COPENHAGEN FINTECH

# Overcoming barriers to successful corporate-fintech collaborations

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## About Copenhagen Fintech

Copenhagen FinTech is a community-fueled space for co-innovation, built on the premise of collaboration. This is something that we share with the corporate banking industry (our 30+ partners and sponsors) and startup community (100s of fintech startups). Today the story is no longer about fintechs breaking banks but rather fintechs partnering with banks. With this shift in mindset, the question is no longer why to partner but how to partner. This paper is focusing on the corporate perspective of startup-corporate collaboration and how, as an industry, we can become more competitive by becoming more collaborative.

## Building a thriving ecosystem

Collaboration is at the center of everything we do at Copenhagen Fintech. Our mission is to build a thriving fintech ecosystem, and we believe the key to growth lies in unlocking the true potential of startup-corporate partnerships.

The pace of technological change is rapidly increasing, the competition is intensifying, and becoming more global and diverse. Meanwhile, neither corporate incumbents nor startups alone have all the needed capabilities to win in this rapidly transforming industry. Community-fueled innovation is the key to establishing and maintaining a lasting advantage.

As technology enables outreach, new ways of distributing products and services become increasingly important. As new ecosystems and platforms are born across industries, incumbents can benefit from understanding how to be a part of them.

Finally, we are also starting to see how the battle for talent impacts incumbents. The startup scene is not only a source of inspiration for new business models, technology, etc. It is also a crucial source of talent for the industry as a whole.

## The top four reasons for corporates to enter into a partnership with a startup

### 1 Global crowdsourcing of ideas and solutions

Crowdsourcing from the global community of talented fintech startups can drastically expand the power and pace of innovation in the organization.

### 2 Flexible specialization

Startups typically focus on small niches with global scaling potential, which makes it possible to develop a much higher solution quality than a stand-alone development strategy in a niche area.

### 3 New technology

New technology is at the fingertips of thousands of skilled developers all over the world. Artificial intelligence, machine learning, and blockchain are easily available to apply to existing business models at a pace where it can be hard for incumbents to keep up. Startups, on the other hand, work with a risk-born mindset and are fueled by risk capital, demanding rapid testing of new technologies in new business contexts.

### 4 Customer contact is the name of the game

Fintech startups typically work much closer to the end customers than the incumbents. Customer insights and feedback are an integrated part of the lean way of working and often result in a radically different customer journey and experience.

## Enabling more successful partnerships

If you are an incumbent in the financial industry, you are most likely undergoing an agile transformation, have a proudly populated three-horizon innovation roadmap, a strategy mapping out where to play and how to win, great teams working as tribes in sprints, and are about to launch a new initiative that will make it easier for startups to engage with you.

Our ambition is not to provide you with a new strategic framework, but to make more successful corporate-fintech partnerships happen. Our method is straight forward:

- Take a problem-centric view of shared challenges
- Co-create to leverage the joint expertise and experience of our partners/sponsors
- View the barriers through multiple perspectives

