Global In-house Center's (GIC) next frontier
Making most of the tech startup ecosystem
April 2018
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Introduction

Technology is disrupting business models
Organizations are riding the digital wave and emerging technologies such as Automation, IoT, and Predictive Analytics that once seemed as hype are now rapidly becoming table stakes in most industries. This unprecedented manifestation of the digital technology and the new business models spawned by startups have caught many large organizations on the wrong foot. Organizations across industries are being forced to rethink their operational and competitive strategy to manage the onslaught of disruption.

Industry leadership is at stake
While organizations still feel that startups are no threat to their incumbency, the reality is that startups have become global forerunners in leveraging emerging technologies. The upheaval caused by some of the startups that have evolved in a very short time span into global giants such as Tesla, Airbnb and Uber are there for everyone to learn from. Organizations need to take decisions sooner to embrace the disruption or they could find that decision has effectively been made for them.

Emerging technologies are impacting GICs’ operations
Emerging technologies are already impacting the functions (Finance, HR, Procurement, IT, etc.) that GICs have been typically supporting for decades. The need of the hour is to identify newer capabilities and areas that could put them in the strategic orbit of the parent organization before becoming redundant.

Startups are at the forefront of leading the innovation agenda
Startups have become synonymous for innovative ideas, hyperactivity, passion, and appetite for disruptive vision – the traits many large organizations have on their wish list but only few had limited success in building them. Another aspect of startups is the inherent agility to move at a fast pace: try, fail, learn, implement and march forward. Further, startups are luring away the same digital talent that organizations are competing and striving to attract and retain.

GIC – Startup partnership could create a win-win proposition
Many large global organizations, who already have their GIC presence in India, could strategically use their GIC to partner with the burgeoning startup ecosystem in India to drive innovation. Prototypes can be developed by GICs in a relatively low risk environment and be replicated into the broader organizations. Few of the progressive GICs have already taken the lead to work with the Indian startups to jumpstart their innovation agenda. However, that’s just the tip of an iceberg. Huge potential exists for GICs and startups to collaborate given both the ecosystems have the scale and the complementing capabilities.

Working with startups requires an open, exploratory, and persevering approach
With approximately 5,300+ startups in India and growing, it could be a herculean task for anyone to navigate through the maze and identify the right partner. Few questions that we have been hearing from our clients on how they can work with evolving and maturing startup ecosystem:

a. What are the different options to engage with the startups?
b. What are the key considerations to select and onboard a startup?

Based on our experience, we have provided our perspective to answer the above questions. We believe that GICs, with their scale and process excellence capabilities, and startups with their speed, agility and innovative mindset could be a potent force for any organization to tackle disruption in this hyper competitive world.

Note: GIC is also known as Global Capability Center (GCC)
Technology disruption is outpacing the organizations’ ability to embrace change. Hence, in today’s world, being at the forefront of the technology is an elusive goal for most of the organizations. The emerging technologies such as Automation, Big Data Analytics, Machine Learning, and Blockchain coupled with different business models, spawned by startups globally, are redefining the way organizations operate and compete.

The new age unicorns are nimble and have the technology platform to adapt to fast changing business environment. E.g. Uber has developed its own Machine Learning platform which enables internal teams to seamlessly build, deploy and operate Machine Learning solutions at a scale1. Airbnb has created Data University to democratize Data Science and make data informed decisions1. Traditional functions offshored to GICs are not insulated from this disruption either. Most business functions continue to view lower costs as the primary driver for moving processes to GICs. However, other drivers such as expertise, higher quality and access to technology are gaining importance. Further, as organizations seek to leverage disruptive technologies, they expect a fundamental change in the offshore business model. Around 30% of the respondents in the 2017 Deloitte Shared Services Survey4 expect Robotics Process Automation to reduce the amount of offshore transactions will not be finalized unless categorized by the participating nodes, i.e. legal entities. Companies globally have developed in-house capabilities that can transform or even eliminate traditionally offshored operations. These technologies have the potential to improve efficiency, performance levels, and redefine how operations are performed. E.g., Chatbots like Amelia, which leverage Cognitive Automation technologies such as Natural Language Processing (NLP) can significantly reduce the need for Service Desk operators. Big data analytics and data visualization can monetize large quantum of business data generated by organizations. In Finance, the need for global intra-company reconciliations is likely to be eliminated entirely if an organization sets-up a Blockchain platform. All geographies would have access to a common decentralized ledger system, and transactions will no longer be finalized unless approved by the participating nodes, i.e. legal entities. Companies globally have developed in-house capabilities that can transform or even eliminate traditionally offshored operations. Facebook has developed a simpler and more efficient data center network architecture that can be managed with a small team. The network auto-remediates basic issues, learns new fixes, automatically reroutes in case of issues and provides heat maps and drifted down data for analysis5. Uber is using Machine Learning and NLP to improve the customer support services6. oMelhorTrato.com, an Argentinia-based credit firm uses Cognitive Automation to automate preliminary review of CVs of job applicants to save hours and reduce FTE requirements. Amidst this technology flux, GICs face the risk of becoming redundant in the larger organization. Some of the progressive GICs have established in-house innovation centers to ride this wave of disruption. These centers are transforming the way business operations are performed, e.g. Walmart Labs designs, prototypes and builds technology-fueled products7. Texas Instruments, which set-up its GIC in India in 1985 is now exploring disruptive technologies such as autonomous cars and electric vehicles8.  

