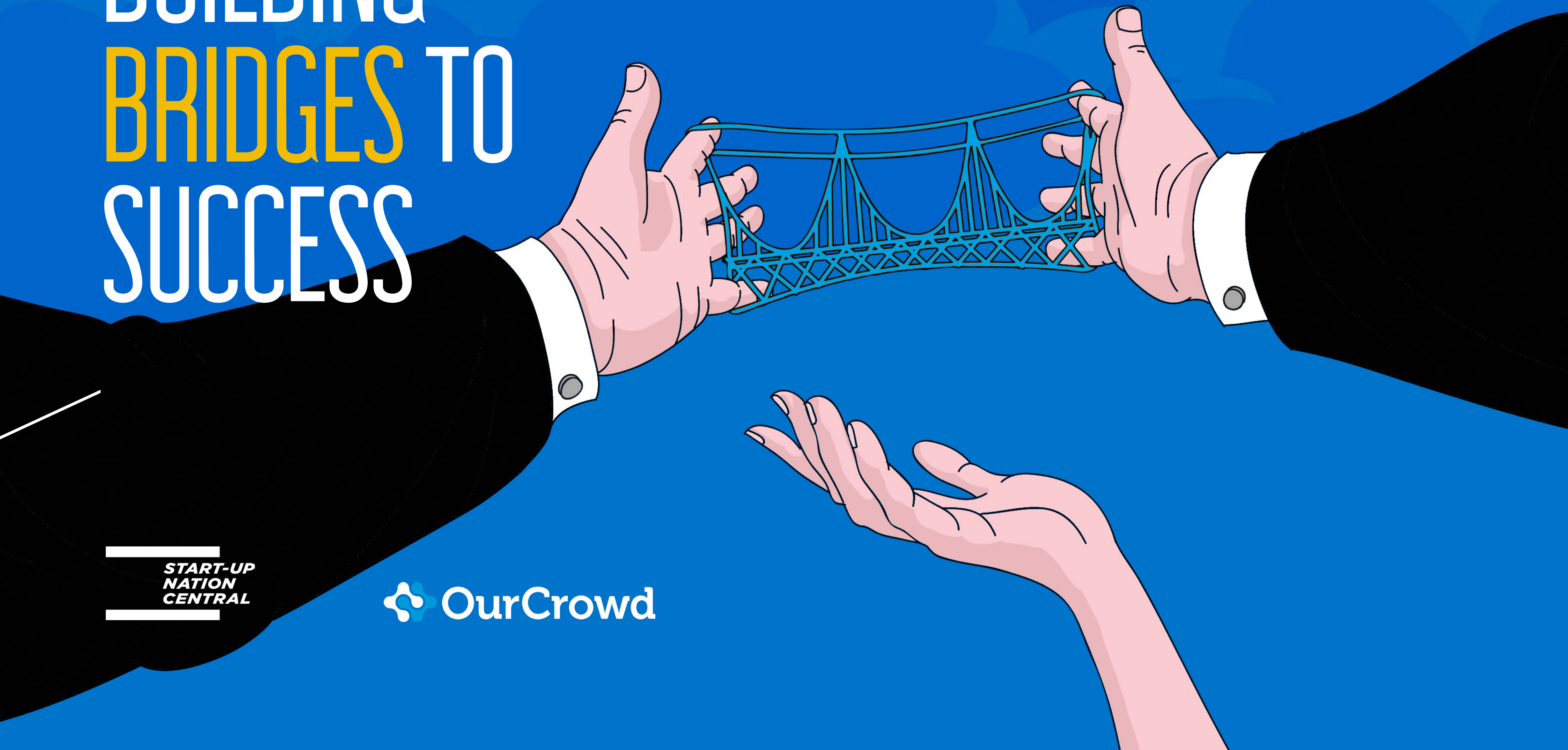
THE POC PLAYBOOK

BUILDING BRIDGES TO SUCCESS



START-UP NATION CENTRAL

OurCrowd

THE POC PLAYBOOK: BUILDING BRIDGES TO SUCCESS

CONTENTS

POC PLAYBOOK– EXECUTIVE SUMMARY

"A POC has a better chance of success when the corporation views the solution as a complete strategy and not just a technological remedy for one specific problem."

***Dor Haim**, Vice President, Global Customer Operations*

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POC 101 - what is a POC and why do so many fail?

A proof-of-concept (POC) is how a startup company demonstrates its core capabilities and viability as a potential corporate partner. **POCs are designed to validate an initial concept** and can be useful for crafting organizational solutions to **improve operational efficiency** and business performance, or for **collaborative development of new products, markets, or ventures.**

POCs can vary dramatically in every imaginable parameter, but they all tend to reflect certain general characteristics, such as a relatively short lifespan and modest budget allocation. Despite the vast majority (approximately 80%) of POCs in the corporate funnel being successful in terms of validating the concept, **only 10-25% of them result in full-scale commercial implementation.**

So why do POCs have such paradoxical, inverse success rates?

Digging deep to get to the root of the issue

This playbook was conceived in an effort to analyze and ultimately answer this very question, and it is intended to supply potential corporate partners with the **tools necessary to successfully plan and execute POCs with Israeli startups.**

The research for this guide was conducted as a **collaboration between Start-Up Nation Central and OurCrowd** with the goal of empowering multinational corporations to **improve the overall efficiency of their innovation activities in Israel**. We leveraged numerous resources for the creation of this in-depth playbook, including Start-Up Nation Central's sector analyses and insights from OurCrowd's portfolio of more than 300 companies and network of over 1,000 MNCs.

While our main focus is to provide a **practical and useful resource for those MNCs interested in learning more about POCs in the Israeli startup ecosystem**, the guide also contains information intended to assist their potential partners – the very startups seeking to apply their technological solutions, address real-world needs, and prove their value.

Keys to success

In order to successfully collaborate with startups in the Israeli ecosystem, it is absolutely essential to **have a clear understanding and definition of your organization's unmet needs.** If your company is not clear about what its specific goals and pain points are, then it will be difficult to know what you are looking for in a potential partner, and nearly impossible to communicate your needs to them effectively.

The next critical step is to **properly prepare for the initial meetings between the teams.** The obvious cultural differences between Israel and North America or Europe can seem almost insurmountable to the unprepared; however, with a little background knowledge of modern Israeli society, navigating the unique lateral hierarchy of Israeli corporate structure can actually be quite comfortable and efficient.

Selecting the right corporate champion for the POC is another key action item; this person will serve as a crucial link between the open innovation teams and the corporate suite, facilitating communication and helping all the parties to align their mutual expectations. The champion must truly invest themself in the POC and commit themself to supporting and empowering the open innovation team.

The next step is **formulating a feasible collaboration model, defining targets, timelines, and KPIs, establishing governance guidelines, compiling data, and all the other technical aspects of running a POC.** After launching the project, the champion and the innovation teams will want to closely monitor its progress and analyze all available metrics, KPIs, and benchmarks.

Overcoming obstacles

As with any well-laid plans, of course, POCs are subject to unforeseen obstacles that can vary dramatically in their nature and potential for adverse impact on the project. Therefore, the guidebook includes a section dedicated to exploring a variety of possible scenarios that may arise in specific industry sectors; for each sector, we have compiled a brief list of key guidelines to help your team navigate these potential hazards and pitfalls.

Lastly, though certainly not least of all, the final chapter deals with formulating a comprehensive legal strategy for your POC in order to minimize your risks and legal exposure while securing the upside through a solid understanding of how Intellectual Property works and how your company can best position itself.

Even within the same business culture on the same continent, the differences between large corporations and startup companies are numerous and significant. Collaboration between two such organizations requires effective communication and mutual understanding; even more so when the parties represent two entirely different cultures from opposite points on the globe.

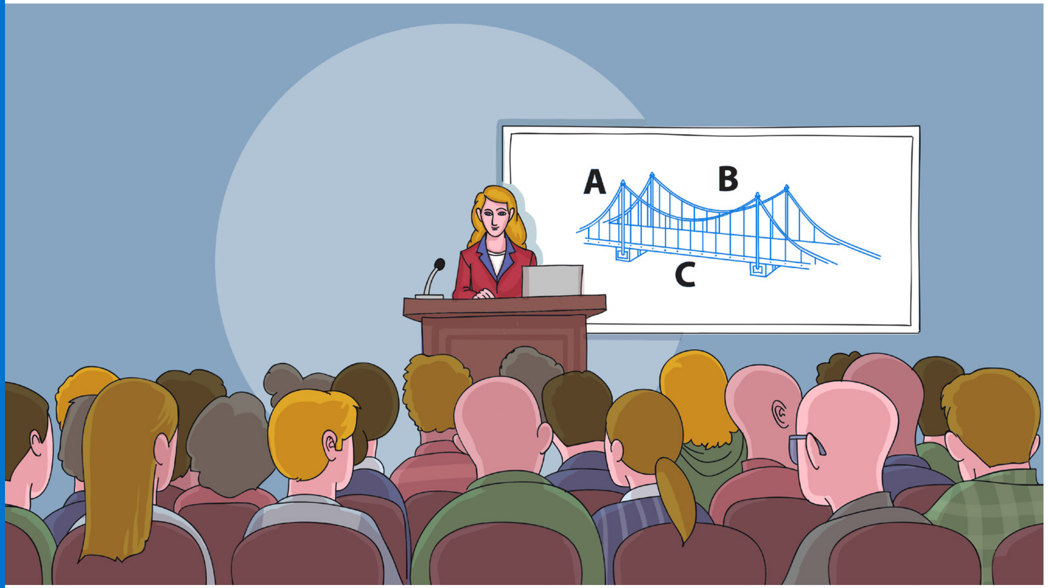
It is for this reason that we have developed this comprehensive guidebook, based on real-world experience – to continue cultivating a global ecosystem of innovation and progress through successful collaborations.

1 THE A-B-Cs OF P-O-Cs

1. Learn about the differences between POCs and pilots

2. Discover why Israel is ground zero for global innovation across multiple industries

3. Review a summary of current MNC activity in Israel in terms of growth and diversity



4. Analyze data on POCs in the Israeli ecosystem and use them to define success metrics

5. What are the key challenges unique to the MNC and the corresponding challenges faced by their Israeli startup partner?

WHAT IS A POC?

A *proof-of-concept* (POC) is a limited-scope process to evaluate the feasibility of a startup's product or service. Similar activities are sometimes referred to as a pilot or an MVP *(minimum viable product)*; however, these ventures differ somewhat from POCs with respect to the scope of activity involved in the collaboration. POCs are designed to validate an initial concept, whereas pilots and MVPs may comprise an early testing stage in real-world conditions or in a scaled-down format. POCs are dynamic and can be useful for the crafting of organizational solutions to improve operational efficiency and business performance or for collaborative development of new products, markets, or ventures.

Iterestingly, despite the vast majority of POCs in the corporate funnel being successful in terms of validating the concept, only 10-25% of them result in full-scale commercial implementation. By virtue of their experimental nature, POCs can vary dramatically in every imaginable parameter; however, they tend to reflect certain general characteristics, such as a relatively short lifespan. The average length of a POC in the software industry is approximately 2–4 months, whereas similar ventures in sectors such as AgriTech and Industry 4.0 sometimes last from six months to a year, but rarely beyond. Budgeting for POCs also fluctuates according to countless variables, with some industry averages in the range of $30K - $50K, while others can be significantly higher. The somewhat inverse success rate of POCs could potentially be explained by this lack of consistency in methodology, as well as by the fact that there are multiple stakeholders involved in such projects. Significant cultural disparities between the various collaborators - often scattered across the globe - are another major factor that can potentially impact the overall results of a POC and contribute to determining the likelihood of its being adopted for full-scale implementation.

finnovest

"One of the first and biggest challenges a startup will face in collaborating with large corporations is definitely finding the right person within the organization to get your project off the ground. Sometimes changes can occur in the internal structuring of a corporation which can disrupt or delay the process of getting approval for the project, even after you've already received positive feedback from the former point of contact and set the ball in motion."

***Tal Brockmann**, Founder & CEO*

OVERVIEW & METHODOLOGY

This playbook was designed and crafted in order to provide potential corporate partners with all the necessary tools to successfully plan and execute a POC within the Israeli startup ecosystem. It is written in both the black and the red ink of those who have blazed the trail for this innovative new approach to business partnerships. Within its pages you will find a complete set of guidelines and recommendations based on the real-world experience of the entrepreneurs and executives who have been the vanguard of exploring this exciting and promising frontier. While our main focus is to provide a practical and useful resource for the multinational corporations (MNCs) interested in learning more about POCs in the Israeli startup ecosystem, this playbook also contains information intended to assist their potential partners: the startup companies seeking to launch their own brand to the same dizzying heights as their larger, more established counterparts. To this end, it not only provides answers to a vast array of questions that are almost certain to arise throughout the process, but also emphasizes the importance of knowing the right questions to ask from the beginning.

After painting a detailed picture of the Israeli startup ecosystem in the 21st century and a brief history of its inception and evolution, the POC playbook lays out a comprehensive, step-by-step procedure beginning with the exploratory phase of searching for the appropriate collaboration opportunity, initial planning and development stages, launching the actual project, and on through the later stages of monitoring and feedback analysis. Along the way we will address the key challenges and hurdles that are likely to arise when formulating a POC with an Israeli startup. In each of these cases a corresponding set of guidelines and recommendations outlines the specific actions which

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"A POC has a better chance of success when the corporation views the solution as part of a complete strategy , and not just a technological remedy for one specific problem. We have projects in which we essentially play the role of a strategic consultant to the organization and collaborate with the company to plan and redesign their business operating model, in which our solution will play a key role in driving efficiency. For example, we helped a Fortune 500 company to plan what the customer service teams' facilities will look like in the future, from infrastructure to architecture and operations."

***Dor Haim**,Vice President, Global Customer Operations*

"During our innovation manager's first visit to Israel, she focused most of her energy on fostering relationships. For an organization that wants to work with an Israeli startup, it's important to first learn about the local culture and how it affects daily business practices."

