Large Enterprises Need to Jump on Startup Bandwagon and Create Innovation

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Tomihisa Kamada gained his DSc degree from the Graduate School of Information Science and Technology, the University of Tokyo. In 1984, whilst still studying, he co-founded the software startup ACCESS Co., Ltd. through which he created the first mobile browser in the world and other innovative technologies in the field of mobile internet. ACCESS was listed on the TSE's Mothers market in 2001 and expanded its business globally. After leaving ACCESS in 2011, Kamada founded a startup support company TomyK Ltd. through which he supported the startup of robotic company SHAFT (acquired by Google) and is currently supporting many other technology startups in the fields such as IoT, robotics, AI, space, genomics, and medical care.

1. The Dilemma Faced by the Large Enterprises

The "we won't know until we try" argument does not hold water

There is no way of knowing whether a first-of-its-kind product or service will succeed without trying it out. However, this makes it difficult to produce a business plan, and any proposal for a business on a small scale is likely to be rejected by senior management. In the eyes of the executives of a large enterprise, if a business is not going to generate revenue of more than 10 billion yen, then there is no point in pursuing it. However, even big waves that might turn into a major industry start with small ripples. We have already experienced this on many occasions, with computers, the Internet, e-commerce, cloud computing, and smartphones. Developing a new market involves risk.

Employees at large enterprises may well have felt frustrated sometimes when an idea developed at the R&D stage ends up being scooped up by a rival company for commercialization. The transformation of business models into sharing or service-based models amid increased use of the Internet and smartphones brings opportunities. However, large enterprises are no doubt often held back, worried that switching business models will destroy their existing businesses. The "innovation dilemma" prevents them from taking the plunge. This kind of situation is happening all over Japan.

Startups attach importance to speed

Conversely, startups are completely different from large enterprises. They can be described as the polar opposite in many respects. The biggest difference is speed: "Just give it a try." Startups start out with a small team and quickly learn from their mistakes. They learn "on the go" and quickly improve their products and services to meet customer needs. They know how to use open technology, use external resources as much as possible, and put their energies into their core competence. They take full advantage of social media and raise funds through crowdfunding; they pursue business with completely different processes from the traditional large enterprises.

Figure 1: Differences between Startups and Large Enterprises

Startups

- Swift decisions
- Try & error
- Advanced technologies
- Learning “on the go”
- Open strategy
- Production outsourcing
- Internet-based

Large Enterprises

- Cautious, Consensus approval
- Careful planning
- Accumulated technologies
- Preliminary surveys, Quality-focused
- Closed Innovation
- Mass production lines
- Sales & distribution network

Implementation of high-risk projects

To address new issues, creating innovations and founding new businesses are important themes for all enterprises, including large enterprises. It has become easier to found a startup, and I suspect that large enterprises can also take advantage of this. With the shorter lifecycle of products, senior executives at large enterprises must also be wanting to create innovations in a way that is different from before in preparation for an age of tumultuous change and uncertainty. Let’s think if it is possible for employees at large enterprises to create innovations in the manner of startups, in other words, to internalize the advantages of startups such as speed, flexibility, and open strategy. There would be nothing for researchers and engineers at large enterprises to complain about if they could quickly implement entire projects, from the development of new products to their market launch, within the large enterprises that have everything they need.

Then, what can they do to make this happen? If a large enterprise examines a new business within the organizations optimized for its existing businesses, in many cases, the new business will turn out to be too small to get approval. The pursuit of efficiency within the existing organizations takes all the fun out of the process, making employees reluctant to come up with new ideas. From the outset, a large enterprise will not allow its core business that generates its current earnings to fail. High-risk projects do not fit easily into the existing business models and the existing decision-making processes of a large enterprise. Surely, as for such high-risk projects like “We won’t know till we try,” it would be better if large enterprises created a framework of investment commensurate with the risk.