Typically offshored functions in GICs are too getting impacted by the emerging technologies

![Figure 1: Current impact of key disruptive technologies in the typical offshored support functions](image1)

Impact of Disruptive Technologies on Commonly Offshored Functions

<table>
<thead>
<tr>
<th>Impact of Disruptive Technologies</th>
<th>Finance</th>
<th>HR</th>
<th>IT</th>
<th>Procurement</th>
<th>Contact Center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robotics Process Automation</td>
<td><img src="image2" alt="Impact Scale" /></td>
<td><img src="image2" alt="Impact Scale" /></td>
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<tr>
<td>Cognitive Automation</td>
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<tr>
<td>Advanced / Big Data Analytics</td>
<td><img src="image2" alt="Impact Scale" /></td>
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<td>Blockchain</td>
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<td><img src="image2" alt="Impact Scale" /></td>
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Source: Deloitte Experience

While rule-based automation is already decimating low-end offshored work, the other disruptive technologies available in the market also threaten to impact the overall value proposition of GICs.

Companies globally have developed in-house capabilities that can transform or even eliminate traditionally offshored operations

![Figure 2: Examples of Innovation Centers setup by GICs](image3)

<table>
<thead>
<tr>
<th>Year of Establishment</th>
<th>Operational Model</th>
<th>Technology Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesco 2004</td>
<td>Leverages third parties for traditional services; looks forward to engage startups for cutting-edge technologies</td>
<td>Big Data Analytics, VR and AR, Cloud, 3D Modelling, AI, Open Source, and Architecture</td>
</tr>
<tr>
<td>Walmart Labs 2011</td>
<td>Builds new platforms and software solutions to support e-commerce and store businesses globally</td>
<td>Advanced Analytics, Machine Learning, Mobility, Cloud, Open Source</td>
</tr>
<tr>
<td>Lowe’s 2016</td>
<td>Co-innovates through sub-contracting with startups</td>
<td>Machine Learning, AR/VR Tools, Robotics, Neuroscience</td>
</tr>
<tr>
<td>Mastercard 2017</td>
<td>Works with financial institutions and merchant partners on future technologies</td>
<td>Digital Payments, data solutions, financial inclusion, alternative payments, security</td>
</tr>
<tr>
<td>Invesco 2017</td>
<td>Engages local startups in building innovative products for its global customer network</td>
<td>Blockchain, Mixed reality, Big Data, Machine Learning, Fintech</td>
</tr>
</tbody>
</table>

Source: Deloitte Research
However, in our experience, GICs typically find it difficult to drive the innovation agenda. Set-up of the innovation centers requires a strategic outlook, support of the parent organization, a highly skilled team, enabling infrastructure, a clear roadmap and most importantly a fundamentally different organizational mindset. GICs in general are wired to drive the parent organization’s mandate of cost efficiency and scale play. Further, GICs have a talent pool that is adept to manage day-to-day operations. More often than not, getting value and best results from setting up an innovation center requires transformative measures and has a long gestation period (See Figure 3). Further, many GICs have found it difficult to attract, develop, and retain emerging technology skills. Alignment on segregation of responsibilities between GIC and the parent organization is another challenge that needs to be dealt with while setting up the center to avoid any duplication of effort. Slower decision making at the organization level also adds to the woes.