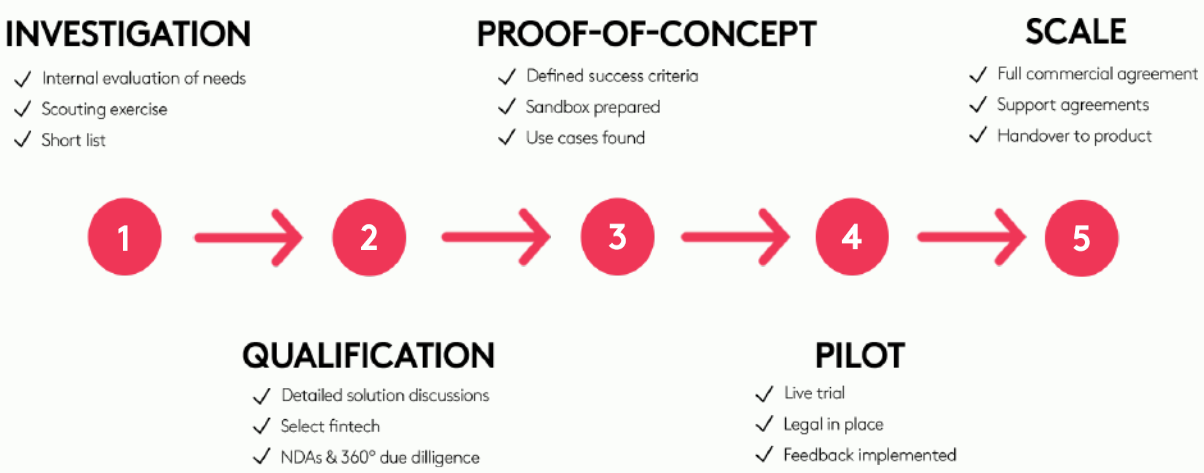
## Partnerships 101

In our experience, the root cause for it often being difficult for corporates to partner with startups lies in a conflicting appetite for risk and the difficulty of synchronizing corporate operations with dynamic and agile startups.

There are many ways a corporate typically engages with startups in order to find fruitful partnerships. No one model is better than the other and there are about 100 shades of engagement models, but they can be split into five archetypes.

1. Direct sourcing
2. Internal innovation unit
3. Corporate incubation model
4. External subsidiary
5. Entrepreneurial co-creation model

The typical partnership process followed by the majority of corporates can be illustrated in five stages, each bridged by a new level of due diligence.



## Shared barriers: What's hindering collaboration?

Why don't we see more partnerships between corporates and startups in the financial industry? What are the barriers to success? Community-fueled innovation is the aim and tapping into a buzzing start-up community often leads to unexpected ventures and ideas.

Despite the apparent upsides, there are also challenges to engaging in partnerships with startups. These are the key challenges we aim to address and also shed some light on how we might overcome these barriers:

**Barriers to collaboration**

| | |
|---|---|
| 1 | **For all the wrong reasons**<br>*Confused purpose and maturity misalignments* |
| 2 | **Institutionalized innovation**<br>*How a "POC-way or the highway" approach can backfire* |
| 3 | **Unbalanced partnerships**<br>*Danger of treating startups as any other supplier / partner* |
| 4 | **The difficulty of unlearning**<br>*Counter-productive use of established rules and guidelines* |
| 5 | **Post-honeymoon disaster**<br>*Rushed partnerships turning gloomy as the headlines fade* |
| 6 | **Short runways, unpredictable planes**<br>*Failing to understand startups' needs* |
| 7 | **Isolated innovators**<br>*Struggles of not genuinely backing your innovators* |
| 8 | **Passive leadership**<br>*Corporate structures creating corporate soldiers* |

## #1 – Partnering for all the wrong reasons

### THE BARRIER

As with any other project, partnerships should always start with 'why'. When you are not aligned internally on the purpose of the partnership (and each specific startup you engage with), problems can be expected on all fronts. For example, all too often, the partnership is anchored in the marketing organization. This can result in great headlines but can also ignore customer satisfaction or the need for value-added services, which can lead to a failed partnership before it even takes off. Another aspect of this barrier is when the reason for partnering does not align with the maturity of the startup. The consequence of this is either a failed partnership or an unnecessarily cumbersome partnership process.

### THE SOLUTION

Partnerships are driven by people who are optimizing towards their KPIs. So, if the incentives of the people driving the partnership are not aligned with the desired outcome, the results are bound to be sub-optimal at best. To avoid unnecessary obstacles, make sure that the 'why' is clearly defined and communicated internally and with the startup – even better if you can combine it with an end-to-end roadmap. If there's no one with the incentive to make a partnership work in line with the purpose, then assign a new role with end-to-end

Another potential solution is to do a purpose-maturity alignment when identifying the right partners. Here you make sure the startup is at a suitable maturity stage for the partnership you have in mind where the common mistakes is involving early-stage startups to fill an urgent technological capability gap.

Finally it is about the quality of the engagements not the number of engagements. Focus on making engagements that stick, and not always chasing the next cool thing.

If you also have a purely learning purpose you intend to address through POC engagements, then make sure to be upfront about those exploratory intentions with the startups to align expectations.

