interest intensified through the new strategy and CEO
- x Co-operation with Digital Foodie since 2009
- x Looking for startups through the Corporate Ventures accelerator programme
- x Especially interested in services that improve customer experience
- x Contact person: Karlos Kotkas

<https://www.s-kanava.fi/web/s/en/information-on-s-group>

Retailing co-operative organisation, biggest grocery shop chain in Finland.

Revenue 2013: EUR 11,4 billion



Image:: Numi Nummelin / ZenRobotics

SITA

is growing its reputation through robot co-operation

The four-year partnership of SITA and ZenRobotics is beginning to bear fruit. Culture collisions have been overcome and the companies have arrived at real business co-operation. The co-operation has given SITA exposure as a modern company both publicly and also in the eyes of the parent company.

"Our principle is that we provide a platform for testing. We try out the functionality of innovations in our field," says the CEO of the environmental company SITA Finland, Jorma Kangas, as he outlines his company's startup strategy.

"Risk funds are a separate matter."

The principle of SITA is that if a startup succeeds in their pilot in Finland, the gateway to interna-

tional markets is open: after all, the company is part of the international Suez Environnement group. By bringing good startups to its parent company, SITA strengthens its position in the group.

In 2011, the ZenRobotics startup, which manufactures waste sorting robots, became a partner.

The co-operation of SITA and ZenRobotics has been an eventful journey.

One of the greatest cultural challenges has been the habit of the startup to market itself well in advance. Whereas in more traditional companies, the custom is to tell about achievements and success only afterwards, if even then. It is a question of two different corporate cultures.

"The sense of timing of startups is different to that of more established organizations," analyses the CEO of ZenRobotics, Juho Malmberg.

"There should be a fast lane in large corporations for startup co-operation."

Kangas understands why new kinds of companies move quickly and blow their own trumpet. After all, not a single startup would get funding if it communicated as cautiously as a listed company, for example.

"Startups are fighting for their survival. But they don't always understand the operational environment and earning logics of industry. They may also overestimate their business," analyses Kangas.

The delivery ability of a small company is a key issue for successful co-operation.

There should be a fast lane in corporations for startup issues.

The beginning of the partnership of SITA and ZenRobotics was not rosy. The people from ZenRobotics went to Paris to talk to the risk investment unit of the Suez parent company - and came back disappointed. The differences in opinion were large.

"They just didn't connect," says Jorma Kangas.

"Serious questions were asked by the parent company about whether it would be worth continuing co-operation. However, we didn't give in."

The persistence bore fruit. The test facility of ZenRobotics in Viikki, Helsinki, has developed enormously and the company has obtained risk capital and contracts from outside the Suez group as well. People other than just academics came into the management of the startup.

First, the robot company managed to tempt the former CEO of Metso, **Jorma Eloranta** to become the Chairman of the Board. Eloranta then helped recruit Juho Malmberg, who had been the director responsible for customer experience at Kone, to take the CEO position.

"They started to understand at Zen Robotics how our industry thinks. It's quite cold calculation and risk-taking, and no company can set out to save the world with just one product."

"The delivery ability of a small company is a key issue for co-operation. How professionally it does its work and what support services it offers. In this, even ZenRobotics has

had difficulties," says Juho Malmberg from ZenRobotics.

"You also have to understand that when a completely new technology is being developed, startups do not always attain the same standards as large companies."

When the robot startup advanced, the French parent company also became interested. Now the company has a framework agreement with Suez, which will in the best case lead to mutual success when Suez begins to offer the products of ZenRobotics in its network.

The framework agreement states that Suez does not have exclusive rights to the products of ZenRobotics, but a small lead is promised nevertheless. If everything works out, Suez will get first mover advantage on the order volumes of ZenRobotics. Suez has also influenced the product development of the waste robots.

"Despite the difficulties, particularly during the last two years, the co-operation has been extremely positive and confidential," says Jorma Kangas.

Through ZenRobotics, SITA has also grown its reputation as a modern company in a field that is extremely conservative and very regulated.