### Figure 2: Significant gestation period involved in set-up of an in-house innovation center

**Setting up in-house innovation centre**

- **Strategize and Plan**
  - Define the objectives of the Innovation Program and prepare the plan
  - Liaise with parent organization to drive innovation efforts
  - Set-up innovation ‘task-force’ to put the plan into motion

- **Set up Innovation Center**
  - Hire top talent with penchant for innovation
  - Set-up technical infrastructure and organizational structure
  - Nurture and encourage Entrepreneurial environment

- **Breakthrough / Discovery**
  - Achieve successful outcomes against innovation attempts
  - Identify new service investments in collaboration with BU / functional lead
  - Pitch for new product and service offerings

- **Mature Growth**
  - Understand the market offerings in innovation and identify future opportunities
  - Develop innovation center’s own brand within the organization
  - Build eminence through thought leadership

### Time Duration (Approx.)

- 3-6 months
- 6-12 months
- 12 month onwards

Source: Deloitte Experience
Startups have become synonymous for innovative ideas, passion, and appetite for disruptive vision. Many large organizations have these traits on their wish list but only few had limited success in building them. Startup organizations are typically light-structured and have flat hierarchies, enabling them to work in a nimble and agile manner. Eric Ries in his book “The Lean Startup” highlights that what makes startups so powerful is an ability to create a “minimum viable product” which helps activate build-measure-learn loop. They possess an inherent agility that lets them move at a fast pace: try, fail, learn, implement and march forward. Startups are also able to secure a rich source of skilled talent. Startups offer a sense of freedom and excitement in their working style that large corporates are not able to provide. Further, many startups, backed by venture funding, offer attractive compensation packages that are at par or even exceed the traditional compensation packages. This enables startups to lure away fresh digital talent that large organizations strive to attract and retain.

There are over 5,300 startups in India that employ over 100,000 people. Startups are also growing in scale: 13% of the startups founded in 2012 have more than 100 employees. Startups continue to secure significant funding, having received USD 1.8 billion in first half of 2017. Of these USD 1.8 billion, 31% of the funds have been secured by B2B startups15.

Of the 5,300 startups in India, several are focused on or leveraging technologies such as Advanced Analytics, Cognitive Automation, Machine Learning, IOT and Augmented Reality. In addition, a host of industry specific startups have also cropped up in the past few years that can directly contribute to companies’ revenue through new product offerings.

“Look at the thinking power of these guys [local entrepreneurs]. Our primary reason to engage with the startup ecosystem was to expand our network of ideas.”

- Jagdish Mitra, Tech Mahindra20

**Startups in Action**

- **Analytic edge**, a startup founded in 2012, leverages Machine Learning and industry knowledge to offer a cloud based analytics solutions in marketing and sales effectiveness. The startup supports several Fortune 500 companies globally16.
- **Fluid AI**, founded in 2009, uses Artificial Intelligence and Big Data analytics to offer business intuitive user experiences and data analytics. It aims to mimic human interaction with the customer and reduce operational costs. Its clientele includes Barclays, Bank of America, Toyota, Intel, and Rolls Royce17.
- **NIKAMAI**, a startup in Healthcare industry, is developing analytics software to detect breast cancer. The startup builds low-cost, automated and portable solutions of cancer screening with the help of advanced technologies such as machine learning, thermal imaging and artificial intelligence18.
- **GreyOrange**, founded in 2011, provides automated warehousing sortation and management system. Its clientele includes Mahindra & Mahindra, Kerry and DTDC19.

**Figure 4: Number of startups operating in different areas and technologies**

<table>
<thead>
<tr>
<th>Startups in India operating in Disruptive Technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytics</td>
</tr>
<tr>
<td>61</td>
</tr>
<tr>
<td>Augmented/Virtual Reality</td>
</tr>
<tr>
<td>42</td>
</tr>
</tbody>
</table>

Source: Startup India Website
Partnering with startup ecosystem in India can help GICs drive the innovation agenda and at the same time get a jumpstart by shortening the “Strategy and Setup” phase (see figure 5). Working with startups could put GICs in the strategic orbit of their parent organization, if GICs adopt the right approach and are clear on their innovation objectives. And, this opportunity could not have a better timing, when India is emerging as one of the top five leading countries in the world among tech startups[^21] and continues to mature as a startup hub. The key guiding principle to keep in mind is that startups could be used to help with specific use cases. If there are multiple use cases to solve, then ecosystem of startups could be potentially leveraged to solve the complete business problem.

Through GICs, startups can leverage the parent organization’s scale, domain expertise, and access to subject matter experts to accelerate their operations and create a more refined, ready to market product.