Taly Ramon**, Innovation Consultant (former BNP Paribas Open Innovation Consultant)* the partners can take in order to ensure a more successful, longer-lasting, and wider-reaching business relationship. While many parts of the playbook are universally applicable, an entire chapter is dedicated to the outlining of industry-specific challenges and the corresponding recommended actions in sectors such as ***Industry 4.0, Digital Health, AgriTech, Fintech, and more.

The research for this playbook was conducted as a collaboration between ***Start-Up Nation Central*** and ***OurCrowd***, with the goal of compiling and publishing a comprehensive body of knowledge that will allow multinational corporations to improve the overall efficiency of their innovation activities in Israel.

- Desk reviews of academic papers, articles and reports from consulting firms, VC funds, accelerators, and relevant NGOs and government agencies.
- Interviews with leaders of multinational open-innovation teams with experience in the Israeli ecosystem.
- Data from startups in different fields of interest and stages of development.
- Insights from Start-Up Nation Central's sector analysts and OurCrowd's 300+ portfolio companies and network of 1,000+ multinational corporations.

SEVENTY YEARS OF INNOVATION

As far as modern nations are concerned, Israel itself truly is the epitome of a successful startup, born of necessity and forged through a grueling process of trial and error. By the very nature of its existence, Israel is a country that thrives on the rapid formulation of creative solutions to an ever-changing spectrum of very tangible problems.

From Barren to Blooming

The scant presence of natural resources resulted in the perfect conditions for world-changing innovations in the fields of HydroTech and AgriTech; Israeli minds have served as leading pioneers in desalination, irrigation, and other innovative and adaptive applications related to food production in extreme climate conditions. Thanks to the Israeli invention of drip-system irrigation and the widespread use of year-round greenhouses constructed with cutting-edge materials, the Negev desert is now blossoming and producing much of the country's domestic food supply as well as artisanal crops and other specialty products earmarked for export across the globe.

Innovation by Necessity

Likewise, an unforgiving geopolitical environment created the necessity for one of the world's most modern and technologically oriented military organizations. The complex and interwoven relationship between the Israeli populace and their military - which requires most 18-year-olds to serve a mandatory period of between two to three years - is an absolutely quintessential defining characteristic of Israeli society and is also responsible for the formation of an intellectual melting pot responsible for a vastly disproportionate share of global innovation in two main spheres: defense and hi-tech. As in most modernized countries,

ITsMine™

"For companies that come to Israel in search of CyberTech solutions, the active involvement of the CISO in the early stages of identifying a partner is critical to conducting a successful POC with an Israeli startup. The CISO understands the big picture and is able to take the kind of risks often associated with collaborations between MNCs and startups. If the CISO isn't part of the initial meetings with the startup, then it's a waste of time for the startup."

Kfir Kimhi*, ITsMine CEO and Co-Founder*

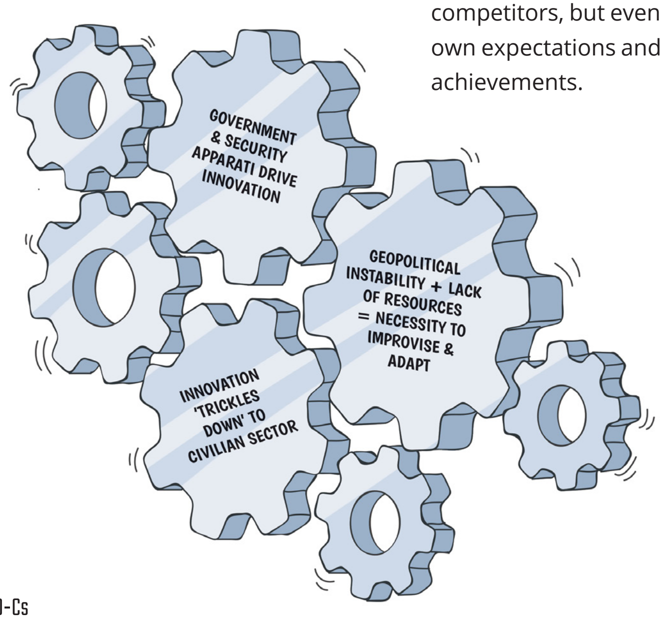
BNY MELLON

"The potential benefits of a corporation having a local representative in the ecosystem who can serve as a point of contact with startups are manyfold. A local representative can help narrow the search through informal interactions with various players in the ecosystem and effectively 'screen' potential startups. Furthermore, this person can help prepare the startups for their initial pitch meetings with management by virtue of their familiarity with the inner workings of the company, its challenges and needs, and the people involved in the project."

Sahar Kroglen*, Head of Site - BNY Mellon Tel Aviv Dev Center* the military is not only the top priority for the development of new technologies, but it is also the number one testing ground for their real-world application.

Therefore, by virtue of necessity and experience, Israel is far and away the world's leader in both defense technology and its rapid and effective transition into civilian markets. Elite cyber warfare units design software engineering processes used by high-tech and cybersecurity companies around the world for problems as varied as preventing cyber-attacks and thinking ahead to provide secure solutions for autonomous vehicles. A perfect example of this relationship is the standard GPS unit in modern passenger cars or mobile apps, which was originally developed to provide real-time tracking data for troops in the field and their commanders back at HQ.

Necessity, combined with an astounding ability to adapt and thrive, have created optimal conditions for the world's largest startup ecosystem outside of the United States. Robust public and private support for R&D translates into industry-leading capabilities, effective government regulations and programs that support a healthy culture of entrepreneurship and an impressively audacious approach to risk-taking. In every industry and field of interest from water, agriculture, and medicine to defense, high-tech, and academia, there are Israeli players on the field who have proven time and again that they are highly capable of outperforming not only their competitors, but even their own expectations and previous achievements.



MNCS IN ISRAEL: BRIDGING THE GAP

The maturation process of Israel's innovative and fertile ecosystem has not gone unnoticed by major global players. The Israeli pioneering spirit is so engaging and effective that the nation has become a major R&D hub for numerous industry-leading MNCs. Over the past two decades, Israel has seen an exponential increase in MNC presence, characterized by the establishment of R&D centers and innovation hubs, in addition to the use of corporate scouts to seek out potential opportunities for growth. MNCs from all industries are turning to the Startup Nation to enhance their core capabilities through open-innovation partnerships and investments.

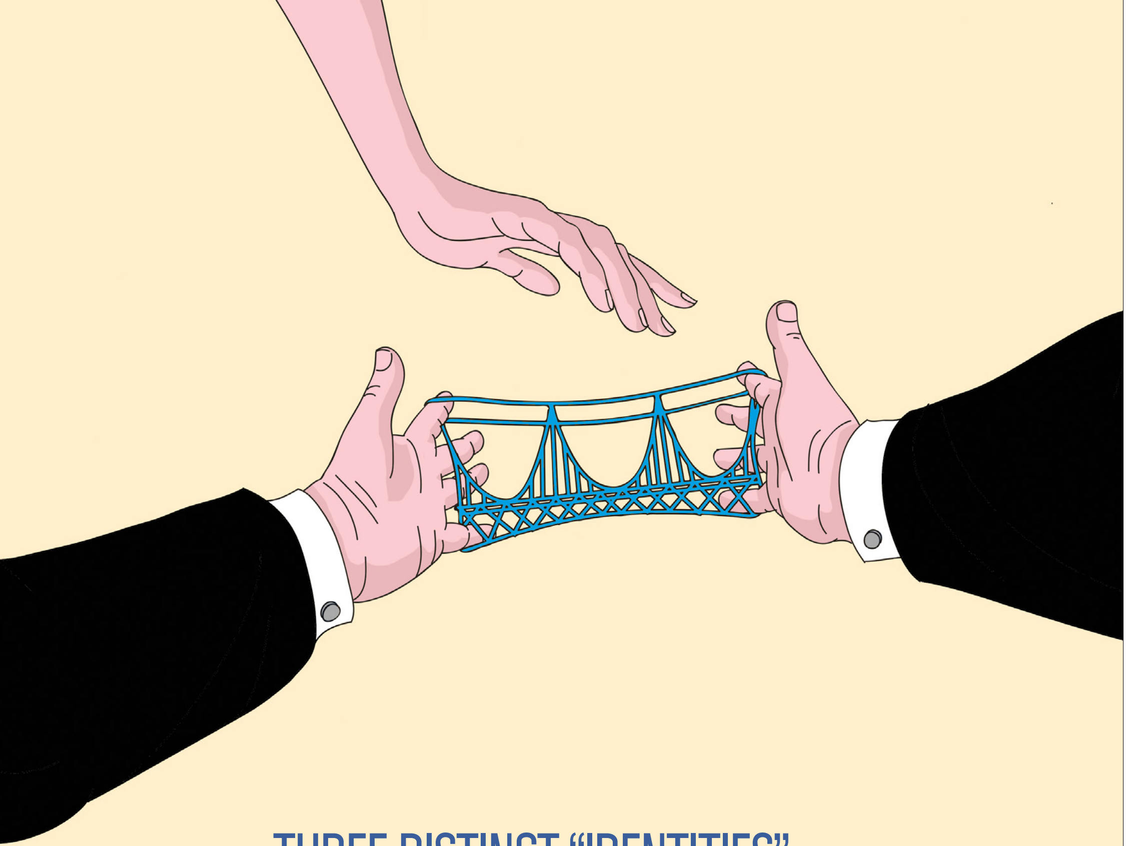
As of 2022, over 530 MNCs from 35 countries have innovation activity in Israel. Industry giants like Intel, Google, Microsoft, Motorola, and Facebook, as well as top-tier VC firms like Battery Ventures, Bessemer, and LightSpeed have all established offices in Israel. Three distinct "identities" capture the essentials of MNC' innovation profiles in Israel: R&D, investments, and partnerships. Since 2014 a significant shift was noted, from a traditionally R&D-led focus to more investment-fueled and collaborative operating models.

The diversification of MNC innovation activity in Israel has encouraged significant growth in the number of third-party innovation facilitators; Honda, Hitachi, Toyota Tsusho, Shell and a dozen others have partnered with **OurCrowd** to identify and connect with Israeli startups. Coca Cola, WarnerMedia, Walmart, and Mercedes Benz have collaborated with **The Builders** to source and develop commercialized partnerships. Other MNCs partner with industry-specific incubators and accelerators; for example, **The Dock** is active primarily in the shipping and logistics sector, while **Drive**, an innovation hub

ITsMine™

"One challenge that I believe is unique to conducting a POC in the cyber field is that Israeli startups frequently face hesitation on the part of MNCs to collaborate with Israeli companies. This is especially true of American corporations, who show a clear preference for working with other American companies, whether from a security standpoint or simply out of geographical and logistical convenience."

***Kfir Kimhi**, ITsMine CEO and Co-Founder*



THREE DISTINCT "IDENTITIES" CAPTURE THE ESSENTIALS OF MNCs INNOVATION PROFILES IN ISRAEL: R&D, INVESTMENTS, AND PARTNERSHIPS.

for smart mobility technologies, is sponsored by partnerships with international brands like Honda, Volvo, and NEC. These organizations and others like them leverage industry contacts to host multinational delegations, scout for relevant partner profiles, and provide mentoring for startups while navigating the complex waters of collaborating with MNCs.

POCS IN ISRAEL: TESTING THE WATERS

Israel has one of the most active startup ecosystems in the world, attracting new international partners every year in their search for innovative and mutually beneficial collaborations. The most prevalent format in which these partnerships manifest themselves is the performing of POCs with Israeli startups. According to a report published by **PWC** and **Start-Up Nation Central** in 2019, 71% of MNCs that conduct innovation activity in Israel are running POCs with startups, followed by balance sheet investing (49%), VC investing (40%) and proprietary R&D centers (37%). These numbers clearly demonstrate a proactive desire on the part of large MNCs to engage with Israeli startups.

Despite the large volume of POCs launched annually in the Israeli startup ecosystem, a relatively small portion of them experience the kind of success that leads to commercial implementation. Estimates indicate that only 20% of POCs meet this definition of success, despite the much higher percentage of POCs that achieve their theoretical project goal of technological feasibility. This disparity owes itself to a number of factors; throughout the guidebook we will highlight and elaborate upon some of the more influential among them and suggest methods of overcoming these challenges. Notwithstanding, there is still no uniform or guaranteed method for measuring the success of a POC, but rather a general set of parameters and guidelines which can be adapted and utilized by each of the partners, considering the specific goals of their particular venture.

Some corporations enjoy the benefit of extensive experience in the Israeli ecosystem, enabling them to localize and adapt more quickly and efficiently than MNCs who have not yet partnered with an Israeli company. This

Texas Children's Hospital

"Before we consider launching a POC with a startup and performing our due diligence, it's incredibly important to understand and define exactly how the startup can solve the problem with which we're struggling and to present at least one 'use case' to demonstrate this potential. Sometimes we find ourselves getting very excited about a technology, but ultimately it doesn't really address the present challenge, or it addresses factors that are less important to us at the current stage."