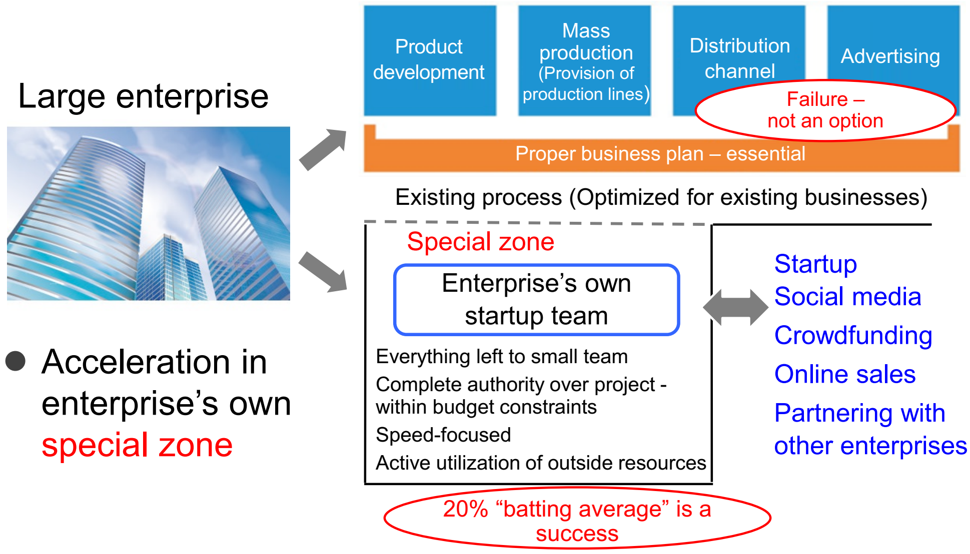
When the probability of success is two or three projects out of 10, with one project hopefully growing into a major business, large enterprises cannot afford to make a large scale investment in a single project in the early stage. Large enterprises also have high running costs and are also presumably unable to assign a whole department to a project as they do in their existing businesses. In such a case, it would be better to pursue the business as a special project, completely separating it from the existing process.

2. Large Enterprises Jumping on the Startup Bandwagon

Large enterprises create their own special startup zones

Perhaps, the fastest way is to create a "special zone" in large enterprises with their own special rules. It takes time to change existing rules and procedures, and when it comes to applying new rules to all their operations, large enterprises have no choice but to be very cautious about it. Instead, they should create their own special startup zone to enable the projects to be implemented subject to the approval of senior management. An enthusiastic small but highly skilled team assumes total responsibility for implementing the project within an approved budget. It does not matter if the budget is not very big. The team members can also take charge of raising funds themselves by using crowdfunding or acquiring customers upfront. And there is no *ringi* consensus approval. It is important that this team is authorized to make all the decisions. Indeed, this is a project implementation in the manner of a startup with an emphasis on speed. Cutting-edge innovations will never be born through the reconciliation of differing reviews within a large organization.

Figure 2: Large Enterprises Create Their Own Special Startup Zones

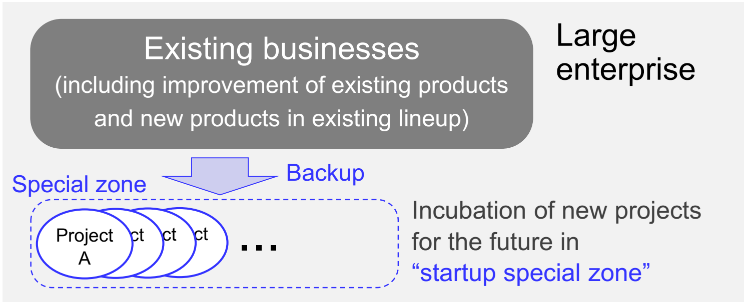


In a special zone within a large enterprise, teams can prioritize speed and actively use outside services and partners to implement projects. Startups make as much use as possible of the latest convenient cloud services (for file sharing, chat, video conferencing, development tools, communication and so on). Large enterprises are often unable to use these tools and services straight away as they are unable to determine the risks involved. To facilitate business smoothly with startups, in special zones, it may be better to manage their security separately from that of the parent organization and use different domains and email addresses, which allow the teams to freely use cloud services for the project. This enables risks to be limited to the special zone. Large enterprises need to be careful because as soon as they decide to examine a project seriously, they end up racking up costs for examination rather than investment in the project itself. As stated above, many projects fail. It is important not to spend much money on every single project. If a large enterprise is worried about its brand or quality, it can always develop the product under a different brand.