## #2 – Institutionalized innovation

### THE BARRIER

As many scramble to establish a setup for engaging with startups, the popular solution is to create a semi-standardized POC (proof-of-concept) process that is owned and facilitated by an innovation unit in the organization. This creates one point of entry into the organization and mitigates risk for the corporate by having a clear process on how they screen/mature startups before they get into the business units. The problems arise when (1) the innovation team has limited pull or mandate with the business units and (2) when it becomes institutionalized to a point where all startups get directed to the innovation team and the process.

Startups are often faced with a 'POC-way or the highway' approach. In cases where it is clear that the POC process will only slow the startup down and the innovation people are unable to channel it into the right business unit, the best startups find other partners that can engage in a more meaningful way. In that case, they will often build on a direct line of contact to decision makers or people with a clearly delegated mandate.

### THE SOLUTION

One way to avoid time-wasting POCs and attract top startups is to differentiate between operational and strategic solutions. With operational solutions, startups can clearly tap into a pain of an exising business unit, while, with strategic solutions, they can venture into new territory that does not clearly fit into the scope or incentive structure of an existing business unit. When you have strategic opportunities, don't do the bottom-up POC process. Instead, involve executives early to commit fast and enter into more of a light merger/due-diligence process.

## #3 – Unbalanced partnerships

### THE BARRIER

Today, most partnership processes begin with startups pitching and corporates evaluating. This creates a power imbalance because the corporates typically have the customers and money, while the startups have a limited track record and are selling a potential value. Many corporate people enter into dialogues with startups with a negotiator's mindset. his can be self-destructive for several reasons:

1. **Unfair:** Startups typically know the end-customers and the technology really well, but not your pricing or operational structure. Dependent on landing a partner, they are often not in a fair position to negotiate. They are also very few people and may lack business and legal understanding.
2. **Disincentives:** Deals that are negotiated to the beneficiary of the corporate are short-term and demotivates the startup founders from investing and growing the partnership.

At Copenhagen Fintech, we continuously work to match-make our startups with our partners/sponsors. This barrier becomes apparent to us when we hear, after the first meeting, that they will not proceed as the pricing model wasn't a match. This is a wasted opportunity because all startups' pricing models are up for discussion – the problem is partly a negotiator's mindset coupled with the view of startups as yet another IT supplier to "be bested".

### THE SOLUTION

Take a step back, remind yourself why you are partnering with startups, and enter the dialogue with a mindset ready to co-create. It is essential that you first evaluate whether this startup can either address an existing pain point or a strategic opportunity – if that is the case, pricing is a non-issue. It is popular advice to involve IT, legal, and procurement early to be proactive in resolving potential roadblocks. However, make sure you onboard your colleagues to join the dialogue with the right mindset, not to hinder the project.

## #4 – Difficulty of unlearning

### THE BARRIER

Corporate-startup partnerships can be difficult because two different worlds are trying to come together. When these two worlds approach each other with a fixed mindset that they 'have it figured out', a violent collision can often be expected. A counter-intuitive mindset shift is needed where both parties have to unlearn the ways that make them successful in their own worlds and learn what it takes to succeed in this new merged world.

The problem, if they fail to do so, is that they will experience a partnership process that is two parties working against each other rather than with each other. If you have a mindset that embraces new procedures, new ways of working, agile methods and entrepreneurial culture, you will get the most value out of working with startups.

### THE SOLUTION

A good place to start is by questioning internal processes and rules and by being ready to fight bureaucracy. It helps if the person doing this has a mandate and a skill for diplomatically navigating the organization. It is also key to embrace the concept of MVPs (minimum viable products). This is a product with just enough features to satisfy early customers and to provide feedback for future product development.

Once you are ready to embrace MVPs, take on bureaucracy, and start the partnership process, always make sure to do proper onboarding on both sides. The onboarding is about a mutual introduction of the team, culture, procedures, and underlying purpose/logic. To address the potential cultural friction, a short-cut employed by many is to gather small teams internally that already have the entrepreneurial mindset that can be the point of contact for the startup.

## #5 – Post-honeymoon disaster

### THE BARRIER

A key barrier to initiating new partnerships is previous negative partnership experiences. They can lead to you having a flock of resistant colleagues who believe "we tried this before and it didn't work". There can be many reasons why a partnership doesn't work post-honeymoon phase, but it often boils down to that both parties rushed into the partnership without addressing the key questions. The result is that there's no commercial impact, no path for growth, and no clear owner or commitment to continuing the invest in the partnership.

