

The hidden truth about corporate innovation

2020 summary and 2021 outlook



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Corporate innovation is changing

COVID-19 was a trigger that accelerated most innovation initiatives that in many cases were collecting dust in manager's drawers in the form of draft plans or strategic presentations long awaiting approvals. These were being postponed due to other priorities and lack of resources. In the past few months, we have seen a shift of priorities as well as a consensus that digitalization is highly important in almost every industry. Having said that, while it is now high up on the agenda to innovate, pushing innovation from the outside in is still a challenge and while some corporates actually increased innovation budget following the pandemic, some had cut back. So how many large companies are now buying solutions from startups? What are corporations looking for these days in terms of technology solutions? Will a corporate buy a solution after meeting the team only by video conference or would we have to wait for face-to-face meetings? What are the hot technology innovations right now that corporations are looking for? Let's see what we found.

At Vintage we work with corporations every day to understand their strategic and tactical pain points, business and technical problems, all with the aim of helping them find the best matching startups from our network to support them while they put their digitalization plans to work. The Value-Added Services or VAS is a free service that helps build the tech ecosystems as we are invested in thousands of global startups and hundreds of funds.

When we spoke with some of the corporations in our network (we have worked with more than 500 corporations in the past 5 years) we asked about the impact of COVID-19 on their digital transformation journey. Here is what we found:

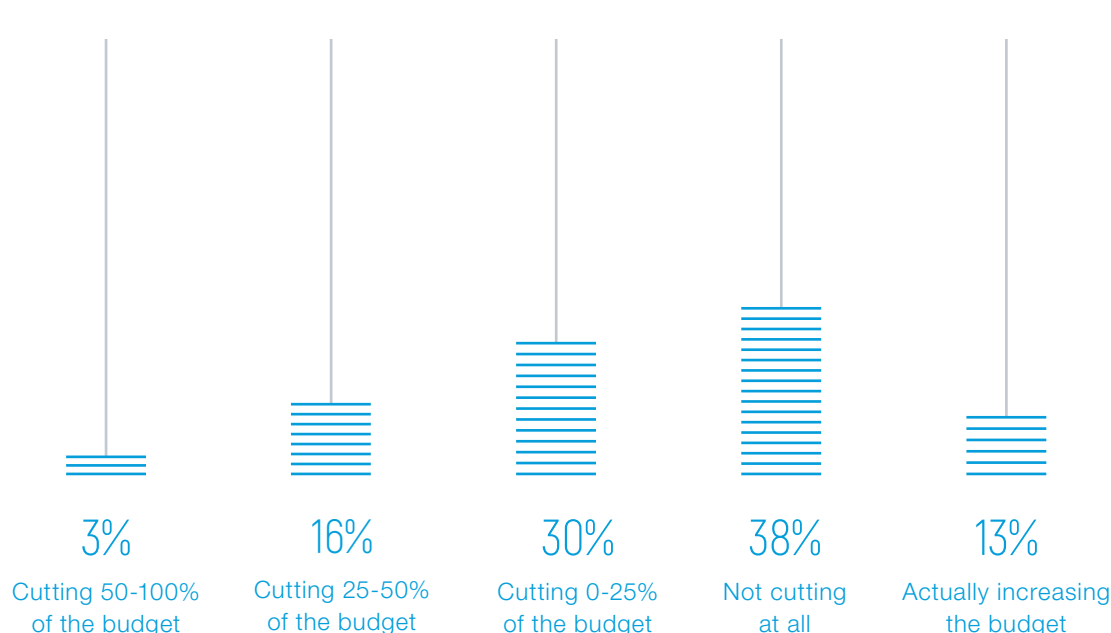
Based on corporate scouting requests into our Value-Added Services - corporate innovation efforts have returned to pre-COVID-19 levels.

If at the end of March corporate requests had begun to slow down, in October 2020 processes had resumed and we were close to full recovery. Today, we have returned to pre-COVID request levels which means that by and large multinationals' willingness to engage with startups might have recovered as well.

About half of the corporations we surveyed kept their original innovation budget or even increased it (13% of those who reported they kept their original budget, increased it).

As for the rest 30% of total respondents cut up to 25% of their budget, 16% of respondents cut between 25-50% of their budget and only 3% of respondents cut up their budget completely.

How has your innovation budget changed following the pandemic?