After "0→1" development in special zone, graduated projects must achieve "10→100" development

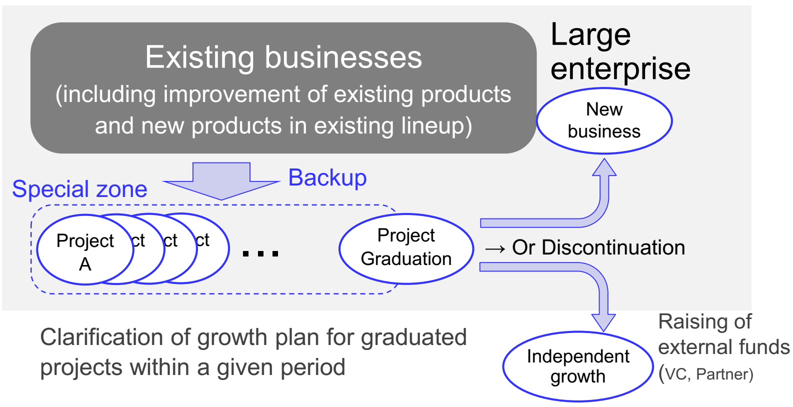
A special zone is a framework for "0→1" development. Many swings are taken to hit the ball or score a home run. However, in most cases, the bat will never hit the ball. Promising products and services are often born through the experience of failure and numerous challenges. Then, once a business has grown to a certain scale in the special zone, accelerated "10→100" development is required.

Figure 3: Special Zone is Framework for "0→1" Development



In the scale-up stage, all the resources necessary for mass production and sales expansion are on-hand within the large enterprise. In contrast, this is the stage that independent startups find extremely difficult. This is to say, as long as a startup within a large enterprise can get off the ground in the first half of the race, it has all it needs to win in the second half. Provided a project launched in the manner of a startup gets on track and grows as a new core business of a large enterprise, it will be a huge success. Alternatively, a startup within a large enterprise could be spun off as a separate company. Once it has reached a certain size and its growth could be accelerated through the injection of outside capital, and this would be another possible success model for a startup created within a large enterprise.

Figure 4: Accelerated "10→100" Development of Startup Within a Large Enterprise



At this point, it is important to clarify a growth plan for graduated projects within a given period, deciding whether to develop projects grown in the special zone into core businesses internally or whether to spin them off. The projects fit into neither case will be discontinued. Even in such cases, I think there are enormous benefits in terms of the development of human resources. Projects which are spun off will hopefully aim for high growth, raising funds from VC firms or business partners and aiming for listing.

A "startup" mentality is the key

So what kind of human resources are suited to such special zones? The highfliers in a large enterprise's existing businesses are not necessarily suited to this role. If anything, individuals who do not fit into the existing organization may be more suited. The leaders of special zones need to have the resourcefulness that draws in those around them with their enthusiasm. They need the skill to garner support from senior management and support from employees within the large enterprise. For example, it would help if they could seek advice on intellectual property or legal affairs from the specialist departments. If the leaders increase the momentum of startup activities throughout the enterprise and every specialist department comes to help freely or voluntarily, they can accelerate the projects. A large enterprise's strength lies in the equipment and know-how that it possesses. For example, it has expensive measuring devices, inspection equipment and many other types of equipment and materials. The advantage of being able to use this equipment when it is free is enormous. Moreover, the evaluation criteria for the special zone should be different from those for the main business. A large enterprise can hardly afford to fail in its existing business, however, in case of a new business, the important thing is to identify the quickest route to growth through frequent failures.

I believe that if large enterprises incorporate such kind of speedy startup methodologies and make a serious commitment to creating innovations, they will be a force to be reckoned with. Large enterprises have many talented employees, while the outstanding technologies are sometimes overlooked in their research laboratories. Surely, they must be able to use these human resources and research results to generate innovation. They may also have accumulated useful data in their existing businesses. It may also be interesting for large enterprises to select projects from among their special zone projects to exhibit at global events.

The approach of spinning off buried or languishing businesses from large enterprises to form independent companies (also referred to as carve-out) is similar but, with this approach, large enterprises usually end up dragging their conservative cultures along with them, unchanged. The success model which I am proposing will not work if large enterprises have no "tech entrepreneurs" who take risks themselves. In a sense, you need more driving force and energies to get things moving within a large enterprise than to found a startup company independently. Even if the basis for a new business exists within a large enterprise, the creation of a strong-minded team that can get a startup off the ground from scratch is still essential. Although large enterprises are increasingly engaging in open innovation activities, it is the level of commitment to commercialization and the drive of the teams that is important. Unless they are engaged in business they really want to do, as opposed to business they are being made to do, teams will not succeed.