***Melanie Lowther**, Director of Entrepreneurship & Innovation*

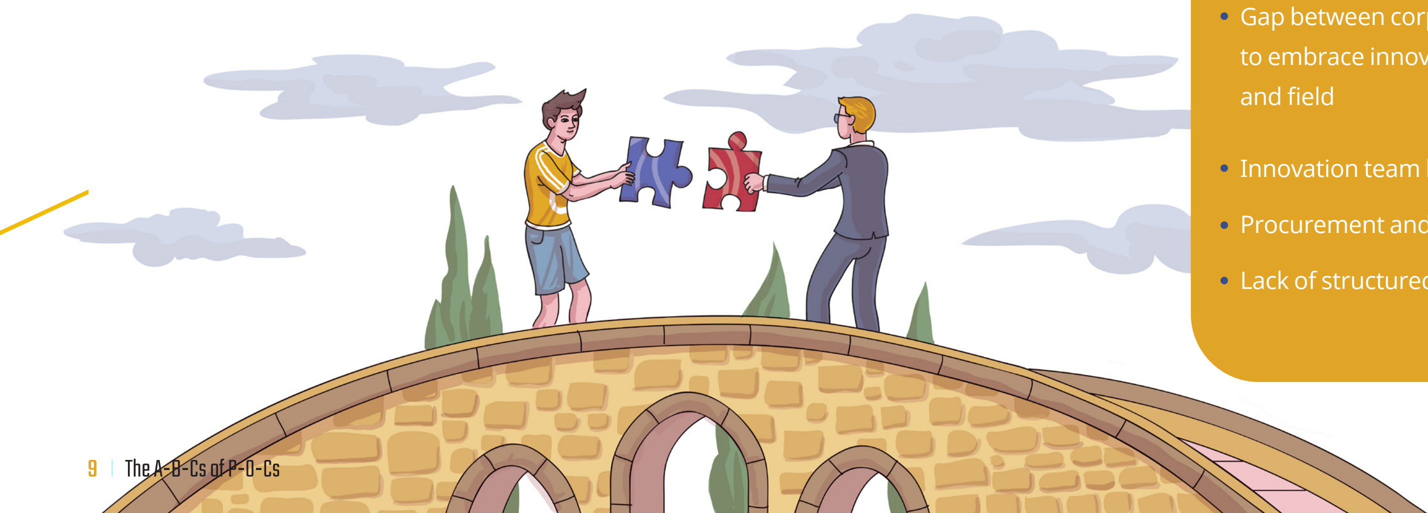
cropx

"Startups and MNCs have different sets of expectations when conducting a POC, and it's crucial to manage your own organization's expectations for the project as well as clearly understanding those of your partner. Startups expect the corporation to know how to define their own expectations, KPIs, and the necessary timeframes in which to appropriately track and measure them, even if working with startups or experimenting with certain types of solutions are new to the corporation."

***Matan Rahav**, Director of Business Development* guidebook aims to level the playing field by providing a complete set of tools and guidelines for any potential corporate partner who wishes to conceptualize, plan, and execute a successful POC with an Israeli startup company.

KEY CHALLENGES

The challenges faced by corporations and startups alike are numerous, especially when forging a new partnership with an eye toward the future and potentially unknown market factors at play. However, these hurdles tend to arise primarily in the early stages of the business relationship and are often related to cultural differences which can manifest themselves in myriad ways, including varying approaches to incentivizing the collaboration. Throughout this guide we will highlight some of the key challenges facing both the individual partners and their joint collaborative endeavors, as they pertain to each stage of the shared journey, from pre-concept to post-launch and all along the way.



CHALLENGES UNIQUE TO THE STARTUP

- Knowing corporate needs and pain points
- Identifying champion and accessing decision makers and budgets
- Slow corporate decision-making
- Not knowing regulatory or other certification requirements
- Cultural gaps based on geographical and organizational features
- Navigating inside the corporation
- Gaps between innovation façade or innovation team vs business units and their lack of willingness to innovate

CHALLENGES UNIQUE TO THE MNC

- Finding internal champion
- Determining the use case
- Collecting needs and challenges
- Gap between corporate innovative façade vs the real willingness to embrace innovation – to harness the mid-level management and field
- Innovation team lack management support
- Procurement and legal procedures not adapted to startup needs
- Lack of structured process for collaborating with startups

2 CREATE A CORPORATE INNOVATION BLUEPRINT

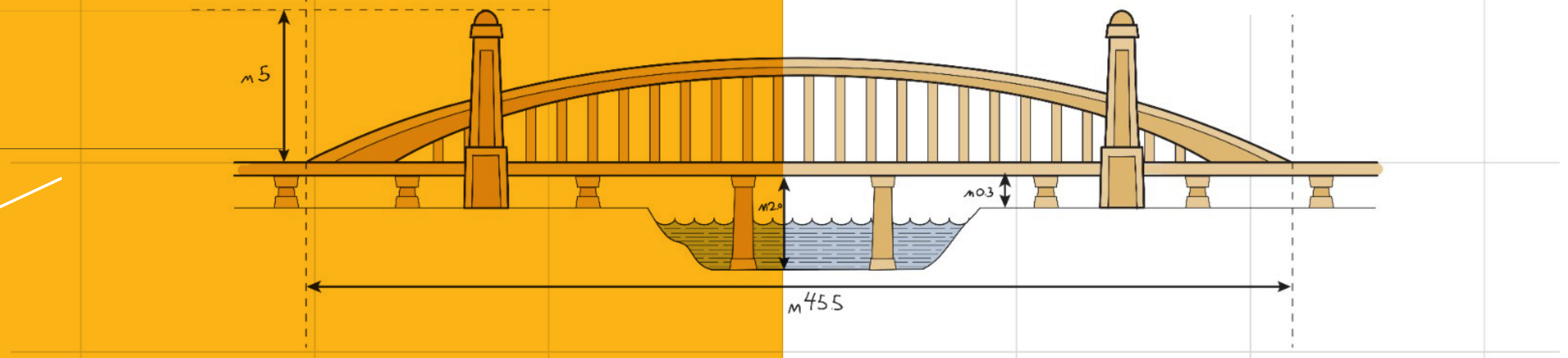
1. Develop a comprehensive, long-term corporate innovation strategy

2. Assess your company's internal state of readiness to engage in innovation activity

3. Cultivate a unified corporate mindset of innovation as a profitable business model

4. Align corporate expectations and define your goals and KPIs for measuring success

5. Learn how to adequately prepare internally for potential MNC/startup collaborations



A BRIDGE TO CORPORATE SUCCESS

"What makes the Israeli ecosystem such an attractive and successful source of innovation for our organization is the informal style that allows us to establish good working relationships and get things off the ground really quickly and easily – I think the primary goal is to start building these relationships as quickly as possible. Do not limit yourself or narrow your scope to just one specific POC, but rather be open to new opportunities and absorb as much knowledge as possible."

***Taly Ramon**, Innovation Consultant (former BNP Paribas Open Innovation Consultant)*

In the dynamic and constantly expanding global markets of the 21st century, the importance of an innovative mindset has never been greater. The technological acceleration brought about by the COVID-19 pandemic has impacted society in such a way that very reasonable assumptions made about the current market just a few years ago are most likely no longer relevant. Corporations around the globe are understanding that innovation is key to their very survival; tech disruption has lowered the average lifespan of companies on the S&P 500 index from 60 years in 1950 to 20 in 2012, to a projected 12 years by 2027, according to **UBS**. From large multinational corporations to medium-sized privately owned companies, the choice is clear: innovate or step aside. However, innovation is not defined by reaching a specific target or goal, but rather should be understood as a continuous journey toward the promise of the undiscovered.

It is no secret that larger enterprises are in a much stronger position to pave the road for innovation; the true magic lies in transforming the principles of innovation into a sustainable, long-term business strategy. The success of the corporate journey to a brighter economic future depends on the willingness of senior management to take responsibility for internalizing these principles and fostering the right conditions for the team to reach their destination. The corporation should select a top manager dedicated to integrating these practices into the organization's daily routine, thereby giving the program the seal of 'corporate priority'. Senior management must prioritize creation of the necessary organizational and managerial infrastructures as a complement to the existing common corporate practices.

INTRAPRENEURSHIP: ASSESS YOUR ORGANIZATION'S READINESS

Most corporations today find themselves in the nascent stage of their innovation journey; they are aware of the need to innovate but lack the appropriate corporate culture and business strategy to do so effectively. Companies rarely know where to begin and the result is often a heavy focus on PR efforts and general visibility in the startup ecosystem, with the goal of planting their corporate flag on the innovation map. Companies at this early stage are considered "starters" within the world of corporate innovation; the organization is focused on perfecting its existing products and business models, seeking change only in gradual increments. At this stage, they are not yet prepared to allocate significant resources to innovation, as the C-suite might be naturally skeptical of what they cannot see and what they do not know about.

"Startups need to know the organization's business priorities, and to familiarize themselves with the company's needs . This requires well-done research before approaching any multinational corporation. Startups need to be aware that they're competing for the attention of the MNC against other startups offering similar solutions and technologies to address the same set of challenges. The MNC will select the one with the best fit for their organization."

***Ilanit Kabessa**, Venture Partner - Novozymes (former Head of Dole Ventures)*

"Identifying signs that a corporation is a serious and relevant potential partner begins with determining the real-life KPIs of the organization and understanding that its goal is not to perpetually conduct POCs or MOUs. Serious potential for a meaningful collaboration exists when a clear commercial KPI has been defined – this lays the groundwork for the startup to begin on a path that can have significant commercial impact for the company."

Companies in the second phase of their innovation journey are called “explorers”; these corporations have already begun a comprehensive assessment of their capabilities, formed a core team to spearhead the process, and conducted preliminary industry research. They constantly monitor the latest tech trends and are open to connecting with relevant startups that could provide solutions for their corporate pain points. However, due to the multitude of unknown factors and limited enthusiasm for the program on the part of a cautious C-suite, “explorers” usually engage only in short-term and internally oriented innovation programs. Their focus, and consequently their allocation of resources, tends to remain in the comfortable areas of their core business, and they don’t yet openly embrace innovation as their guiding star.

Corporations that are considered “engaged” in their innovation process are those which have defined a clear strategy for transformation. In other words, they have designated open innovation as a top priority, and are investing time and effort into developing a thorough vision and creating programs to incentivize engaging with startups. These companies are actively partnering with startups, executing POCs, and seeking strategic investment opportunities.

The challenges at this stage are mainly associated with the lack of a precise roadmap for what happens after performing a POC and the difficulties in bringing a concept from the ideation phase to implementation and quantifiable results.

The most advanced stage of the innovation journey is attained by the “pros”, ambitious and forward-thinking corporations that consistently nurture a thriving culture of innovation. These companies have genuine engagement at the highest levels and already boast a portfolio of successful startup collaborations and strategic investments; they continuously allocate resources to the ongoing evolution of their corporate mindset based on a healthy and well-established innovation strategy. They understand the importance of never resting on their laurels, and always being on the lookout for the next great idea, thereby “future-proofing” their business by creating a steady flow of opportunities. These organizations are in a position to set up a corporate venture capital arm and a mergers and acquisitions vehicle. It is important for the “pros” to continuously venture beyond their comfort zones, pushing the boundaries of innovation both in their internal worldview as well as in global markets.

ADOPT A MINDSET OF INNOVATION

Free the Corporate Clock

Enterprises have their own corporate timeline for tracking and measuring progress based on periodical reviews of operations and financial KPIs (Key Performance Indicators); certain general concepts like strategic planning, market research, quarterly forecasts, and roadmaps do not differ greatly from boardroom to boardroom. Organizations can run the risk of burying their innovation program under the corporate clock by overloading their innovation team with meetings, spreadsheets, deadlines, and other familiar sights in the corporate landscape. Adopting a mindset of innovation entails loosening the ties to traditional methods and allowing yourself to navigate by instinct, experience, and trial-and-error. By its very nature, an innovation program cannot possibly predict what revenues will look like in 12, 24, or 36 months’ time; what it can and must do is to fully embrace the driving spirit behind the innovation program and be prepared to improvise and adapt.

Taking Risks Does Not Mean Making Mistakes

Fostering the conditions in which internal innovation becomes a sustainable business model relies heavily on incentivizing experimentation and allowing progress to occur naturally, one small step at a time. Each experiment should provide new insights into both the product itself and the best way to bring it to market. There is necessarily a large degree of uncertainty in this process; however, the correlation between taking risks and achieving success is obvious and undeniable. Despite the fact that large corporations tend to be highly intolerant of mistakes, they are absolutely unavoidable when exploring uncharted territory, and should be viewed as a valuable part of the process. These mistakes

SOAPY

“It can be difficult for large corporations to understand that startups in the early stages of their life operate in relatively short time increments; you have to create a realistic timeline in which to make decisions as to whether or not to continue the collaboration post-POC. Instead of year-long projects, for example, it’s recommended to break it down into stages of one or two months, after which both parties can reassess the situation and decide if it’s mutually beneficial to continue.”

***Max Simonovsky**, CEO*

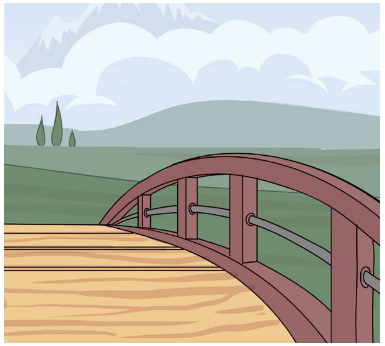
do not reflect a failure of the company, but rather a successful part of the learning process; by virtue of the corporation's willingness to take risks, they are actively exposing themselves to a whole new dimension of unexplored business opportunities. If an enterprise cannot accommodate mistakes and reward those with the initiative and courage to risk making them, then it will not succeed in building a sustainable, long-term business strategy based on internal innovation programs.

Unlock the Corporate Vault

In theory, a large corporation with an internal innovation program appears to possess an advantage over the average startup company; they can tap into massive reservoirs of expertise and enterprise assets, including technologies, brands, relationships, and routes-to-market. These resources are a potential gold mine for the corporate innovation program, providing a competitive edge in overall quality, production costs, and time-to-market. However, the assets of established enterprises are often owned by other divisional units that have their own management structures, goals, budgets, and targets. Divisions that may be struggling to achieve their quarterly KPIs are likely to be hesitant to allow an unproven initiative with zero guarantees to interfere with their carefully crafted long-term strategies. However, the result of denying or hindering access to resources will, in all likelihood, be detrimental to the overriding corporate goals; the innovation program will either crash and burn on the launchpad, or it will seek support from external sources, thereby depriving the organization of the full benefits of any potential ventures. In either case, the innovation program loses any possible advantage that could be gained over the competition by optimizing access to the organization's resources.

Build Bridges, Not Barriers

The value of its first customers is unparalleled for any new venture; initial product feedback, business model validation, and a revenue source are all essential to achieving success. Yet very often the innovation program cannot reach the enterprise's existing customers,



access to whom is very tightly controlled by the company's sales division - which is likely struggling to achieve its own target numbers of new customers, contracts, and actual revenue, with a focus on short-term results. They are often unlikely to allow a tiny new division with no revenue stream access to their customers, especially without seeing immediate potential for sales that will help them reach their own goals, without the risk of harming existing relationships. Here, too, senior management plays a crucial role; internal regulation is required for innovation programs to succeed. The sales force and the business development department can be incentivized if their annual commission is also partially dependent on the relatively low numbers of the innovation programs, and their annual quotas should take into account the innovation program's KPIs for revenue and new customers.