GICs and startups can complement each other to push the boundaries of innovation in their quest to leapfrog and remain ahead of the competition.

Further, given the large number of startups focused on developing industry specific solutions, GICs can not only innovate in their existing operations but also contribute directly to their organizations’ revenue. Solution prototypes can be created in the GICs’ environment, and be shipped to the larger organization.

“Working with startups helps us to reduce the product development life cycle. It also enables us in the long run to look at future possible solution for the problems that the organization did not foresee”

Procurement Leader, GIC, European HealthTech company

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[^21]: Source: Deloitte analysis

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Figure 5: Startup partnership helps to propel in innovation journey

<table>
<thead>
<tr>
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Source: Deloitte analysis
Engaging with Startups

If there are merits for GICs and startups to work collaboratively, how can GICs engage with startups to drive the innovation agenda? The right option is dependent on the criticality and urgency of solving the business problem. Let’s delve further and look into the possible options that could be considered by GICs to collaborate with the startups.

A. Selecting the Startup Partner through Market Scouting

When GICs have identified a business problem and require the solution immediately, they can find the right startup partner through their own network or by market scouting. Various sources could be used to prepare a list of startups that could potentially address the business problem. The shortlisted startups are then evaluated based on certain criteria. Finally, a Proof of Concept or pilot run can be conducted to validate the selection.

Let’s take a look at the three-step selection process (refer Figure 6) that can help select the startup partner.

1. Scout

GICs could start the search for a startup partner once the business problem and relevant technology requirements are finalized. Market scouting is the preferred approach when the problem is prevalent across the industry and potential startups have the subject knowledge and are working on similar problems. However, with many startups entering the ecosystem, searching for the right partner can be time and resource consuming.

Scouting avenues include research, crowdsourcing and other incubators / accelerators

GE turned to its crowdsourcing platform Fuse to augment an analytics solution for its machine parts. It received 40 applications and eventually selected three prize winners, two of which were from India. 22

GIC of a European Technology Company was looking for a startup partner. It conducted secondary research and tapped into the network of its senior leaders and an internal procurement database of startups.

Scouting for Startups

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• GIC of a European Technology Company was looking for a startup partner. It conducted secondary research and tapped into the network of its senior leaders and an internal procurement database of startups.

Figure 6: Three-step startup selection process

1. Scout

Finalize the business requirement and initiate the search for the potential startup partner

2. Select

Select the startup from the list based on
• Problem relevance
• Solution Maturity
• Ability to Execute
• Business Model
• Operating Status

3. Substantiate

Run a pilot program/POC to validate the selection

On-board the selected partner

Source: Deloitte analysis
More than one approach may be required in this search for a partner. Search options could include research from the press, publications and other online sources, approaching incubators / Accelerators, obtaining inputs from vendor partners, personal network. Another approach is to opt for crowdsourcing. Crowdsourcing is a good option for GICs when the required expertise is scarce and the solution cannot be easily found.

At the end of scouting activity, a short-list of startups is prepared which contains all possible startups working in the same area as that of the GIC’s business problem.

2. Select

The next step is to select a startup from the short-list identified during the Scouting phase. Many startups with similar ideas and approaches aligned to the business problem may come up in the initial list. Keeping the business requirements in mind, filter out the non-relevant startups. In this step, detailed comparison of the startups is performed and a suitable candidate with relevant technological solutions and potential strategic synergies is selected. A brief startup profile based on the shortlisting criteria (refer figure 7) is prepared.

Problems Relevance
The key to evaluating a startup is to understand the effectiveness of its solution and the ability to fit into other aspects of the GIC value chain. To ensure this, a GIC needs to have a clear definition of its problems and how these may evolve in the future. While a startup may resolve the problem in the short-term, it is also important to understand how startups can adapt to changing problem statements. Another criterion that could drive the shortlisting decision is the startup’s ability to resolve multiple problems with one solution. The solution offered may not only be for the existing problem, but also help implementation in such a way that it will assist the GIC in the long run.

Solution Maturity
The startup partner needs to be able to scale its solutions to serve the GICs if needed. New solutions may require technology integration, resulting in extensive change management, however, it is important to verify the compatibility of technology used by the startup with the GIC’s own technology stack. An incompatible partnership could cost more in technological migration than the potential benefits of the partnership.

Ability to Execute
Startups typically have a very good understanding of the emerging technologies. However, it is important that the startup partner has a good understanding of the market and provides innovative solution to solve the business problems. A startup’s ability to develop and execute the solution is also judged by looking at the clients they served successfully.