"This journey has been inspiring, even on a personal level, and we've obtained a huge amount of exposure on the markets in relation to our size, and we're seen as an operator with a fresh new thinking."

We want to be the company that the startups in our field turn to.

For Jorma Kangas, it's also important that Zen Robotics comes from Finland.

"It's great to take Finnish innovations to the world. If the company in question had been a foreign one, then perhaps we might not have been as patient."

SITA Finland also has its doors open for other startups.

"We want to be the company that startups in our field turn to. This is a strategic issue for us; we want solutions that the competitors do not have. Competing on prices cannot be the only trump card."

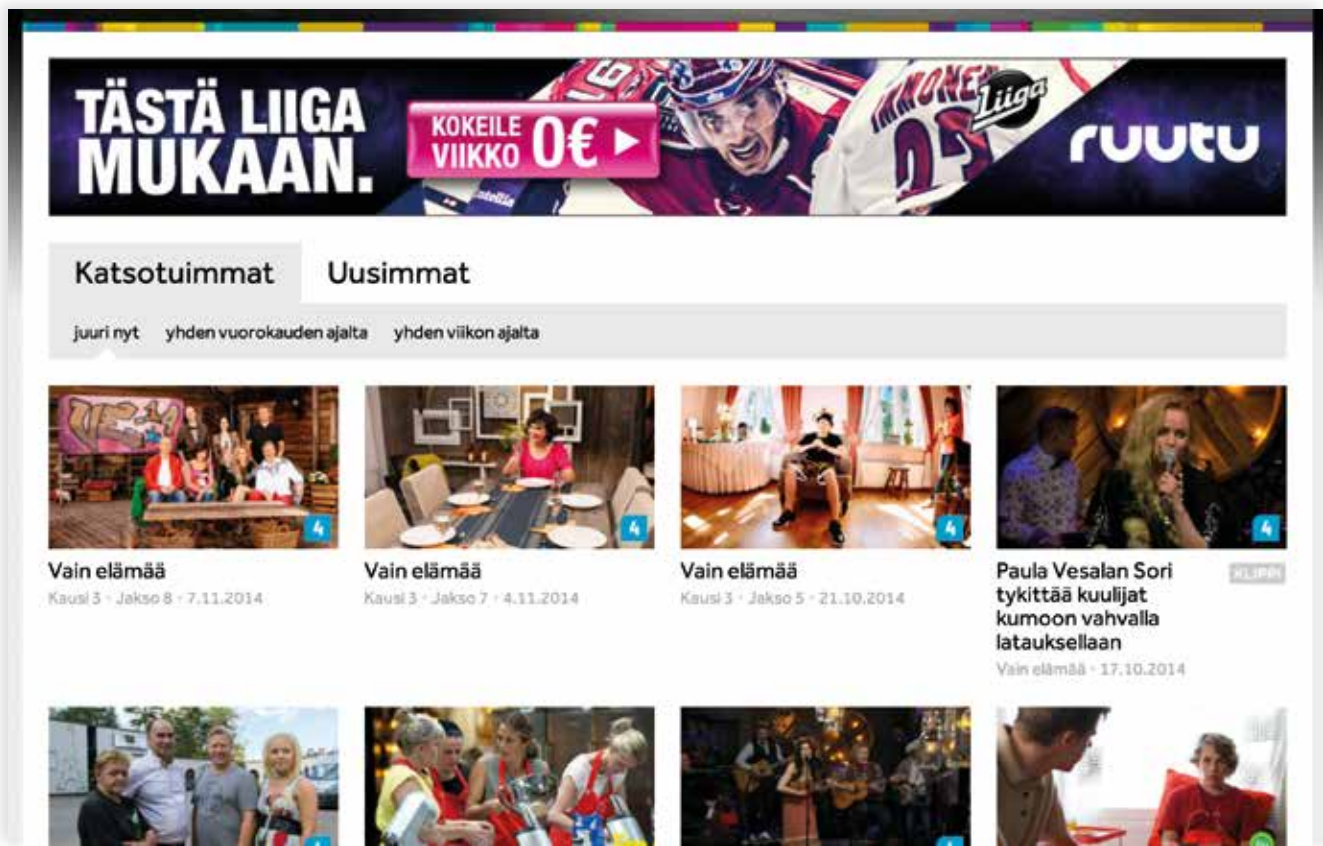
Startup facts SITA Finland

- x Concentrates on co-operation and provides a test platform for startup pilots
- x If successful, the startup has the opportunity to get into the international market through the Suez parent company
- x Primary startup partner ZenRobotics
- x Contact person: Jorma Kangas

<http://www.sita.fi/>

**Environmental services.
Part of the global SUEZ
Environment Group.**

Revenue 2013: EUR 76 million



Nelonen

works like a startup

The development of the Ruutu net service of the TV channel Nelonen would be sheer anarchy for an old-school product developer. Agile coders develop streaming services independently the way they best see fit. The model, familiar from startups, maximises the efficiency of service development. From startups, Nelonen looks for new advertising concepts.

Even though the speed in the startup world is high and the processes seem chaotic to the outsider, the product development methods of startups are usually carefully considered. Everything is secondary to speed, effectiveness

and a sensitivity for understanding the needs of the customers.

In the media sector, people have got used to trusting outside companies. Many TV channels do not have their own programme production, but instead everything is bought externally. For this reason, it was easy for Nelonen to outsource the development of its most important internet service to its agile IT partners. The result is a practice which is nearly identical with the product development of startups.

"We call our system 'super-agile development'," says the Director in charge of the Ruutu net TV service, Tomi Kaleva.

The net television of Nelonen is

developed by a group of programmers picked from different companies. The development decisions of the service are made by the developers. Organizational borders and silos have also been erased.