Support and Empower the Open Innovation Team

The success of the innovation program depends on its leader's ability to navigate the corporate landscape, including policy, personnel, and procedures. To this end, it is helpful to match the program leader with a corporate

mentor - an executive who knows the corporate culture and is able to create the necessary conditions to protect and nurture the innovation program. An effective mentor can provide a de-facto 'seal of corporate importance', but senior management must also take special care when selecting the actual team leader for the innovation program. They should be resilient and persevering in the face of internal power struggles, proactive in expressing their views, and demonstrate conviction and the ability to influence their peers both within and outside of the organization. Due to the plurality of factors involved in the successful implementation of a sustainable innovation program, corporations can greatly increase their chances of success by appointing a capable team leader who is both flexible and assertive.

Texas Children's Hospital

"One of the big changes that we've had to make... is just around our thinking that to abandon something is not a failure. It doesn't mean that we tried something, and we failed because of something we did. It may just not be the right fit. It may not be the way that we want to move forward."

***Melanie Lowther**, Director of Entrepreneurship & Innovation*

Continental

"A corporation's innovation manager can promote awareness of opportunities in the Israeli ecosystem by highlighting and explaining the organization's various challenges and its strategic roadmap that it wishes to address. It is important for the dialogue with business units and R&D managers to be open and honest when addressing the company's pain points, so that you can choose the best partner for your organization's needs."

***Neri Friedlander** – Director of Israel Innovation & Partnerships*

FOSTER A SUCCESSFUL PARTNERSHIP

"One of the biggest challenges that startups face when working with a large MNC is when the open innovation team doesn't have enough influence in the decision-making process, or if the actual decision-makers themselves aren't present throughout the process. If the open innovation department doesn't receive clear instructions in advance or the ability to make decisions on their own, then quite often these projects will be doomed to failure for lack of proper planning and delegating of authority."

***Max Simonovsky**, CEO*

"To overcome roadblocks that can arise from startups working with a large, veteran organization in the field of Advanced Production/Industry 4.0 it is essential to engage the internal management and earn the trust of the manufacturing managers. Building confidence is essential to having the manufacturing managers listen to your ideas and have faith in your ability to successfully develop and implement the collaborations and solutions that you present them with."

***Jameel Istaitih**, Former Director of Engineering & Industry 4.0, Strauss Group*

Corporations and startups are by necessity very different entities at their core, but the balance of power is changing, as is the nature of their relationship. Partnerships, joint pilot programs, and early-stage interactions are quickly becoming the norm. Understanding this changing dynamic is crucial for both startups and corporations if they desire to benefit from each other's support and to pursue innovation together. Ultimately, the key to a successful startup-corporate partnership is precisely to view it as a partnership, rather than an isolated incident of momentary shared interests.

For any startup company, collaborating with the right corporation can be a real game-changer, possibly leading to substantial market share, revenue, and even acquisition. However, this process can be costly and time-consuming, requiring a large allotment of valuable and limited resources, with relatively low chances of success. In order to increase the overall efficiency of the partnership and the likelihood of seeing a profitable return, it is essential to understand the corporation's mindset. By making an effort to identify with their unique set of concerns and considerations, the startup is able to engage much more effectively with their corporate partner. This will not only improve the final results achieved through the collaboration, but will also expedite the procedures, timelines, and resources required to arrive at those results.

"DOs"

- ✓ Be specific and set clear expectations
- ✓ Set realistic timeframes and deadlines
- ✓ Establish feasible KPIs
- ✓ Optimize communications and information flow
- ✓ Offer more than money, set mutual goals for a long-term relationship
- ✓ Be responsive and attentive to startup needs
- ✓ Appoint a champion - preferably a senior executive who can own the relationship
- ✓ Design a functional implementation strategy
- ✓ Be prepared to pay accordingly for technology integration and POCs
- ✓ Foster a mutually beneficial framework for collaborative partnerships

"DON'Ts"

- ✗ Changing point of contact frequently
- ✗ Treating startup as "just another supplier"
- ✗ Using emails as only form of communication
- ✗ Engaging without a clear game plan
- ✗ Being averse to taking risks
- ✗ Wasting your startup partner's time
- ✗ Being too slow to move forward
- ✗ Overwhelming the startup with bureaucracy and procedures
- ✗ Leaving startups in the dark regarding next steps
- ✗ Dismissing the startup investors' expectations

CASE STUDY: BRIDGES ARE A TWO-WAY ROAD

SOMPO HIMAWARI LIFE

binah.ai Health. Care. Anywhere.

SOMPO HIMAWARI LIFE INSURANCE	BINAH.AI
Provider of five million insurance policies in Japan, ***Sompo*** was seeking to expand its value-added services platform, which supports the health and wellbeing of its policyholders, by exploring capabilities for non-intrusive stress level measurement. ***Sompo Digital Lab Tel Aviv*** is ***Sompo's*** innovation arm, whose goal is to source local startups and bridge the gaps between corporate and startup culture.	An Israeli startup established in 2016, ***Binah.ai*** developed a sophisticated AI-based signal processing engine. Their system analyzes facial video feed from any mobile device and extracts biomarkers and other key data that are translated into a stress level score.

RESULTS OF THE COLLABORATION

Binah.ai's SDK for stress level measurement was tested and validated for Israel as well as Japan and was commercially launched successfully in 2020.

SUCCESS FACTORS FOR A FRUITFUL COLLABORATION

"From the beginning of engagement there was a real need from business unit, the manager that was leading the activity was very open to embracing innovation and pushed his team forward all along the process: a perfect champion. In-depth internal and startup discussions were held, and the startup provided an answer promptly for any concern or question that ***Sompo's*** employees had. The CTO was involved in the initial engagement process and tech due diligence, testing ***Binah.ai's*** solution alongside other solutions that emphasize performance in Japanese market attributes. ***Binah.ai's*** conduct and communication were very professional; the project and its content were very well defined and specific."

Yinnon Dolev
Head of Sompo Digital Lab Tel Aviv

"The product owner was present and involved from the first meeting, shortly after which he already started to push the idea and collaboration process. All the people that were involved from ***Sompo's*** side were very actively engaged; they had a lot of questions, and we had many discussions back and forth. This was a great thing for me, it provided us a signal that they were really interested and taking this collaboration opportunity really seriously. This, together with the open lines of communication, gave us the confidence that our efforts are worthwhile and encouraged us to push on. The POC project was very well defined in term of goals and KPIs as well the expectations from us, together with a commercial horizon in the event of the POC's success. All of this couldn't have happened without the support of ***Sompo Digital Lab Tel-Aviv***, the local innovation arm. They accompanied us all along the process, bridging the culture gaps and helping us partner with a new Japanese corporation for the first time."

"If you really have the backing and involvement of the corporations' product owner you will learn very fast not what your solution is, but what is the value you provide to the corporation, because what you 'sell' is the value and the technology."

David Maman
Co-Founder, CEO and CTO at Binah.ai

3 LAY THE PLANS FOR YOUR PARTNERSHIP

1. Develop methods for evaluating your unmet needs and pain points

2. Establish criteria for evaluating and comparing potential startup partners

3. Utilize Start-Up Nation Finder and other resources to locate and select the best potential partners

4. Perform due diligence to adequately prepare for initial round of meetings with startups

5. Communicate your company's needs in order to forge a mutually beneficial strategy for addressing them via the startup's solution

6. Establish and maintain effective lines of communications both internally and externally

7. Identify and select a champion, formulate a collaboration model, allocate appropriate budgets and resources, and set realistic targets and timelines for the POC

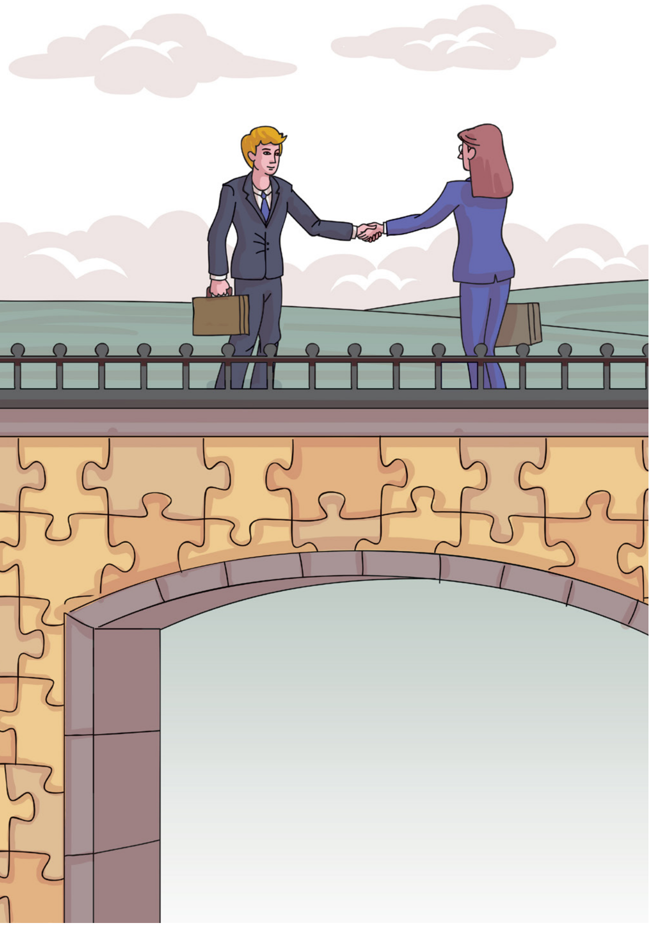
8. Provide members of both partners' innovation teams and their C-Suites with ready access to any and all available resources that may contribute to a successful POC

9. Be aware of the relevant regulatory considerations, information security requirements, intellectual property rights, and other technical aspects of running a POC

10. Conduct a realistic simulation in a controlled on-site or cloud-based sandbox environment

11. Launch the POC, track your progress, and analyze the initial results to gain insights

12. Reconcile cultural differences and navigate the idiosyncratic nature of the Israeli corporate hierarchy structure



Assess Your Unmet Needs

The unmet needs of corporations are a set of goals, challenges, success metrics, pain points and specific hurdles encountered by the firm or its clients. Unmet needs can relate to operational, financial, or technological issues which business units are facing and the obstacles that prevent them from achieving their goals. In response, startups provide technological solutions by exploiting capabilities that either escape corporate core competencies or exceed the level of resources the corporation is prepared to allocate in order to develop them independently.

The first step on a successful innovation journey starts with the corporation taking an honest, introspective, and holistic analysis of its key competencies and pain points. It is essential that this evaluation includes both the customer's experience and the business' internal systems and procedures. For this process to be effective, every department of the corporation must highlight the areas they believe can and should be improved; this prioritization will be very useful moving forward on the journey. Before you reach out to startups, it is essential to clarify your needs and to focus on crucial issues for the corporation that are aligned with the corporate strategy. Decide which needs and challenges should be addressed first and compose a short list, translated into practical and communicative problem statements.

Different methodologies may be employed for assessing corporate needs and challenges, such as ***Design Thinking and How Might We?*** methods. For example, Porsche AG has notably utilized similar frameworks for advancing ideation processes and launching brainstorms. Needs assessment should be a systematic and periodic process led by a dedicated open innovation team. Each corporation has its own approach to streamlining their needs, which may reflect their internal culture, industry, maturity, or experience with an open innovation infrastructure. Corporations usually apply a 'bottom-up' process, whereby needs flow from the field upward; however, some of them involve mid-top level for setting priorities and others combine a top-down/ bottom-up iteration approach.

The next step is to create milestones so that short-, medium- and long-term goals can be identified, tracked, and measured once the journey begins. After the roadmap is created it will be important to monitor the process using the detailed data you've compiled. Defining the correct metrics begins with clarifying your objectives and which factors will help to achieve these goals. Remember, however, that tracking and measuring innovation activities using traditional methods may be counterproductive.

Source the Right Startups

The Israeli startup ecosystem is one of the most abundant and diverse in the world, hence finding the perfect match can be a challenging mission. However, there are multiple organizations and tools that can assist with reaching the right startups and facilitating first contact with them, even before the corporation begins its own local scouting

Texas Children's Hospital®

"The most important change that we made in the organization was in our perception of the life span of a POC – it's okay to conclude the project without moving on to a full-scale partnership. It's easier to conduct more successful POCs and pilots by understanding that this is intended to be an exploratory phase – once the initial project is completed, then your organization can decide if it wants to continue, to make changes, or even to abandon the partnership altogether."

Melanie Lowther*, Director of Entrepreneurship & Innovation*

cropx

"In order to find common ground with the corporation and explain our added value, we have the knowledge and ability to communicate with the MNC in terms that are relevant and precise. We use all available resources to learn as much as we can about the corporation before we ever set foot in the conference room; it is important to tailor your pitch to the specific pain points of the MNC, and not simply generalize the benefits of your product or technology on its own, without context."

Matan Rahav*, Director of Business Development* activity. ***Start-Up Nation Central***, widely considered to be one of the most prominent and globally significant facilitators, provides access to their ***Finder***, a free online innovation business platform for discovering and connecting with the thousands of startups and existing players in the Israeli business ecosystem. Many other collaboration catalyzers offer similar networking and support capabilities in the early stages of emerging partnerships. ***OurCrowd's*** investment platform focuses on ***Innovate***, its corporate innovation program, and ***The Builders - Innovation platform for Fortune 100 companies*** commercialization program enables startups to conduct pilots with some of the biggest corporations in the world, in addition to VCs, the 'Big 4' consulting firms, and other noteworthy acceleration programs such as ***8200 EISP***.

In general, Israeli companies are very open to collaboration and local MNCs' open innovation teams are willing to share the experience and knowledge they've accumulated locally. It is not only common but highly recommended for corporations visiting Israel for the first time to meet with several of these local players, with an emphasis on complementary and synergetic industries, which some suggest may comprise the largest contribution to this arena. One can develop internal capabilities or hire local Israeli legal firms, some of which have acquired extensive experience by growing side-by-side with the local high-tech industry. These firms are likely to possess a wealth of knowledge on the complete startup life cycle, existing startup-corporate collaborations, and the activities of various MNCs with local presence.