76% of corporates are still focused on keeping up with the pace of innovation related to their top line generating activities.

Technologies that are connected directly to the core product or service.

60% of corporate executives surveyed are focused on innovation related to other than core business.

We asked about innovation related to business efficiency, operations and the protection side of the business such as innovation in IT, cyber, HR and finance innovation. Despite the high willingness to engage there is still a gap to practically having the resources, processes or business units' commitment in order to successfully work with startups and digitalize these areas - only 19% of corporations said they are ready with the right infrastructure and support to implement innovation in these areas.

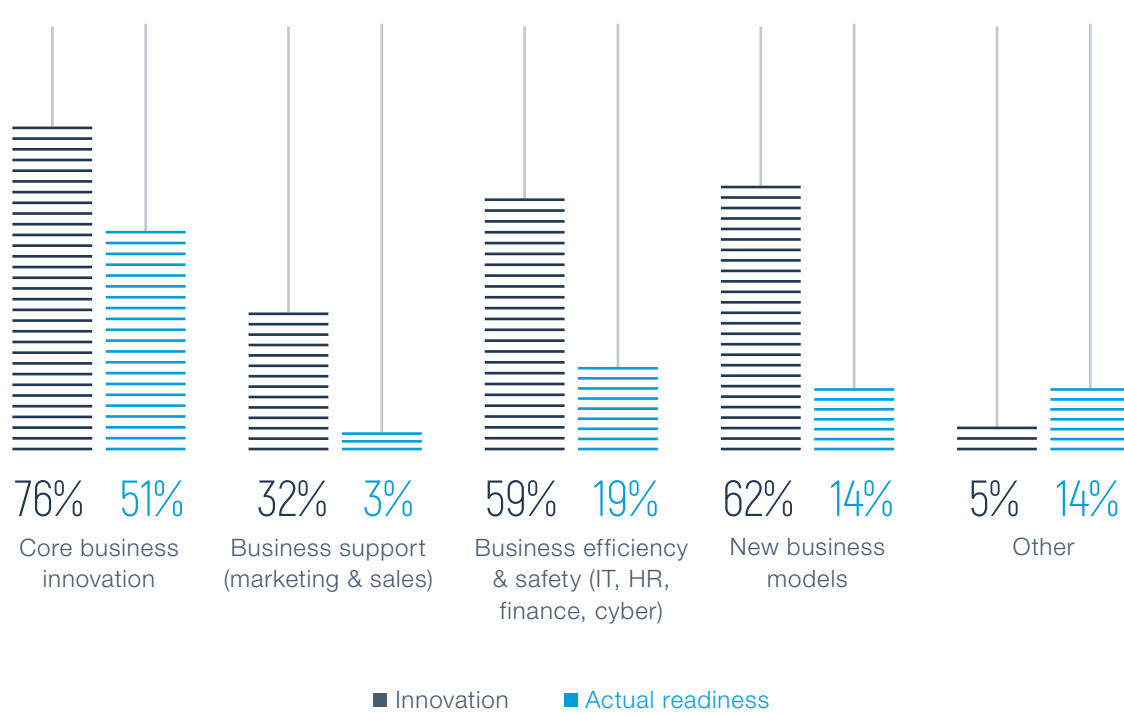
62% of the multinationals we spoke with are considering new business models and are looking for startups to help them with that but at the same time.

But at the same time only 13% attest that they have the business units' commitment, budget and expertise, as well as top management support to engage with startups to accomplish that task.

Marketing and sales related innovation came last on the priority list.

With 32% of respondents attesting that they are focused on it in their digital transformation and 3% are ready with resources to support it internally.

Corporate Innovation Focus Areas and Readiness



How do video conference meetings vs face-to-face meetings impact innovation?

The initial thought was that absence of in-person meetings might falter innovation. We were surprised to discover that 94% of corporates replied that they are willing to transact with a startup to buy solutions from them without ever meeting them in person and 73% have actually transacted with a startup (bought a solution from a startup/ invested / acquired) since COVID-19 started. When breaking that down, 28% said that they will transact for urgent matters or mission critical without face to face, and 66% will transact for all matters.