Work is done in two week work periods, just as in many startups.

"The group divides the tasks amongst themselves."

Some of the staff work in the premises of Nelonen, some in their own offices. Once a week, however, everyone codes around the same table.

Program developers are not interested in company boundaries; for them the most important thing is to do interesting and difficult things

**Program developers
are not interested in
company boundaries.**

*The new business
practice is
almost identical
to the product
development of
many startups.*

**The most important thing is
that the speed does not stop.**

with other top talents. These days, challenges motivate more than money. The starting point in the model of Nelonen is that the team, which consists of programmers from different companies, also divides the work tasks amongst themselves, in accordance with their professional skills and work situations. On the side of Nelonen, the development is only looked at in overview. Processes are minimised.

"You will be caught out at once if you claim to be able to do something that you don't have the skills for."

At the initial stage, the model was even more anarchic. Developers might publish programs without asking for permissions. There was no program development environment even, but instead all changes were tested directly with users.

"We learned the hard way that no updates should be made on Finnish League hockey game nights, for example. We have learned from our mistakes."

Even though unlimited freedom is not possible, the development model of the Ruutu service is a

refreshing exception to IT development, which emphasises risks and is often fearful, and where deviating from precise plans can even be a breach of contract.

"In new technology, the things of yesterday are already outdated. Traditional models do not work; we've tried them too," says Tomi Kaleva.

Nelonen's internet TV must also work with mobile devices, the operating systems of which get alterations continuously.

However, the most important thing is that the speed doesn't stop in any situation.

"In this model we also want to ensure that the development continues. All the eggs can't be in one basket. And we also of course want competition between our partners."

But what can pure product startups offer Nelonen? Selling its coder workforce is not at the core business of many small companies.

"For example, different kinds of inventive advertising concept are of interest," says Tomi Kaleva. This is sensible, because TV advertising is in decline and in addition

to banners and pre-roll adverts, customers want new ways to sell their products.