Establishing criteria for evaluating and comparing potential partners will help the corporation to refine its search and avoid potentially wasting time by discovering later on down the line that they do not share the same core goals and/or mindset as the startup with which they've chosen to partner. Corporations usually prefer to collaborate with more mature startups, which have already gained some traction by executing successful, paid POCs with multiple clients. This is an effective way to minimize and manage the inherent risks of a first-time collaboration.

However, in some cases the more mature startups are less accessible or lack the available resources due to existing projects occupying them; therefore, partnering with earlier-stage startups instead can sometimes be a good solution with benefits for both parties. For the corporation this may lead to optimized commercial conditions, the ability to influence the startup's strategic roadmap, and the opportunity to participate in early investment rounds. On their end, the early-stage startup can benefit from a positive testimonial from their corporate partner, expanded sales and marketing channels, and increased access to industry knowledge.

Performing due diligence allows the corporation to assess various aspects of a startup for potential collaboration or acquisition; they can determine possible benefits, liabilities, risks, and opportunities. The first step of this process involves the corporation's understanding of the various types of startups present in the ecosystem, as they differ in many ways, such as their sectors, verticals, and stages. Once a startup in the appropriate sector and vertical is identified, it is important to determine its development stage, which has a direct correlation to the product's state of progress. Early-stage companies with seed or bootstrap funding usually work with a conceptual model of the product, with a strong focus on R&D, while more mature companies will have more complete products either in alpha or beta testing, if not already commercially available. During this evaluation phase, corporations should also examine 'soft' factors and try to receive information on the startup and the team through interviews with investors and former clients.

Basic evaluation criteria that will be used for the first pitch meeting should include any topic that provides initial screening and the collection of all important and relevant information. This will aid in forming an initial understanding regarding strategic compatibility and the potential impact that the proposed solution can have on your business. Once the corporation's preferences and needs are determined, the innovation team should focus on collecting as much information as possible; data can be sourced from the startups' websites, media outlets, data services like ***Pitchbook*** or ***Crunchbase***, and venture capital funds that invested or performed due diligence. It is helpful to 'translate' these evaluation criteria into clear and simple action questions and to document them in a checklist or questionnaire format to be referenced during the pitch meeting. This will provide the corporation with a solid base and allow the innovation team to take their findings and interview the founding teams about their products and a potential collaboration.

"Some common mistakes that startups are liable to make in the early stages of their relationship with a corporation include arriving at meetings with corporate personnel unprepared – they don't do their homework on the organization and its scope of activity. Therefore, they're unable to clarify exactly how their technological solution addresses the specific needs and pain points of the corporation."

***Sahar Kroglen**, Head of Site - BNY Mellon Tel Aviv Dev Center*

THE PARTNERS

Who are the startup's current partners?

In what geographical areas does the company operate?

Do our companies share the same values?

Do both parties agree on methodologies?

Who would be the partner's contact person for the corporation?

"Food & Beverage companies such as PepsiCo have made plastic waste reduction one of their KPIs. This gives us the ability to quickly optimize the Autonomous Sensors we developed and communicate their value as well as how we can assist these companies to reduce waste in their manufacturing processes."

***Tal Bakish**, Founder & CEO*

PREPARE TO MEET WITH POTENTIAL PARTNERS

Knowing what to expect before negotiations begin can make the difference between successfully bridging the gap or falling into the chasm. Meeting with representatives of a startup for the first time in a foreign country with a dissimilar culture - particularly in high-energy, condensed pitch meetings - poses a variety of challenges for large multinational corporations. Therefore, it is essential to prepare adequately for these meetings both from a business standpoint as well as a cultural perspective. In order to achieve positive synergy, corporations should present a concise list of clear questions, but not be taken aback if the answers aren't always what they were expecting. Remember, distinct business cultures simply assign different values to various parameters, reflecting their unique set of priorities; a little bit of patience and cultural sensitivity will get you a long way at the negotiating table.

Due to the rushed nature of many corporate visits and the overwhelming volume of tasks to be performed, asking the right questions when meeting with a potential startup partner is essential. Nobody wants to waste their own time or that of another company's team by arriving unprepared or unwilling to engage in a productive consultation in good faith. It is important to understand how the startup's team members complement each other's areas of knowledge and expertise. This will be particularly useful in knowing the right questions to ask during meetings with potential partners, and also to which team members certain questions should be directed. We've suggested examples of some good questions to ask, keeping in mind that each company must tailor these questions to their own specific unmet needs and the unique goals of the collaboration.

First impressions are invaluable, so make sure to introduce all the participants around the table, including their role and responsibility in the company and in the framework of the potential partnership. Provide some background on your corporation and its activities and be prepared to request the same of the startup's representatives. This is useful for 'breaking the ice' and establishing an efficient, two-way line of communication. Allow the startup to make their pitch and give yourself sufficient time for asking questions, referring to your evaluation questionnaire and the startup's abstract or any other materials you may have read before the meeting. Try to be as open as possible, clearly defining the challenges and pain points that you want to address; startups have mentioned that receiving real-time feedback during a pitch meeting improves their ability to align their narrative and better explain the benefits of their solution and how it suits the corporate needs. Identify the next steps in the process for each partner's team and appoint a contact person for updates or questions that might arise during this process.

Remember that the Israeli ecosystem is a very close-knit community and startups share their experiences with each other; therefore, the corporate team would be wise to foster a positive and productive collaboration environment during their preliminary meetings. Taking notes and leaving blocks of free time between meetings will enable your team to discuss their thoughts and initial impressions as will performing a daily recap after each session.

COMMUNICATE YOUR UNMET NEEDS

Communicating your unmet needs allows you to attract relevant startups and contributes to the effectiveness of your initial discussions with them. Not knowing corporate pain points is cited as a substantial challenge by startups in communicating their solution and how it may be suitable for corporate needs. By assisting the startup in asking the right questions and encouraging them to share openly, you enable them to provide a broader view of your problems and thereby increase the chances of a successful collaboration. Some corporations go even further and publish their needs in different media; ***ICL, Merck & Co., PepsiCo, IFF,*** and ***Strauss Group*** all use their websites' open innovation sections and additional platforms to publish relevant information.

CONNECT THE STARTUP INTERNALLY

Throughout your relationship, it is important to be present and available for the startup and its team members. After designating an appropriate contact person, you must follow up and ensure that all relevant parties in both the corporation and the startup are aware of this person's role. In this way, every external or internal request will be channeled

THE COMPETITION

What is the market size?

Who are the main competitors?

How does the startup differentiate itself from competitors?

What is the main competitive advantage of the product?

THE BOOKS

When was your last fundraising round and how much was raised?

What is the current/next funding goal?

What is the current and projected financial status of the startup?

through a specific person, who is better able to monitor and process such requests. After a successful initial pitch session, the corporation should arrange individual follow-up discussions between relevant corporate personnel and their counterparts at the startup. These “one-on-ones” are key for gaining more insight into the possible pitfalls of the collaboration and for understanding if serious interest exists on the part of the various business units.

A high level of commitment from management and the business units, along with the presence of a dedicated champion, are crucial for the success of the collaboration. It is important to identify the internal corporate champion and some other key personnel that can be described as ‘incentivized stakeholders’ in the POC; one central figure that must already be engaged at this stage is the ‘budget owner’, who in some cases may also be the project’s champion. Many POCs don’t succeed in transitioning to the commercial phase, regardless of the technological feasibility, because the main decision maker isn’t committed enough to the project. Corporations should take care during early interactions to emphasize their added value to the startup in defining the business case and providing mentorship as the collaboration progresses.

These first discussions can be challenging since mutual trust has not yet been established; many corporations try to overcome this confidence hurdle through the use of standard non-disclosure agreements which allows a relatively fast path for open dialogue. This practice is mostly common for collaborations between startups and corporations that do not share the same core activities. Corporations should assist the startup’s team in preparing for these discussions before they meet with the business unit managers and technical experts. This preparation is usually done by members of the open innovation team who are familiar with corporate culture, personnel, and the needs of the business unit. Startups rise and fall on the outcomes of such meetings; therefore, we recommend providing feedback within a maximum of two to three weeks. A timely response will allow the startup to move forward and - in case of a mismatch - will prevent them from developing unrealistic expectations. No matter what the result of these initial meetings, always leave the door open to remain in contact with the startup and keep yourself updated about its status - never burn bridges!

THE PRODUCT

What are the product’s specifications and applications?

What are the defensibilities of technology (IP, complexity of system, etc.)?

Does the product address your specific corporate needs?

Is there a technology roadmap? Is the team working on updates?

What are the testing capabilities and limitations?

Who are the end consumers?

Can the product be integrated into corporate systems?

Can the team explain the product in a simple way?

KEY GUIDELINES

- ✓ Establish criteria for evaluating the startup and prepare a checklist or template to be used during preliminary meetings.
- ✓ Consult local ecosystem players to acquire knowledge and source relevant startups.
- ✓ Perform due diligence, focusing on both business and tech evaluation.
- ✓ Be open, share your strategy, and navigate the conversation in such a way that both parties receive answers to their questions.
- ✓ A successful initial screening should be based on the evaluation criteria compiled prior to the meetings.
- ✓ Introduce all team members, describing their positions and responsibilities, and provide the startup with background on your corporation and its goals.
- ✓ Designate a contact person to maintain an open and effective line of communication.
- ✓ Give real-time feedback and request additional materials if needed.
- ✓ Summarize your thoughts and insights, translating them into concrete action items.
- ✓ Identify potential corporate beneficiaries and an internal project champion.
- ✓ Provide feedback within a reasonable time; the process should not take more than two months.

BREAKING GROUND

ALIGN YOUR MUTUAL EXPECTATIONS

Entering a new joint project is often a significant event for a young startup and could even determine its very survival. A successful collaboration requires matching mutual 'soft' expectations, in terms of actual intentions regarding implementation and the commercialization path. The clear definition of this potential long-term relationship and its successive milestones, as opposed to performing a one-time POC, is considered one of the main success factors for these partnerships. At this stage the corporation must evaluate to what degree the startup's solution fits their own goals and seek to create a shared vision for what can be expected to occur upon successful completion of a POC.

This is not a simple task, but it is essential to engage corporate stakeholders and have this internal discussion; mutual vision can be gained through open discussion and sharing your strategy and roadmap with the startup. While corporations don't always necessarily know what comes next, it is considered unwise to begin a project without planning a contingency for the subsequent stages after a POC. These discussions about a shared vision and set of expectations are the appropriate forum in which to address any questions or concerns before formally entering into an agreement.

finnovest

"The significance of a good corporate champion cannot be understood – at the end of the day, the champion is the one who makes things happen. They don't have to be present in every meeting, but they should always be updated and involved. There can be instances in which every department within the corporation is pulling in a different direction; the champion needs to see the bigger picture and make decisions based on all the information that he receives from the various personnel involved in the project."

Tal Brockmann, *Founder & CEO*

SELECT A CORPORATE CHAMPION AND POINTS OF CONTACT

A champion is a corporate stakeholder that is highly motivated and has the ability to lead the project to a successful conclusion. A champion who is not properly motivated to muster the necessary resources can spell disaster for newly formed partnerships. Identifying the champion is usually the role of the open innovation team, due to their familiarity with the needs of business unit managers and the level of urgency involved. As a rule of thumb, the champion should be a passionate advocate who is in a position to exert influence on decision makers and thus drive the collaboration forward. Experience suggests that you cannot force mid management employees to engage with startups and serve as champions; some employees are likely to perceive tasks related to a POC as simply another chore, and not a labor of love. Therefore, it is absolutely critical to find and appoint a champion who has the experience, mandate, resources, and incentive to take the helm of the POC and guide it towards success.

PROVIDE THE NECESSARY SUPPORT AND RESOURCES

Provide the startup with all the support, resources and connections that will help it grow and achieve its goals. Besides financial compensation for the POC, corporations possess a vast array of valuable capabilities, expertise, and infrastructure that should be made available to the startup. Providing counterparts with genuine mentorship and advice from experts will better expose them to the realities of your business. For example, sharing data and market reports or connecting them with ancillary partners will help the startup's team gain increased knowledge about diverse areas of interest.

ALLOCATE A BUDGET

Interviewee's experience indicates an obligation on the part of startups to charge fees for POCs, since financial compensation is a strong incentive for corporations to be more invested in the POC and its outcome. Due to the startup's disproportionate investment of its primary assets and attention, an appropriate compensation package can drastically reduce their risks. This compensation, of course, is negotiable and in some cases may be deducted later from the full contract. Some elements of the package can be substituted with 'in-kind' contributions; for example, startups can greatly benefit from the public exposure of presenting their case study at a high-profile conference or in the media, exactly the type of resource to which MNCs are likely to have great ease of access. Several government programs and mechanisms in Israel provide funding for international collaborations; Israel Innovation Authority's (IIA) ***Innovation Labs Program*** focuses on the goal of

"There is no specific 'profile' or set of requirements for who can be an effective champion; they can come from almost any area within the organization, regardless of their level of seniority. The most important thing is for them to be properly committed to the project and to display the ability to 'take ownership' of the initiative and do everything within their power to see it through to successful completion."

Jameel Istaitih, *Former Director of Engineering & Industry 4.0, Strauss Group*

Dole

"For a POC to succeed, you have to identify at the early stages the major stakeholders in the project within the organization and align yourself with their expectations. This requires a willingness on the part of the organization to allocate the necessary resources, including the active involvement of the champion and other relevant personnel when working with a startup."