The VAS Gauge

What are the areas that corporates are looking for right now? What are customers willing to pay for? COVID-19 has created momentum in several areas. We can share that throughout the past few years meeting hundreds of executive teams that are seeking technologies we have built a global innovation gauge. We call it the VAS Gauge. VAS, or our Value-Added Services, can foresee some of the trends as every new tech ecosystem has to be built on needs of the clients first, or the willingness to pay and to engage that come from pain points. 'If you build it, they will come' is a flawed concept – 'if you need it, they will come' is right. As an example, have seen a major jump in the VAS gauge in 2016 with a sudden need for retail solutions and didn't have much retail startup solutions to offer back then. This was more or less the beginning of the retail tech transformation followed by Amazon acquisition of Wholefoods. We have also seen the VAS gauge jump on supply chain beginning 2017 and did not have too many startups to provide for these needs. Now everyone speaks about supply chain disruption as an area that needs innovation due to the pandemic and borders closing, the VAS Gauge had noted that need beginning in 2017.

So, while we do not have a magic wand, and far from believe that we can predict the future, what we can say is that we believe that the VAS gauge has some good probability to forecast future trends 2-4 years ahead of its mainstream time. If you need it – they will come is our base assumption as to the reason for the emergence of ecosystems that start with demand side, moves over to create the supply side with emerging startups, and then brings the funding side if there seem to be some signals of success.

So, what are the areas of innovation that we see on our VAS gauge currently demanded by enterprises? *

Cyber security

This will always be an area of interest for enterprises; however, we have seen the space entering the maturity phase, with CISO's and security teams knowledgeable more than ever about the solutions out there. There are, however, specific areas that are now high in demand as a result of work from home such as identity and authentication that gained interest due to more employees and customers connecting from remote, threat detection and response, IOT security, cloud security due to moving more to the cloud, network security and devsecops.

Supply chain, logistics and industry 4.0

With globalization turning more into localization in terms of supply chain, solutions are needed for supporting local shipping, responding to customer needs for fast delivery, demand forecasting, and understanding the full product journey from production to consumer hands.

Data analytics and AI

There are large amounts of data that enterprises have and they want to understand how to leverage it, how to enrich data, create better models, simplify AI for business users, create predictive analytics or forecast business metrics such as churn or demand.

User engagement

How to better engage with customers, customize and personalize consumer journeys from pre-sale to post-sale, leverage user generated content and social influencers for better attracting new consumers and maintaining relationships with customers, increasing stickiness, loyalty and increasing NPS scores.

Gaming

There are 2.5 billion gamers worldwide, a trend that spiked up due to the pandemic with people sitting more at home. Gamers are not only Gen Z male, 46% are woman, many parents are playing with their kids. One of the questions on corporate agenda is – how to reach this target market and leverage this trend in a smart way, or how to leverage gaming to increase consumer engagement. Our VAS Gauge had a spike on that topic in 2020 with 7% of all requests related to this area vs 1% in 2019.

Digital health

Remote health and digital health accelerated mainly due to the pandemic. Patients are weary about going to the hospital and risking attracting COVID-19 and hospital staff are busier than ever. As a result, high percentage of healthcare systems started offering remote interventions and online consultations. Payors, led by US Medicare, increased reimbursement rates and FDA started accelerating its approval process for digital health and home-based care and consumers more and more purchasing solutions online. There is still a lot to be accomplished with remote patient monitoring and patient journeys.

Sustainability

We had a spike up in requests for sustainability related requests pre COVID-19 and that came to a halt when the pandemic started. We now see it coming back where corporations are asking us again for sustainability related technologies.