### THE SOLUTION

Follow these steps to prevent a post-honeymoon disaster:

1. **Spend some time dating** – understand what's out there
2. **Be honest about your intentions** – make sure you discuss your 'why'
3. **Talk about the future** – align plans and discuss the relevance of 'until death do us apart'
4. **The good life** – if you haven't defined success, it can be hard to reach
5. **What to share** – finding the right partnership format and when to have systems together
6. **Any objections?** – remember to ask the ones that matter before you commit

One additional 'hack' can be stolen from how venture capitalists sometimes 'reality check' that the startups really mean what they say. The trick is that the terms should match the story – in other words if the startup tells one story of their plans or stage of technology then they should have no issue having terms in place that matches that. In our experience however dishonesty is rarely the case – so rather focus on building trust. To partner with startups is a learning journey, accept that it is often high-risk commitments and make sure to turn failures into learnings.

## #6 – Short runways, unpredictable planes

### THE BARRIER

It can be difficult to scope and plan how to integrate a startup solution into a large financial institution. But one thing you can count on is that there will be unpredictable bumps along the road. Large institutions are used to running complex projects and have procedures for how to deal with bumps. However, these procedures were not built with startups in mind and they almost always result in significant delays. These delays are fatal for startups as they have critical burn rates, so a delay to the launch date can mean they cannot keep their business running.

### THE SOLUTION

To avoid having failed POC and partnership processes and getting a bad reputation as a difficult partner due to delays, make sure to be proactive and diligent in your communication. As you encounter a bump, communicate this with the startup and be flexible in how you could overcome it fast, or at least without damaging the startup. It is essential to take the time to understand the situation that the startup is in and what the consequences of a delay could be.

An additional tactic could also be to begin your startup engagements with more mature startups that are engaged in partnerships already and are less dependent on your business. If you are in a situation where you know you wont have resources to deliver to the plan you outlined with the startup consider to either hire a third-party consultant to do the implementation or ensure the startup that they still will get paid according to plan regardless whether there are internal delays.

## #7 – Isolated innovators

### THE BARRIER

Most incumbents today have appointed a head of innovation, created an innovation department or set up an external team of innovation specialists in a lab. Regardless of the setup, these people are often tasked with making sure the core business is not blindsided by new innovations and bringing new innovative solutions to the table (more horizon 3 than 1).

Unfortunately, few of these initiatives result in commercial agreements with startups and the most significant barriers that the innovation departments face include:

1. **Lack of budget** – as a result, they are not able to pay startups without asking for a budget from business units.
2. **Dismissed by core organization** – business unit leaders do not always feel incentivized to commit resources to the innovation team.
3. **Lack of transparency** – the core organization does not communicate their pain points or opportunity areas to the innovators, forcing them to adopt a spray-and-pray strategy with engaging startups.

As a result of these barriers, startups are growing increasingly skeptical towards innovation units, as they have first-hand experience that there are not properly anchored in the organization.

### THE SOLUTION

Handing over innovation has always been a challenge and a barrier many remember from the old stage-gate processes. Although it can be tempting for the new innovation units to break free from the corporate inertia, you should be careful of creating a silo and explore ways to bridge and integrate between the core and the innovation department.

To help the core organization embrace innovation units, the messaging should be that the innovation team is a supporting function who can sponsor innovation (with resources and expertise). There is a large change-management task in making sure that the organization's immune system does not reject all ideas invented elsewhere.

The first step here should be to get quick wins and celebrate those. Avoid to exploratory engagements in beginning, try focusing on existing problems faced by the core organization rather than inventing new ones. It is critical that for each startup you engage, secure upfront sponsorship with the leader who will own the final solution.

## #8 – Passive leadership

### THE BARRIER

Partnering with a startup is risky. Financial institutions are risk-averse for good reasons. Corporate structures create corporate soldiers, so naturally, taking ownership of the risky venture of partnering with a startup is a barrier. The talents of the organization will by default mimic the behavior of the more senior colleagues who typically haven't climbed the ladder by taking unnecessary risks. To truly capitalize on a changing pace of innovation, an active approach to leadership is needed.