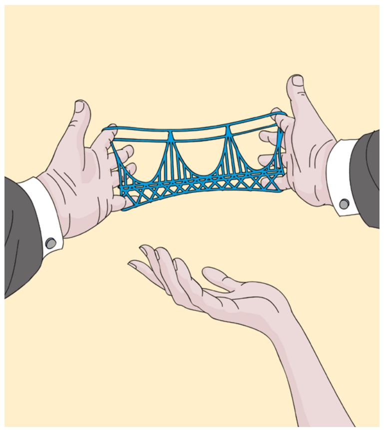
Ilanit Kabessa, *Venture Partner - Novozymes (former Head of Dole Ventures)* reaching a POC, ***IFF's FoodNxt*** is a good example of a POC platform in the field of food innovation. Another option is the ***IIA's R&D Collaboration Program*** where the startup is provided with funding for mutual R&D projects; MNCs that have engaged in such activity include: ***Sompo Holdings, Merck, Coca Cola, General Electric***, and ***Syngenta***, among other ***Fortune 500*** companies.

Define Targets and Timelines

Defining practical and measurable KPIs and timeframes requires the involvement of relevant personnel and is essential for the success of the collaboration, extending beyond the POC itself; some corporations call it 'the minimum time needed to prove minimal basic feasibility'. KPIs should not only serve to prove the feasibility of the project but should also consider commercial specifications and business unit needs throughout the lifetime of the product. Therefore, at this stage of planning, it is important to involve the product development units and personnel or users. There have been cases in which startups achieved the KPIs laid out for the POC, but ultimately, they were found to be irrelevant by those in charge of actual product development, who refused to integrate the results. Team leaders should set relatively short periods of time between milestones in order to minimize the time required to obtain results or prove basic feasibility. This enables the startup to work within shorter time frames while being compensated faster, to increase their efforts and allocate more resources according to the progress of the project, and to reduce the inherent risks. Beyond the quantitative and technical KPIs and metrics, corporations view a POC as a 'beta-site' to familiarize themselves with the startup team and explore its potential as a future partner.

Formulate a Collaboration Model

Beyond the structuring of the collaboration model in terms of legal framework and the investment or compensation structure, the presence of corporate open innovation platforms and acceleration programs enables a strong and



flexible response to the needs of the partnership. It allows for agility in framing, determining, and managing the collaboration framework. Corporations develop these platforms in order to improve the structure and fluidity of the collaboration, while the main benefit for startups is the opportunity to gain access to high-profile corporate stakeholders and mentors. Despite disagreements on the effectiveness of such corporate acceleration programs, many startups see them as valuable opportunities to communicate directly with corporate decision makers and some startups even suggest that it's the main reason for their participation. Therefore, it is recommended to staff these programs with senior mentors, business unit managers and field experts.

Apply a Relevant Use Case

Selecting a good use case is critical to planning and executing a successful POC; corporations should choose a use case that is valuable for the organization, or at least one that provides meaningful validation of the concept. Many startups have already developed solutions for some use cases which may be relevant to the goals and KPIs of your project, or which can be readily adapted to suit them. Relevant use cases are those that don't require major adjustments, are quantifiable and replicable, and may be applicable for the startup at later stages.

Establish Governance Guidelines

Corporations should set a governance framework for the project that will keep stakeholders informed and engaged, and that provides the ability to resolve unforeseen issues that may arise over the lifetime of the project. Every organization has its own procedures and project management practices already in place, but this goal can be attained together through active participation in the POC steering and/or advisory committees. These committees should provide regular status

For a startup that has a solution that addresses a core business problem of particular industries and corporations, you need to operate in 'learning mode', from both a technological and business standpoint, so you will be able to seamlessly integrate your solution into the business's day-to-day activities and operations in a seamless way. When you have teams and personnel with domain expertise, you can create significant value for your customers by driving solution adoption in the right places of the business that will maximize ROI.

***Dor Haim**, Vice President, Global Customer Operations* updates to all relevant business units and personnel, in addition to establishing procedures for adapting to unexpected challenges or changes in the conditions surrounding the project.

Regulatory and Information Security Requirements

In some cases, startups enter partnerships or collaborative ventures without fully understanding the regulatory, bureaucratic, security, or other corporate requirements - oftentimes this is their first encounter with such issues. Failure to communicate effectively in this arena can seriously delay a project or even prevent it from getting off the ground altogether. A startup's team may realize, after they've already begun working on the project, that they don't have the necessary capacity or that certain corporate requirements, such as information security certifications, FDA authorizations, etc. are not economically feasible for them. To overcome this hurdle, corporations should provide their potential partners with a detailed list of requirements before entering into an agreement; the corporation should disclose any and all regulatory and information security requirements - and any other conditions - before officially beginning the POC. The team leader must ensure that the startup fully understands the requirements and has the knowledge and resources to bear them within a reasonable time.

Protecting the data and intellectual property of the corporation and that of its clients and customers is absolutely paramount; no company wants to engage with a partner that has a poor track record of data protection. Enterprises such as healthcare organizations, financial institutions, insurance companies, and governmental organizations possess highly sensitive data and must therefore exercise extreme caution. This focus derives its significance not only from a moral imperative or fiscal concerns, but also in a very practical sense from a legal obligation to comply with regulations. These regulations vary between countries and industry sectors and may include such elements as GDPR (General Data Protection Regulation), PCI (Payment Card Industry) data regulation, or local laws regarding data protection and access.

Texas Children's Hospital®

We spoke with a company a week or two ago, who had no familiarity with HIPA compliance. So, it was more of a coaching session of like: here are some of the things that you need to look for, this is what you are going to need, a really cool product. This is what you're going to need to have in place in order for us to use it."

***Melanie Lowther**, Director of Entrepreneurship & Innovation*

KEY GUIDELINES

- ✓ Match your expectations with those of the startup.
- ✓ Think how you can promote the startup beyond the POC and what resources and contributions you can provide - like mentorship, access to experts, customers, etc.
- ✓ Select an appropriate corporate champion.
- ✓ Define and anchor in the collaboration contract what are the next stages in case the POC reaches its goals.
- ✓ Set a budget - it is advised not to perform or request free POCs.
- ✓ Set goals, metrics and KPIs, responsibilities, timeframes, and milestones – plan ahead for potential future stages of the collaboration.
- ✓ Select a mutually valuable use case.
- ✓ Try to define relatively short time periods or minimum time required to reach minimal validation.
- ✓ Exploit your different collaboration and open-innovation platforms.
- ✓ Manage and govern your project in a way that keeps all stakeholders involved
- ✓ Define project escalation ladder.
- ✓ Present a list and description of technical, regulatory and security demands in advance.
- ✓ Adjust your purchase and legal procedures and processes for startups and prepare dedicated templates and contracts.

TECHNICAL ASPECTS OF RUNNING A POC

Foster a Habitable Environment for a POC

Enterprises often use sandboxes for testing new applications; these serve as a type of simulated environment where companies can test code and perform experiments without affecting the organization's day-to-day operations and routines. An internal IT team or a startup can create these sandboxes for enterprises who maintain most of their systems at their companies' physical locations; they can also be created for separate networks in the cloud. In order to increase the likelihood of successful integration after completion of a POC, the evaluation environment must closely resemble the production environment. After its creation, your internal IT team or external POC service providers may populate the sandbox with servers, API (Application Programming Interface) connections, databases, and more in order to imitate the actual production environment. A corporation that wants to test multiple solutions will have to create multiple sandboxes or test the different software back-to-back. It is, of course, absolutely essential to test the different solutions under the exact same controlled conditions so that their results will be comparable and relevant.

ON-SITE TESTING	CLOUD-BASED TESTING
When running a POC manually for a bank, a testing lab may need to be built on the premises of the bank itself. The corporate team would need to build a new server and create separate networks on-location.	A good example is when an insurance company wants to test its artificial intelligence (AI) solution to identify cities with higher risks of car accidents. Instead of replicating the entire database, risking exposure of the data, the test can be performed in a private environment provided by a cloud service, and not on the premises of the organization.

Compile Data

Enterprise data is sensitive information, and organizations are right to be wary of exposing it to third party vendors. When starting a POC, the regulatory conditions may prevent using actual, unaltered data sources for the evaluation process. However, as mentioned earlier, in order for the POC to provide relevant results, the evaluation environment must be very similar to the production environment. One way to overcome this barrier is by using data anonymization tools that 'whitewash' whole data sets to remove identifying elements. Another alternate method to handing over hundreds and thousands of data points is to issue a 'mini scheme' that will help the startup understand the format and the relationships between the tables.

Ensure Regulatory Compliance

Before launching the POC, the corporation should check with its compliance officer, or equivalent, to verify exactly what needs to be protected, and to what degree, so that the innovation team can act accordingly and with minimal interference. Data can be anonymized using readily available tools but maintaining the connection between different groups of data is crucial for a successful POC. 'Data mirroring' addresses this problem by generating the POC's testing environment based on a small, anonymized data sample; in this way, protected data is never exposed.

Simulate Traffic and API Calls

A corporation's ecosystem is more than just its static elements: servers, databases, corporate offices, etc. It's a dynamic, living environment that thrives on traffic and API calls. When evaluating new software systems, a corporation must validate the solution's ability to handle the whole system, as-is, with all its moving parts. One of the crucial and more challenging parts of a POC is exactly this: building a sandbox environment, either on premises or in the cloud, that completely and functionally imitates the real system. The best practice would be to add pre-recorded traffic and calls to the manually built environment, which requires meticulous planning and architecture.

Continental

"The best way for an Industry 4.0 startup to make it to the manufacturing floor is actually to start with a relatively simple, preliminary 'sandbox' experiment: a controlled and scaled-down environment that simulates the real-world conditions and challenges facing the company. By working directly with operations managers and personnel in the field, you can attain a very clear idea of the long-term potential."

Neri Friedlander
Director of Israel Innovation & Partnerships

OBSERVE YOUR BRIDGE IN ACTION

"It is critical to build the business case. However, it is very challenging. You need to build sort of a business plan for something that doesn't exist...and you need to prove that it can be profitable – it's an 'innovation accounting' skill you need to develop."

Ilanit Kabessa, Venture Partner - Novozymes (former Head of Dole Ventures)

Track and Monitor Your POC's Progress

Much the same as with any routine corporate venture, continually measuring progress and achievements is vital to evaluating the potential impact on the corporation. Keeping senior management regularly updated on project advancement is key; their involvement is central to the overall success of the POC and its potential future integration. It is helpful to identify problems early and address them quickly, and also to hold periodic status meetings involving both management and the open innovation team. In some cases, a member of the open innovation team is also the corporate contact person for that startup - the gatekeeper that will help him unlock intra-corporate bureaucracy and cope with unforeseen difficulties.

Build and nourish both professional and personal relationships over the course of the POC; mutual personal acquaintance with all relevant personnel is an important ingredient. The corporation should strive to develop internal connections between the startup and its stakeholders and employees in such a way that will help expedite tasks and procedures. A good practice is to use kick-off meetings as a sort of ice-breaker to build the foundations of the acquaintance. In Industry 4.0 projects, for example, manufacturing and maintenance personnel are also introduced along with the innovation team and are considered a core requirement for its success. Therefore, mapping all relevant personnel in the organization and their accessibility to the startup is especially important.

Compile the Business Case

As data and insights from the POC begin flowing in, this is the correct time to compose the business case and perform an ROI (Return of Investment) assessment. Outline the business plan in order to understand the commercial and fiscal implications of implementing the solution and the expected ROI, so that the C-suite will be able to decide if they want to move forward and how their decision could potentially impact business. In the case of co-development or a similar integration solution, you can also start to design the principles of your marketing plan and develop them.

Analyze Metrics, KPIs, and Benchmarks

The most important element of a POC is making sense of all the information gathered while the startup software was simulating the POC in the sandbox or conducting it in the actual legacy environment. This is the stage where all that hard work of establishing just the right KPIs finally pays off; corporations should be careful to compare the KPIs only and ignore distracting factors. If enough care and insight were exercised at the beginning of the collaboration, then the set of technical and business KPIs will give the exact answers that the open innovation team needs to draw effective conclusions and plan further stages of collaboration.

Impact and/or Work on the Production Environment

If the POC's evaluation environment was designed to closely resemble the actual one, then the results should demonstrate how the startup's solution will behave in its actual environment. The more similar the evaluation environment is to the legacy system, from databases to traffic and everything in between, the more accurately you can predict what will happen when the new software is deployed.

KEY GUIDELINES

- ✓ Constantly monitor and measure.
- ✓ Identify issues and solve them quickly.
- ✓ Keep management and your Israeli open innovation team in the loop.
- ✓ Use the POC to build corporation/startup relationships.
- ✓ Leverage kickoff meetings to involve corporate team members.
- ✓ Develop the business case and conduct an ROI assessment.
- ✓ In case of co-development, develop a marketing plan.

OVERCOMING INDUSTRY-SPECIFIC CHALLENGES

"A challenge for startups is that large corporations in the automotive and industrial sectors are accustomed to working with Tier-1 suppliers that develop technology and equipment especially for them – as part of a wider range of solutions – unlike startups that focus on specific use cases. Startups can find themselves in the position of completing a POC with a corporate partner who then chooses their Tier-1 supplier to implement the solution developed by the startup. If the startup is lucky, the Tier-1 supplier may acquire them; if not, the corporation will likely find another solution good enough to meet their manufacturing needs. This is changing now that large customers are learning to better utilize the direct connection with startups."

***Tal Bakish**, Founder & CEO*

When planning for your partnership it is important to understand the industry-specific challenges one may encounter, especially in the Industry 4.0, FinTech, Digital Health, AgriTech & FoodTech sectors. Here are the distinct challenges faced by these diverse industries and some key recommendations and guidelines for coping with them:

Industry 4.0

Implementing new solutions in Industry 4.0 is challenging for multiple reasons; the technologies and range of solutions in this field are relatively new phenomena and therefore coping with obstacles is not strictly limited to collaborating with startups. In addition, many corporations don't yet have a comprehensive strategy or holistic approach to digitalization; for example, as of the year 2020, **most manufacturers (58%) hadn't even begun implementing an IoT strategy**. This puts these companies in a position that makes it difficult to define and prioritize needs and use cases, and to streamline them for that corporation's strategy. In addition, there is a sizable disparity between senior management's willingness to innovate and the manufacturing facilities' managers and employees, who are mainly focused on their routine tasks, challenges, and quotas, and therefore lack the necessary time or proper incentivization for innovation projects. The combination of these factors results in a complex and challenging environment in which to conduct a successful POC without adequate preparation.