Startup facts Nelonen

- x In developing the streaming service, traditional product development does not work; a startup attitude is essential**
- x Product development of Ruutu.fi divided amongst many partners**
- x Special interest in start-up in moving image advertising concepts**
- x Contact person:
Tomi Kaleva**

<http://www.nelonenmedia.fi/en/>

**Media industry, television
and radio broadcasting**

Revenue 2013: EUR 32 million



Image: Wello

Fortum

looks to the future with startups

Startup investments and co-operation provide Fortum with a front-row seat for observing the development of the sector. Not all wisdom is to be found in-house, and not even from one's own field of business. Growth companies are especially needed for consumer solutions and renewable energy. The state-owned company does, however, have to make its own business practices more flexible.

In the lobby of the head office of Fortum in Keilaniemi, Espoo, the startup co-operation can be seen by every visitor. On the stands in the lobby, the Fortum Fiksu energy-saving services are presented.

The product family, aimed at domestic households, was developed by the There Corporation, a startup created in a spin-off programme of Nokia.

"A small and fast company provides a competitive advantage to a larger one in a continuously changing environment," says the CEO of the There Corporation, Kaj Rönnlund, analysing the partnership of his company with Fortum.

Fortum has approached the startup world by partnering, investing directly in companies and through investing in mutual funds.

Alongside its partnerships, in 2007 Fortum got on board with a minority stake in the AW-Energy

wave power company and in 2014 it invested in a second wave energy startup, Wello.

The motive for the investments was to learn.

"In AW Energy and Wello, we've wanted to follow technology at the demonstration stage. In the long term, we will not continue to be involved in these companies; we are not looking to become a technology provider company," says the Chief Technology Officer at Fortum, Heli Antila.

Fortum is involved in the North American Chrysalix fund as well, which specializes in cleantech.

"We want to get to follow what is happening in technology devel-

**Cooperation
with startups
helps accelerate
the change of cor-
porate culture.**

*A small and fast
startup provides
a competitive
advantage to a
bigger company.*

**A startup must have courage, enthusiasm
and a world-conquering mentality.**

opment in the Americas, because there's a lot of investment there in renewable energy," says Heli Antila.

The energy business is conservative and product development cycles are long, so a long-term view is required.

"Our business field was very stable for a long time. For this reason, the acceleration in the need for change is still not recognised well enough in the field," considers Antila.

Fortum does not have a large product development department, but instead development is done mostly through partnering. However, some flexibility should still be found in the organisation. The way that startups do business and develop products and services seems strange for those used to traditional product development.

"Many engineers are used to just doing their own thing. They cannot take a wider view and do not notice the blurring of the boundaries between different sectors."

According to Antila, investing in startups, small company acquisitions and startup co-operation should be made easier and more agile. Even though change generally depends on people, heavy

processes do not make matters easier.

"We're used to discussing matters within our own industry, but now innovation is coming from outside instead," considers Antila.

"To change the corporate culture, it is essential to work with startups."

"I would compare a corporation and a startup to a cruise ship and a motor boat," says Kaj Rönnlund, the CEO of Fortum's startup partner, the There Corporation. "In the port of departure, i.e. the domestic market, the small boat is quick and can circle around the slow-moving large vessel many times. However, out in the open sea, i.e. the international markets, the large one can take the small one into a safety if a storm breaks out."

The Chief Technology Officer Antila sees great opportunities in consumer-side solutions in particular, of which the product family produced by the There Corporation is a good example.

"Many interesting startups can be found at the customer interface. Big data applications, such as the industrial internet, are also of interest for power stations and district heating."

Chief Technology Officer Antila is particularly looking for a sense of vision from startups.

"They need courage and enthusiasm. And a world-conquering mentality. And persistence when working with us."

Startup facts Fortum

- ✕ **Minority stakes, partnerships and investment in mutual funds**
- ✕ **Motive for investment not primarily direct financial gain but instead following the development of the field**
- ✕ **Focus on consumer-side solutions and new applications, also in traditional fields**
- ✕ **Contact person:
Heli Antila**

<http://www.fortum.com>

**Energy company. 50,76 per-
cent of the stakes owned by
Finland's government.**

Revenue 2013: 6,1 billion

A SUMMARY OF THE FINDINGS

The Confederation of Finnish Industries (EK) met dozens of corporate executives and experts while carrying out background research for this publication. The aim of the interviews was to find generally applicable lessons for startup co-operation. Here are EK's findings.