3. A new Growth Model for Large Enterprises

Strategic use of startups

Large enterprises can invest in or have relationships with startups in various ways. One way is to invest in existing venture capitalists (VC). Since VC firms invest in startups, this means that large enterprises are investing in startups indirectly. By doing this, large enterprises can obtain information about startups and use this as an opportunity for collaboration. Another way is to establish a VC firm themselves, as a subsidiary (corporate venture capital or CVC). In this case, their investment will be in startups likely to be more relevant to their business, with the parent company deciding on the area for investment, for example. Another option is to hold a contest for startups or run an accelerator program to support startups. Alternatively, large enterprises could increase interaction with startups by providing them with facilities.

Steps such as investment in a VC firm, establishment of a CVC, and a startup support program can be said to give large enterprises a “tasting” of startups. The aim is to gain an understanding of how pioneering startups take risks and to interact with them.

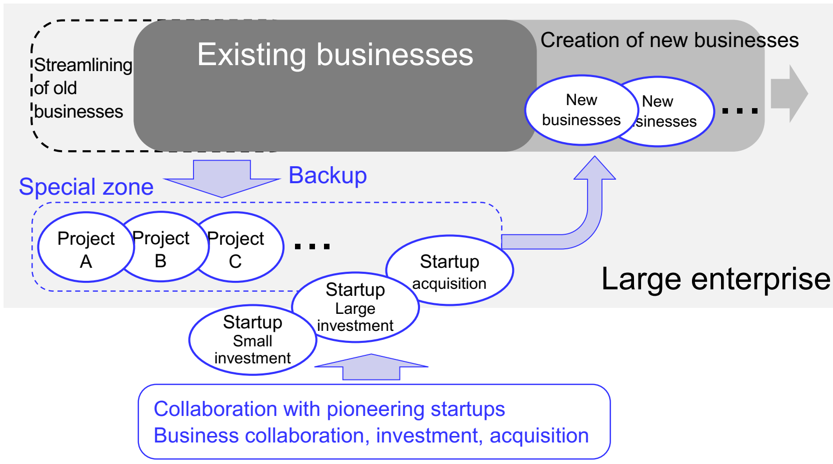
A further step of investment in a startup, which will complement their own business, can be likened to an “appetizer.” It also provides an opportunity to advance into a new field. In this ever-changing era, it is extremely difficult to predict the future of technology. At a stage where the future is still unclear, supporting a startup through minor investment to prepare for future eventualities also seems to be a good strategy.

To fully exploit startups and quickly start up new businesses, large enterprises also need to opt for the “main dish” and acquire startups. It is sometimes strategically important for large enterprises to quickly acquire startups that have the technologies and products they need, rather than to spend time doing R&D from scratch. The use of startups is indeed an essential management strategy for large enterprises, in terms of complementing their own R&D.

Engine for sustainable growth

Now that the hurdles to starting a business are lower, more and more startups, including startups applying artificial intelligence to various fields and startups involved in hardware such as robots and medical devices, are expected to spring up in the future. There is no reason that large enterprises do not incorporate them into their strategies. Creating frameworks for the generation of startups within large enterprises would also be useful when large enterprises acquire startups. If a culture in which the existing organization supports startup teams becomes firmly established, it will naturally be much easier to collaborate with startups.

Figure 5: Engine for Sustainable Growth at Large Enterprises



As for the startups, if they collaborate with a large enterprise, they will be able to enjoy rapid growth. For example, if a startup also handles hardware products, when the business is on track to some extent, they can further increase the scale of production or expand their business globally. Especially in Japan where it is more difficult to raise large amounts of venture capital than in the U.S., the option of rapid growth alongside a large enterprise appears to be a strong contender. It looks as if large enterprises will provide a boost to startups in the business expansion phase. Let me stress once again that the key to success, in this case, is whether large enterprises can be mindful of not impairing the sense of speed of startups when working with them. Large enterprises need to be careful not to foist their conservative systems onto startups.

In the age of radical reform and transformation that we are now entering, large enterprises have to quickly incorporate new technologies and business models to create new businesses and grow further. Thereby, as explained earlier, it is effective that they create frameworks such as internal special zones and utilize internal and external startups. At the same time, large enterprises should streamline their declining old businesses and shift their internal resources into new businesses. If large enterprises firmly establish such systems within their organization, they will be able to continuously create innovations and speed up their metabolism. These systems are the engine for sustainable growth, so to speak.

Large enterprises need to create new industries by jumping on the startup bandwagon and cultivating high levels of innovation. I firmly hope that this is a way to strengthen Japan's competitiveness in the global market.

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