### THE SOLUTION

Partnering with startups is about innovation. For innovation to thrive, you need to create space for it. Startups need leaders to stand up and take ownership of doing a partnership and create space for their team to execute on it. They also need strategy and budgets to create space for these leaders.

Being a leader of innovation and utilizing the community-fueled pace of change is not about being a strong decision maker who has all the facts.

Rather, leaders must embrace risk, and work to delegate the mandate within the organization to those innovators who can make it happen.

The corporate innovation expert Tendayi Viki has identified 8 spaces that need to be created for innovation. In this context, the most critical spaces

- **Financial space** – The organization needs to have flexibility in their budgets to actually pursue new startup collaboration opportunities.
- **Space to fail** – People need to feel safe to pursue high-risk, high-reward opportunities. The supporting functions of IT and Compliance should also support the partnership process.
- **Strategic space** – Top-level management needs to acknowledge that what brought them here is not what will bring them ahead in the future. The strategy framework needs to reflect this more ambiguous future landscape that the industry is facing and set the direction for exploring new directions.

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# Barriers and solutions

| Barriers | Solutions |
| --- | --- |
| **For all the wrong reasons**<br>*Confused purpose and maturity misalignments* | **Define the why**<br>People optimize towards KPI's. Incentivize people by aligning KPI's with desired outcomes |
| **Institutionalized innovation**<br>*How a "POC-way or the highway" approach can backfire* | **Differentiate between operational and strategic solutions**<br>Sometimes the POC isn't the right approach, sometimes it is. Learn the difference. |
| **Unbalanced partnerships**<br>*Danger of treating startups as any other supplier / partner* | **Co-create the partnership**<br>Corporations have a strong position for negotiations and can easily overpower start-ups. Try not to. |
| **The difficulty of unlearning**<br>*Counter-productive use of established rules and guidelines* | **Question internal processes**<br>Be ready to embrace the early impact through imperfect solutions. Enable it by mutual onboarding. |
| **Post-honeymoon disaster**<br>*Rushed partnerships turning gloomy as the headlines fade* | **It's a learning journey**<br>Accept that dialogue creates the desired future. Ask before committing, and accept that even so, it's often high-risk. |
| **Short runways, unpredictable planes**<br>*Failing to understand startups' needs* | **Communicate and be dilligent**<br>Communicate troubles early and often to the startups. Understand that consequences of delays may be fatal for startups. |
| **Isolated innovators**<br>*Struggles of not genuinely backing your innovators* | **Beware the silo**<br>Corporate innovation units are at risk of lone wolfs without the necessary support from other units. Build the bridge. |
| **Passive leadership**<br>*Corporate structures creating corporate soldiers* | **Create the space for innovation**<br>Innovation is driven by leadership. Take ownership by having a clear mandate and budget. |

## Final remarks from us at the heart of the fintech community

Despite all these apparent challenges, the outlook for partnerships between startups and corporates has never been better. As ways of working with startups matures, it is only natural that challenges become clearer. And this is a good thing. Becoming aware is the first step towards acting on a given issue.

In this respect, we believe that the community is key. Knowledge sharing makes overcoming shared barriers possible at a pace which would otherwise be challenging. If corporations and legislators are to keep up with the exponential pace of evolution that technology has enabled, a community-centric approach to innovation is the answer. We are fortunate that we here in Copenhagen, Denmark, have one of the leading global fintech communities helping us drive this change.

Our goal in working with this great community is to enable partnerships between corporates and startups by helping reduce the friction of working together. Increasingly, we are seeing startups that understand the corporate complexity, and equally important, corporates that are aware of not just the potential for innovation through startup partnerships, but also the behavioral and organizational adaptions that will help accelerate this innovation process.

We look forward to continuing this work both with 200+ fintechs in our community and the 30+ corporate partners and sponsors from the industry. Much of the content of this paper were based on our masterclass where we gathered the heads of innovation and fintech partnerships from the established financial sector and together defined the major barriers. We are doing the same masterclass with gathering fintech founders and will also share the startup perspective on this essential topic.

### Curious to learn more?

Contact Oliver Sjøstedt at os@copenhagenfintech.dk, check out our website at copenhagenfintech.dk and of course listen to our podcast Fintech Matters?

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