INDUSTRY 4.0 KEY GUIDELINES

- ✓ Address the actual pain points of the manufacturing facility managers or other stakeholders.
- ✓ Appoint a dedicated startup contact person who is also part of your digitalization strategy or Industry 4.0 strategy implementation team, ideally an internal employee, either from management or a 'plant innovation leader' at the manufacturing level.
- ✓ Create an environment that incentivizes willingness to collaborate and to adopt new technologies and bring your employees to a sufficient level of readiness to successfully implement them.
- ✓ Every project should have a champion or project manager, a person that can connect the startup with relevant personnel from the factory floor up to the corporate suite. The mission of innovation or digitalization team is to find such a champion in each plant or each project.

FinTech

In recent years, digital disruptions, along with the entry of new competitors and regulations, have forced the financial sector into a substantial transformation, which has ultimately resulted in a growth in collaborations with startups. The differences between traditional service industries and the dynamic character of startup culture pose obvious challenges to such collaborations. Inclusion of IT departments, complex and changing regulatory requirements and compliance standards, and digital infrastructure are just a few of the hurdles that must be faced. Banking and financial institutions rely on legacy systems, leading to difficulties in connecting with startup systems and providing a sufficiently germane digital environment to perform POCs. Concerns about disruptions in business activity or the exposure of clients' data are major security pitfalls; ***Citibank***, for example, solved this problem by providing startups with shadow systems that emulate real-world systems and allow for rapid and seamless integration.

Digital solutions implementation influences banks' business

"Some stress points that are particularly important in the field of finance are finding a good match between the solutions and the technological environment and integrating them smoothly into the bank's existing system. Nowadays, the organization is on the lookout for solutions that have already been evaluated by other financial institutions. In our field we all know one another, so we're comfortable contacting another company and asking their opinion on solutions they've experimented with."

***Sahar Kroglen**, Head of Site - BNY Mellon Tel Aviv Dev Center* processes, and in many cases can be part of a larger digital transformation strategy. As the solutions provided by startups tend to be new and unfamiliar, the bank's management lacks a thorough understanding and knowledge of their implications; therefore, it is essential that the bank's team involve the startup in their strategic discussions.

The startup's team should be involved in drafting a digitalization roadmap and implementation process, and also participate in the engineering of new business processes and their alignment with the bank's digital strategy.

FINTECH KEY GUIDELINES

- ✓ Obtain shadow systems that emulate actual bank data and systems to streamline integration.
- ✓ Provide the startup with a detailed list of regulatory requirements and compliance standards.
- ✓ Collaborate with the startup in strategizing your digitization process.
- ✓ Involve your IT departments in the initiation and planning of POC from the beginning.

Digital Health

The relatively young age of this sector and the inherent complexity of health systems, mainly in the American market, create a unique set of challenges for startups wishing to work with the various value chain industry players, such as insurers and hospitals. Many players in this field are still trying to find the right business models for acquiring and integrating cutting-edge technologies; one of the main obstacles to commercialization, particularly for startups, is the lack of ability to create a viable business model. In digital health, even more so than in other fields, it is essential to formulate a plan for future stages of the POC and the path to commercialization. Many startups lack significant experience working with the sprawling American health market; providing the support and mentorship of experts as part of the POC can be extremely valuable.

DIGITAL HEALTH KEY GUIDELINES

- ✓ Finalize your business case and create an appropriate model before you launch the POC.
- ✓ Provide support and mentorship of experts to help navigate your country's health market.
- ✓ Help your startup gain access to relevant and meaningful clinical research.
- ✓ Don't forget to plan for subsequent stages of the POC: integration and path to commercialization.

AgriTech and FoodTech

Israel has been a recognized global leader in the innovation of agricultural technologies for decades; in recent years, this traditional industry has begun interacting with the world of high tech like never before, creating a new field altogether known as 'FoodTech'. According to ***Start-Up Nation Central***, there are more than 450 AgriTech and FoodTech startups in Israel, half of which were established in the past three years alone. One of the main challenges specific to this industry, which is dominated by a more traditional mindset, is the long waiting period often required to validate technology in agriculture. Some corporations in the agriculture sector are not inherently fast or agile, which may result in a similarly long and cumbersome chain of approval for POCs.

`Digitalization is new to many sectors of the agricultural and food industries, and therefore may result in knowledge gaps which complicate the process of harnessing the capabilities and applications of new technologies. The goal of the open innovation team should be to educate and enable organizational knowledge and openness; this can be achieved through personal encounters with startups in various acceleration programs and platforms. The dynamic of the AgriTech market structure is relatively centralized; there are somewhat fewer major MNCs that receive inquiries from startups wishing to collaborate. Adding to that, the inherent complexity of corporate structures and bureaucracy leads to slow decision-making, making it even harder to get the attention and approval of the relevant corporate stakeholders. This creates an opportunity for smaller and more focused companies to connect with startups and exploit their need of distribution channels and access to clients. Many startups pointed out that doing business with smaller corporations was generally faster, and that projects received the full attention of the most senior decision-makers.

AGRITECH AND FOODTECH KEY GUIDELINES

- ✓ Educate corporate personnel about the benefits of new technology and partnering with startups.
- ✓ Utilize open innovation platforms as vehicles to encourage and incentivize corporate staff to interact with and learn from startups.
- ✓ Smaller MNCs have a unique edge in the race for startups, particularly in the AgriTech value chain.

CULTURAL PERSPECTIVES OF WORKING WITH ISRAELIS

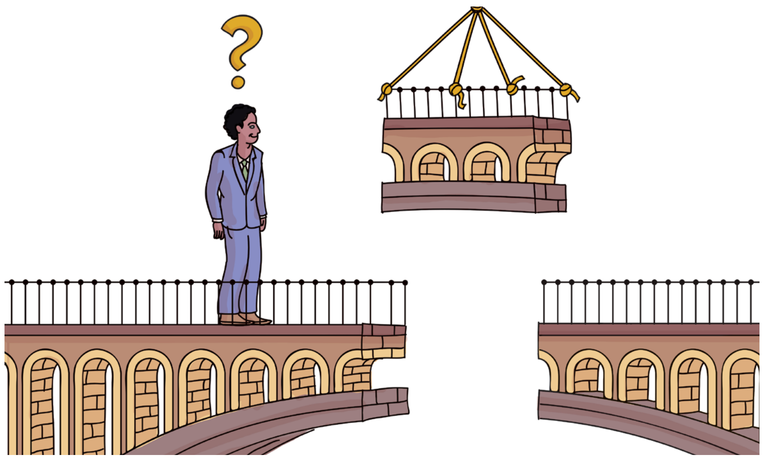
A key factor for successful international business collaborations is understanding the culture and environment to which your counterpart is accustomed and the standards by which they can be expected to perceive the negotiation process and its outcome. Some elements of collaborating with Israeli startups may come as a surprise to MNCs, especially those who perform a POC as their first substantial interaction with an Israeli business. This cultural disparity can be even greater if the MNC, or its relevant business unit, does not have a material track record of partnering with startup companies.

Cultural differences may be very pronounced and tangible while sitting at the negotiating table. Israelis are often very direct, and discussions regarding the engagement terms may often appear to take the form of a heated argument. It should be understood that this behavior is typical of the Israeli culture and should in no way be interpreted as an indication that differences of opinion or any other concerns present a barrier to the negotiations. In many countries around the Mediterranean region, Middle East, and other parts of the world, business cultures lack the aesthetic formality and "procedural correctness" common in most parts of Asia, Europe, and North America. It is not uncommon for a senior executive of an Israeli company to attend a serious business meeting wearing jeans and a t-shirt, or to leave their young child waiting outside in the hallway.

Similarly, MNCs should not draw negative conclusions from the perceived seniority of the representative sitting across the table. Corporate hierarchy in most Israeli startups, and indeed in larger Israeli corporations as well, has a vastly different and more complex, lateral structure than is typical of most large MNCs. The active participation of junior executives - who often take the leading role in negotiations on the Israeli side of the table - should not be regarded as a sign of disrespect or a lack of seriousness. This unique corporate structuring is largely a result of the indelible influence of military culture on Israeli society and of the extraordinary command structure of the IDF (Israel Defense Force). The saying goes that a Lieutenant in the IDF has the command capability of a much higher rank in any other army; Israelis are trained from a young age to adapt, improvise, and overcome by making difficult decisions under pressure.

In addition, business practices, standards, and regulations naturally differ from one country to another, and as a rule of thumb, companies in the Israeli technology industry usually operate according to the norms of North America and Europe. For example, in some countries the common practice may be that commercial engagement of a relatively modest scope may be conducted without having a formal agreement in place. However, in Israel – similarly to the US, for example – startup companies are likely to insist that any such engagement will be properly documented. Similarly, while negotiating investment terms, Israeli companies are likely to expect that the engagement documents resemble standard US investment formats (such as NVCA model legal documents, or YCombinator SAFEs).

Another unique factor at play in the Israeli ecosystem is a very large amount of activity



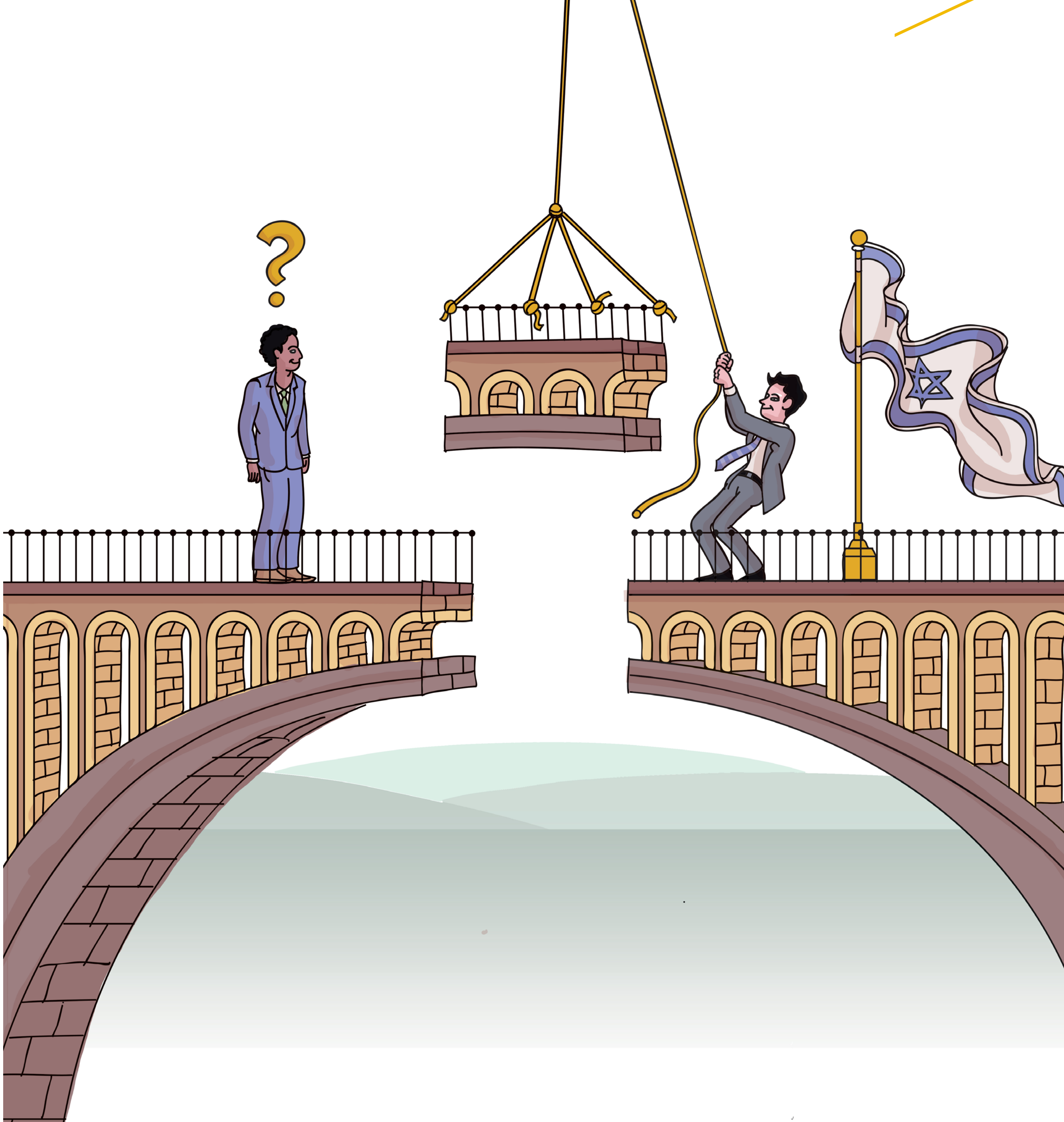
"A corporation won't share its pain points at the beginning: you have to get to know each other first and develop a sense of mutual trust. You need to invest in the relationship first and foremost. Once you have a deeper understanding of the corporation's range of activity and where its interests lie, then you'll be better positioned to begin discussing specific challenges."

***Ilanit Kabessa**, Venture Partner - Novozymes (former Head of Dole Ventures)*

"Before startups engage in communication or collaboration with MNCs, it is important to define the structure of the relationship between the startup and the corporation, including what is expected of each party, and which personnel and resources they intend to allocate to the project. Punctuality and availability of the corporation toward the startup are essential to a healthy partnership; startups generally deal with shorter increments of time, whereas the MNCs often focus on long-term strategy. Both sides must understand this difference and be sensitive to the needs of the other partner when formulating a timeline and milestones for the POC."

***Max Simonovsky**, CEO*

on the part of MNCs scouting for innovative ideas. Israeli startups with truly groundbreaking technologies may attract significant interest from all around the world and this should be taken into consideration when drafting the engagement documents between the MNC and the target startup. Naturally, no corporation would want a direct competitor to reap the benefits of their years of investing in a partnership with a startup. MNCs should also be prepared for the fact that due to the very different organizational cultures at play and the different realities both entities face, their Israeli counterparts may struggle a bit in coping with the complex organizational bureaucracy and decision-making procedures typical of global corporations. Maintaining a positive tempo and momentum in negotiations may require the MNC to show some flexibility in this respect if it does not wish to lose opportunities to its more agile competitors.