1. Both must benefit

Startup co-operation cannot be an act of charity for big companies and startup companies cannot be forced to partner with corporations. Both parties have to genuinely benefit from each other. The wild and free startups must be able to practice some discipline, for example with respect to schedules and the reliability of delivery. The large corporation, on the other hand, has to understand that startups are not just subcontractors but equal partners.

2. The commitment of the CEO is important

In big companies, the commitment of the CEO is a prerequisite for startups becoming a C-level issue and part of the strategy of the company. When the significance of startup co-operation is defined and communicated externally, finding the right partners also becomes easier. According to a rule of thumb, the shorter the command chain separating the startup projects from the CEO, the better. Sometimes, for example in the commodities business, it may be easier to work within the production lines, but even then the visible support of the CEO is needed.

3. An internal sponsor is required

Startups need a clear point of contact and a human face within the big corporate orga-

nization. For that reason, the corporation should appoint an 'internal sponsor'. He/she is not only a contact person, but also promotes startup projects within the large organisation and its processes.

4. A clear mandate and resources needed

When the person responsible for startup co-operation has been appointed within the organisation, he/she must be guaranteed sufficient resources. The internal sponsor also needs sufficient operational authority so that projects are not, for example, left in the shadow of the other priorities of middle management. One way to strengthen startup activity is to set up an internal startup accelerator, which also works as an interface for external startup co-operation.

5. IPR rules in order

Large corporations and startups typically have a different approach to IPR issues. Many representatives of bigger companies are wondering how open they can be about their plans and how possible disputes can be avoided. On the other hand, being secretive about their innovations is not typically a part of the startup world. In order to create a sustainable basis for cooperation, it is important that IPR issues have been clearly and



transparently agreed upon in a manner that satisfies both parties..

A fair starting point for negotiation must also be ensured for the smaller company, which cannot afford an army of lawyers. Startups need support in negotiations and drawing up contract terms. In this way, they also become a more viable negotiation partner for the large company, too. It would be good if startups were offered IPR advice service, for example at the Patent and Registration Office, in a more concentrated and broader way than now, and on a 'one-stop' principle.

6. Exclusive rights are not inevitable

Traditionally, claiming exclusive rights to the innovation of a startup has seemed like a tempting option for a big company. These days, however, genuine partnerships are sought, that also leave freedom for the startup to develop its own business and grow. A prosperous startup benefits both parties. If exclusive rights are however still wanted, the large company can be granted a first mover advantage in order volumes, for example. Exclusive rights can also be limited to affect only the domestic market.

7. Help is needed

Many executives wished for more information and concrete help with finding small growth companies, and for testing and starting co-operation. Intermediary organisations working on the interface of companies, such as accelerator programmes or companies specialising in scouting startups, may for example have a significant role in bringing large and small growth companies together. The service offering however seems patchy at the moment.

Many interviewees also wished for new types of financing models for testing startup co-operation. Tekes emphasises that financing cannot be an alternative to co-operation, but should encourage different sizes of companies to get closer to one another instead. Business angels and capital investors also have an important role as facilitators of co-operation.

8. Smarter regulation

Political decision-makers also have the power to influence the development of innovation co-operation. Regulation is still an obstacle, especially for corporations serving the public sector and their partners. For example, strict procurement legislation inevitably leaves small companies in a weaker position.

SIX TIPS FOR A STARTUP BY HOODIE DUDE

Growth entrepreneur! Did the scales fall from your eyes after hearing the thoughts of large companies? Did you realise that corporations are not from Mordor after all? The startup surveyor Hoodie Dude, working between two worlds, gives few tips to his startup friends on how to approach large companies.

1. Respect

Forget trying to prove your own excellence. You do not represent an entirely new world, a utopia in which new rules have been devised for business life.