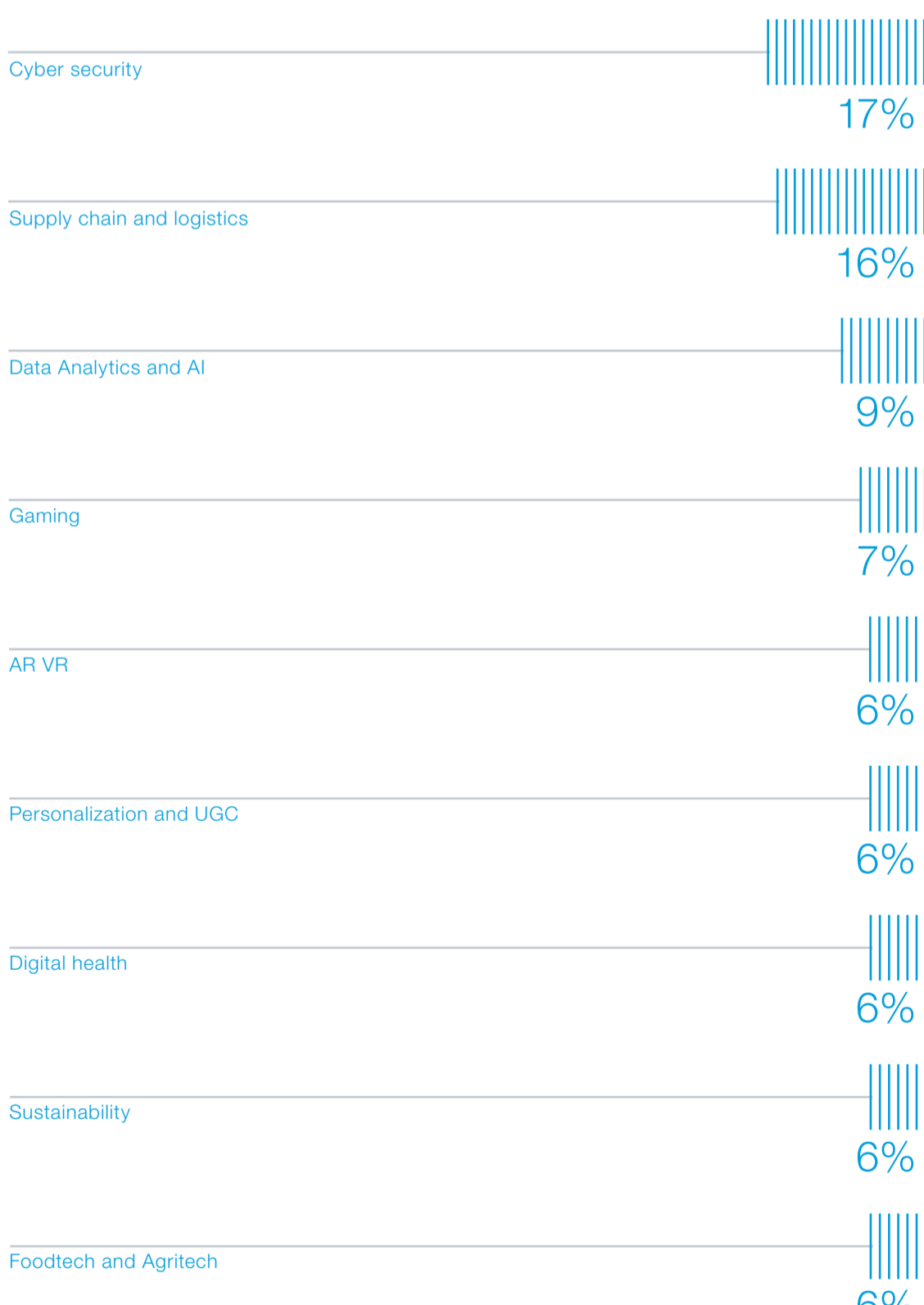
AR VR

AR/VR is more and more mainstream due to the pandemic with a similar trend to gaming where people are more at home wanting to experience the outside world. A major tail wind is provided by headset manufacturers that are pushing for a wide adoption with lowering prices and producing lighter and more user-friendly headsets, and with more OEM's and new headsets coming out to the market - the sprouts of corporate engagement are starting. Multinational companies want to understand how to leverage that trend in their favor and get closer to their user base that are using AR/VR, or how to leverage it for efficiency and operations.

Food and agritech

We are getting more and more requests related to food technologies and agriculture technologies.

VAS Gauge



About Vintage

Vintage Investment Partners is a globally integrated venture platform combining Secondary Funds, Funds-of-Funds and Direct Co-Investment Funds. With over \$2.1 billion under management across 12 funds in Israel, Europe, and the U.S., the firm is invested in several of the world's leading venture funds and late-stage startups and has exposure directly and indirectly to over 2,200 technology companies. Vintage leverages its unique position in the ecosystem, unmatched network, and a database of over 8,500 companies to provide the Value- Added Services, a free of charge service, connecting thousands of venture-backed technology startups across the world to hundreds of corporations seeking support in their digital journeys, helping drive an innovation ecosystem. The Value-Added Services also offer funds and startups with access to exclusive data and market insights.

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