4 LEGAL ASPECTS: MAKING SURE YOUR BRIDGE IS UP TO CODE

1.

Understand the nuances of intellectual property and formulate a legal strategy for safeguarding your company's interests both during the POC phase and long-term

2.

Overcome obstacles that may arise on the part of your startup partner due to distinctive cultural elements in the Israeli corporate environment

3.

Mitigate risk and legal exposure by creating a milestone-based compensation structure and requiring certain basic guarantees of your startup partner to ensure compliance

4.

Prepare for a full-scale collaboration after a successful POC and secure the upside for your company by negotiating potential terms for acquisition or an equity component

The dynamics of the current global business environment and the unpredictable changes it is expected to face in the new reality of a post-COVID world, make it ever more vital for corporations to take a cautious approach to engaging with startups and their technologies. Conducting effective POCs with these emerging companies could prove to be increasingly more effective in reducing the many elements of financial and legal risk that corporations are exposed to, thereby improving the likely success of such collaborations. In reality, many corporations are well aware of the need for POCs as a critical element in structuring their future relations with startups, however, many of them fail in optimizing and conducting these experiments successfully. This relates to a wide range of matters involving the POC and its KPIs, and the situation in which corporations find themselves once the POC is completed. Surprisingly, in many cases, the corporate personnel leading the POC neglect to take into consideration the legal implications of the experience they are driving, nor the impact it will have on the legal negotiations that will follow should the POC turn out to be successful.

THE COMPETITION

The MNC can expect to be offered favorable terms in licensing the technology to be developed, and they will very often require a right of Most Favorable Nation (MFN), meaning that the target startup should always allow the MNC to enjoy the most favorable commercial terms it offers to its other customers.

DAY TWO

"There are several factors to consider when trying to reach the decision-makers by way of the open innovation branch; in addition to the significant help that can be received from this unit of the organization, this can also be a potential source of delay for the startup. In large corporations, it can take a long time to set up a meeting with the decision-makers and much time can be wasted in meetings with personnel that aren't necessarily relevant to the project at hand. there can be instances in which your corporate contact person is mostly unfamiliar with the specific agendas of the various bodies within the company, and this obviously presents a major obstacle to the startup."

FORMULATE A COMPREHENSIVE LEGAL STRATEGY FOR YOUR POC

A valuable piece of advice for MNCs pursuing innovative technologies in Israel's startup ecosystem is to always plan well ahead. Conducting an internal evaluation process and defining the MNC's goals and unmet needs, together with delimited focus areas and a clear understanding of both the risks and opportunities involved in conducting a POC, will definitely make it easier for the MNC to not only minimize exposure to legal and business risks, but also to maximize all potential upsides. A good legal strategy will therefore encompass three main goals; the first is protecting the MNC's material assets and interests, such as intellectual property, trade secrets, reputation, and the integrity of its internal systems and the information they store, including in connection with competitors potentially looking into the same or similar opportunities. Second is reducing the risk of incurring expenses for services or products that were not provided to satisfaction. Third is securing the MNC's favorable position to expand the relationship with the startup company if the POC indicates that a good match exists. The scope of this familiarization process should correspond to the quantity of direct expenditures and other exposures involved; no less important is knowing how to effectively implement these conclusions in the legal documents governing the engagement.

UNDERSTAND HOW INTELLECTUAL PROPERTY WORKS

Having a clear picture of the startup's rights and title to its intellectual property is a crucial factor for a fruitful business collaboration, being that it is the most significant asset of most startup companies aside from its personnel. One of the most basic elements is ensuring that the company has valid rights and title to all intellectual property embodied in the product. One common vulnerability of startups in this respect may be the retention of certain intellectual property rights by the company's founders or third parties with whom they have been associated in the past. This is particularly true where the founding team performed substantial R&D work before incorporating and never took the trouble of properly assigning the intellectual property rights to the company once incorporated.

In Israel, this problem may prove more complex because in many instances the founders began collaborating while serving together in the IDF, whose elite communications and intelligence units are among Israel's most powerful tech incubators. In other cases, startup founders may begin collaborating while performing research work in an academic institution or employed by a governmental body, like a public hospital. These ghosts from the past are likely to surface at the worst and most unexpected possible times and attempt to claim their right to the company's intellectual property. An effective way of preventing these altercations is by ensuring proper formal assignment of all intellectual property relevant to the company's business to the actual company and obtaining appropriate waivers from any relevant third parties, if necessary.

"During the first meeting between the startup and the manufacturing managers and decision-makers, the very first thing is to properly introduce yourself and the other team members and to provide some background context of what area of expertise each person is responsible for. Explain what the advantages of your technology are and what differentiates it from other industry players; then you can describe all the ways in which your technology can be applied and adapted to solve the specific problems facing that organization."

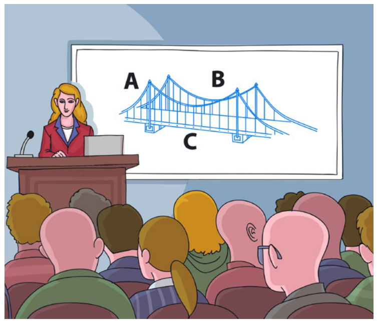
***Jameel Istaitih**, Former Director of Engineering & Industry 4.0, Strauss Group*

One more aspect that should be taken into consideration with Israeli startups is that a substantial portion of them have received some sort of governmental support along the way. Such support typically comes in the form of direct grants or participating in incubation and acceleration programs, which may be wholly or partially funded by the Israeli Innovation Authority or other governmental organizations. Governmental support in Israel usually comes with some sort of strings attached; the company will normally be required to pay back all grants received upon selling the company, relocating its substantial R&D work abroad, or otherwise taking its main intellectual property assets out of Israel, at a certain multiple to be determined by the terms of the governmental program through which any such funding was granted. Export limitations may also apply to the company's product; this issue is mostly relevant when considering export to certain banned countries or exporting technologies that may contain sensitive, security-related applications or which require regulatory approval for their licensing, export, or sale. These restrictions, however, are usually not overly demanding of the company in terms of compliance nor costs, and fortunately they have not prevented innovative technology from being one of Israel's most prominent exports.

The ability to use and enforce the Israeli company's intellectual property globally is another issue that should be closely observed by MNCs. One aspect is whether or not the company has granted any exclusive licenses to its product, and if so, what the geographical boundaries of such licenses are. Another aspect is global registration of intellectual property; Israeli companies are likely to file for patents in Israel, the US, and the EU. However, they are less likely to have their patents registered elsewhere, which may make enforcement of their intellectual property rights in certain markets more complex. Lastly, when it comes to ownership of intellectual property to be developed in a potential collaboration between an Israeli startup and an MNC, it should be expected that the startup will insist that all rights and title to all such intellectual property, including metrics, metadata and feedback collected, shall remain the sole property of the company. Geographically limited, exclusive license to use or distribute the technology at hand is also negotiable in many cases. However, co-ownership of IP is far less common, and will usually be considered only in cases where the development work was, in fact, a joint effort of R&D teams from both engaging entities.

MINIMIZE YOUR RISKS AND LEGAL EXPOSURE

Every commercial engagement has potential risks associated with it, and POCs are naturally not an exception to this rule. The most immediate legal and business risk associated with a POC is that of a failure by the company to deliver the agreed-upon products or services properly and on time. This type of risk, which is an integral part of almost every engagement with third-party vendors, is more prevalent when engaging with startups, especially those at an early stage of their lifecycle. This is due to the product at hand often being a work in progress and therefore more prone to faults or failures, and also due to the startup typically being less financially and operationally stable than more well-established enterprises. The most effective tool in the MNC's toolbox for mitigating such risks is having a milestone-based compensation structure, in which the bulk of the proceeds are paid only after the MNC has gained confidence in the startup company's ability to deliver.



Another layer of protection for the MNC is requiring the startup company to provide certain basic representations, warranties, and indemnification undertakings in the engagement documents, as well as adhering to certain standards of conduct. Such representations, warranties and undertakings may cover the "cleanliness" of the intellectual property embodied in the product; for example, the lack of any third-party claims to such intellectual property, and transparency with respect to the use of open-

"From the beginning, we identify a champion and sponsors within the organization – these can serve different functions. Sometimes it's a tech person and other times it's someone with a background in organization and methods; you need to know how to work well with both types. If the champion is a tech person, then usually I attach one of our own technological experts who can provide adequate information about that aspect of the company. When I'm working with someone from organization and methods, say in a bank or insurance company, we are not working with insurance companies. you can write , banks and brokerage firms I provide them with tools like an ROI calculator that can effectively display the expected upshots of our collaboration."

***Tal Brockmann**, Founder & CEO*

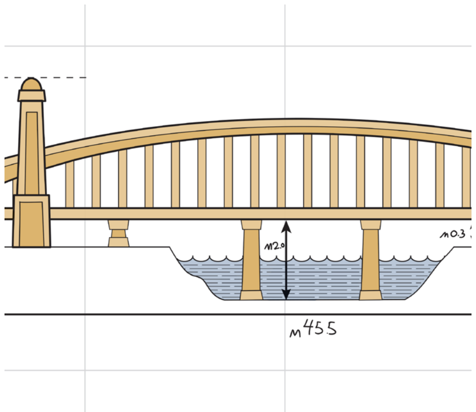
source components. This may also include compliance with applicable laws, confidentiality undertakings by the company, undertakings ensuring due protection of the MNC's data, adhering to the MNC's standard internal procedures, and more. Another issue that should be observed is that the startup company liability cap, if one exists, should be on par with market standards and correlate to the nature of the product or service and the risks involved.

The POC itself, being in many cases the first step in a long-lasting business collaboration that also involves investment rounds and possibly acquisition, may also be viewed as a risk management technique. The POC allows the MNC to examine the fit and synergy between the startup's product and the MNC's needs, the strength of the team, the startup's ability to deliver, and its potential as an investment or acquisition opportunity. POCs offer all these benefits while risking relatively little in terms of financial and legal exposure, and in such a way that allows the MNC to disengage quite easily in the event that things do not turn out as expected.

SECURE THE UPSIDE

Many MNCs have much greater plans for the startup company than what is actually discussed while negotiating a POC. Very often, their willingness to engage a startup in the first place is less dependent upon the products or services currently on offer, but largely due to the potential for future synergy, which may one day make the startup a promising target for an M&A or asset purchase. Therefore, many MNCs take some measures in their POC engagement documents to ensure their advantageous position in such future opportunities, or at least to reduce the risk of such opportunities falling into the hands of their direct competitors.

It is fairly common for MNCs to include a Right of Notice clause in the POC contract, which requires the company to notify the MNC if the company receives an offer for an M&A and allows the MNC a certain period of time to provide their own counteroffer. However, due to their potential risk of deterring future investors and potential acquirers, asking a startup company to have such a clause in place may prove to be one of the most sensitive points of the negotiation. Drafting a Right of Notice clause is therefore a gentle art of balancing the needs of the startup with those of the MNC; it should not mark the company too strongly as a potential acquisition prospect by the MNC, thereby making it un-fundable and compromising its growth plans. On the other hand, such a clause must ensure that the MNC has adequate protection of the very business prospects which caused them to be interested in engaging with the startup.



Another means for securing the potential upside of a successful POC is adding some sort of equity component to the terms of the collaboration. The MNC may ask for a warrant to purchase shares of the startup company, or the right to invest a predetermined amount of funds or an amount that will bring them to a certain percentage of the startup's share capital during the next funding round. In addition to having a slice of the pie in case of a distribution event, becoming a shareholder makes additional tools available to the MNC in order to ensure its advantageous position in pursuing future M&A or asset purchase opportunities. After becoming a shareholder, the MNC will often receive increased access to information, a right of first refusal, and perhaps even a seat or an observer position on the Board of Directors. These resources and benefits can greatly assist in fostering and maintaining a close connection with the company and its technology and pursuing relevant future opportunities more easily should they arise.

When setting out to create the POC Playbook, our goal was to synthesize the collective knowledge and real-life insights of many into a singular document. This included a comprehensive review of academic papers, articles, and reports by consulting firms, VCs, accelerators, and NGOs. It also included conducting hundreds of interviews from 46 startups and 26 MNCs over two years.

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About
Start-Up Nation Central

Start-Up Nation Central is a non-profit organization that connects Israeli innovation to the world in order to help international entities solve global challenges. Immersed in the Israeli technology ecosystem, we provide a platform that nurtures business growth, recommends policies, and generates partnerships with corporations, governments, investors, and NGOs to strengthen Israel's economy and society.

Start-Up Nation Finder is the innovation business platform for accessing innovative made-in-Israel solutions to global challenges and engaging with the Israeli tech ecosystem. Finder provides data insights and a way to connect to key industry players, enabling users to create business value through collaborations.

About
OurCrowd

OurCrowd is the online global venture investing platform that empowers institutions and individual accredited investors to invest and engage in emerging technology companies at an early stage. Acclaimed by PitchBook as the most active venture investor in Israel, OurCrowd vets and selects companies across all sectors and stages, invests its own capital, and provides its global platform of over 200,000 registered members from 195 countries with unparalleled access and freedom to co-invest from as little as $10,000 in the companies and funds of their choice.

Founded by CEO Jon Medved in 2013 with the vision of democratizing world-class venture capital investing, OurCrowd has grown rapidly into the world's leading online venture investing platform and as of 2021 has received over $1.8 billion in commitments, and deployed capital into more than 330 portfolio companies and 35 funds across five continents. To date, OurCrowd's startups have recorded 57 exits including several stock market listings: Beyond Meat, Lemonade, Innoviz, Hub Security; and numerous high-profile acquisitions: JUMP by Uber, BriefCam by Canon, Argus by Continental, Crosswise by Oracle, Replay by Intel, Corephotonics by Samsung, CyberX by Microsoft, and Kenna Security by Cisco. OurCrowd builds value for its portfolio companies throughout their lifecycles, providing mentorship, recruiting industry advisors, navigating follow-on rounds and creating growth opportunities through its network of multinational partnerships.