The representatives of traditional companies may seem stiff and old-fashioned to you, but take a look at their track record. The world is built on the carefully considered decisions of the corporate leaders. Prepare to face very alert and broad-minded leaders, who are ready to talk to you on an equal footing.

Be ready to learn and adapt to the processes of the giant partner, as long as you don't lose your identity. You can learn a lot from corporations, for example about scaling business, strategic planning, working processes or international networks.

2. Prepare well

When you approach a corporation, take time to understand its business activity.

What is the new and unique thing exactly your company can offer to this com-

pany? Get acquainted with its strategy as well and think about your role within it.

Prepare well even for the first time you make contact. You will get a meeting more easily when you show that you've done your home work.

3. Use door-openers and make use of your networks

You want to meet the top management directly, which is a good thing. But the corporate decision-makers are even busier than you are. Really. Every minute of the CEO is counted in money, for which reason they are very selective about meetings.

So first find out if there is a person in charge of start-up co-operation startups in the corporation. If there isn't such a person, the easiest way to attract attention is to use sponsors, i.e. door-openers. Do you perhaps know an influential person who can present you to the boss you want? Or perhaps you can find, in your network, someone who knows someone who knows that person?



4. Say what you do and what you don't do

You will get respect when you tell clearly what your company does and where it's heading. It's especially important to state what you don't do. A startup with a precise focus is more interesting than an eager subcontractor who lets the clients tell them what they should do.

For your potential corporate partner, you must represent the peak of innovation in specific of business. If you do not convince them of this, it's difficult to get ahead.

Do not concentrate on being the world champion of pitching, but listen and be at least a little humble.

Indicate clearly, if you intend to reveal your business secrets in depth. It's good to establish if there is a product development project, for example, under way in the large company which is near your own idea. In this way, you'll avoid unnecessary misunderstandings and disputes.

5. Favour Finnish

Many startups seek to get abroad as soon as they are born. "Born global" and "think

big" are fine slogans, but there are also fine companies in Finland that can become your partners.

It's much nicer to go by bus to Helsinki outskirts than in economy class to Silicon Valley. Taking care of practical matters also takes less time if the partner is from the same country.

6. Be patient – and contactable

Although it's difficult to believe, many of the corporate executives we have met have had difficulties getting hold of startups. So be contactable – also by phone and e-mail.

Many corporations are only at the beginning in their startup activity. They do business in fields in which company culture does not change overnight and their activity is often also heavily regulated, which causes challenges for the impatient startup nature.

Don't lose faith! We're on the right track and your persistence is needed in order to change the world and shake up the Finnish business life.

In Finland, the mature mainstream business is undergoing a structural change in many sectors. At the same time we have a startup boom under way. How could startups and large corporations help each other?

This booklet presents ways to get co-operation going. Six brave corporations also recount their experiences with startups.

PUBLISHERS

**THE CONFEDERATION OF FINNISH INDUSTRIES
(ELINKEINOELÄMÄN KESKUSLIITTO EK)**

P.O. Box 30 (Eteläranta 10)

FI-00131 Helsinki, Finland

Tel. +358 (0)9 420 20

ek@ek.fi

www.ek.fi

Contact persons:

Outi Ervasti, tel. +358 (0)40 721 2131, @outiervasti

Tuuli Mäkelä, tel. +358 (0)50 330 3245, @tuulimakela

TEKES

TEKES – THE FINNISH FUNDING AGENCY FOR INNOVATION

P.O. Box 69 (Kyllikinportti 2)

FI-00101 Helsinki, Finland

Tel. +358 (0)29 505 5000

kirjaamo@tekes.fi

www.tekes.fi

Contact persons:

Jukka Häyrynen, tel. +358 (0)29 505 5970, @jukkahayrynen

Ilona Lundström, tel. +358 (0)29 505 5678, @ilonalu

Editor: Hoodie Dude, hoodiedude.com

Graphic design: Ea Söderberg/Hapate Design

November 2014