Business Model
Looking at the customer segments targeted by the startup can help the GIC measure the likelihood of the success of its service offerings. Startup's willingness to experiment helps them understand the changing consumer preferences. This understanding enables them to try new business models. Examining existing service offerings of the startup may help to expand the core business offerings of the GIC and its parent organization.

Operating Status
Many nascent startups do not have full time employees or their founders do not commit their entire time to development of a single product. Unavailability of the funds or full time staff may derail the startup’s operations and partnership can become unviable, hence, a GIC must have a clear view of the startup’s capital funding and operating status.

GICs could assess the importance of these parameters (refer figure 7) in the context of their organization and the problem at hand and accordingly allocate parameter weightages to select the right startup.

3. Substantiate the selection

Once a startup partner has been zeroed in on, a Proof of Concept or pilot program could be run with the startup partner to confirm the compatibility of technology and business models.

Proof of Concept helps to ascertain the feasibility of the technology/ solution, bridge the knowledge gap, and familiarize with technical specifications.

Pilot run helps to test the technology in a production environment, and see what a technology implementation may look like. It helps to figure out how the product/ feature will be achieved and obtain early user feedback.

B. Setup Accelerator or Incubator Program

Setting up Accelerators or Incubators helps to align innovation attempts with the overall business strategy. Such programs allow GICs to partner with startups working in areas that organizations wish to focus on. This approach is preferred when the organizations are not looking for an immediate solution, but wish to concentrate on mid to long term opportunities and their goals are defined at a high-level.

Accelerator functions as first step towards taking account of emerging technologies. They provide access to early stage innovation in economical, faster, and flexible manner. Under such programs, B-12 early-stage startups are invited to participate. Startups are provided office infrastructure, access to technology, business and technology mentorship, access to customers and investors for duration of the program, which typically ranges from 3 to 6 months.

E.g, Shell has set up its accelerator, Shell E4 in which selected startups would work with the company for 6 months. Barclays has set up ‘The Rise Accelerator’ in Mumbai to mentor and guide Fin-tech startups.

“We continue to evolve the incubator program...We want to come to the table and say we are partnering in your success...It is just a natural evolution”

Chandramouliswaran V, PayPal

Figure 7: Illustrative list of parameters to identify the startups

Problem Relevance
• Is the technology startup’s product or service addressing a need of the customers?
• How many problems does it solve?

Solution Maturity
• Is startup’s solution scalable?
• Is it easy to integrate with GIC’s existing technology?
• Is the solution unique?

Ability to Execute
• What is the depth and breadth of startup’s technical expertise?
• Does it have an understanding of the market?
• How many clients has it served successfully?

Business Model
• Does the technology startup have a value proposition and market offering that are unparalleled?
• Is the business model easily replicable?

Operating Status
• How many full time employees work with the startup?
• Will the startup be able to attract enough capital and revenue to operate successfully?

Source: Deloitte analysis

Figure 8: Benefits of Accelerator to the startups
Economic outcome of such engagements generally takes the back seat. Companies are more interested in learning and exploring the new technologies rather than gaining from future increase in the startup’s valuation.

The engagement model with the startups selected for an accelerator program varies among organizations. A global FMCG giant prefers co-development model while working with the startups. They like to invest time and effort of their own personnel in hope of new addition to their product portfolio or achieve technological breakthrough. Another retail company, however, restricts its involvement to provide domain knowledge and expertise to the startups.

Organizations today are in the search of ideas that have disruptive potential and can provide exponential business opportunities. Startups are a great source of innovation and can help to find innovative solutions for business problems.

GICs have an imperative to move away from their ‘doer’ role to ‘thinker’ role. In the fast-paced technology-driven competitive environment, working with tech startups is likely to serve as a catalyst to identify new growth avenues, boost competitiveness, set up industry standards, and help foster innovation economically.

Before onboarding the startup partner, GIC needs to define clear objectives that align with its parent organization’s overall business strategy. Startup and GIC need to agree on those objectives to have a common business goal, leading to a successful collaboration. Further, GIC must make the startup partner aware of the desirable outcome from the relationship to channelize the startup’s focus and effort in the right direction.

Once the objectives and outcomes are mutually agreed upon, GIC should focus on connecting the startup with the right people in the organization and actively encourage the collaborative behavior. Governance, processes, and KPIs need to be tweaked for the startup partner to adapt to an entrepreneurial style of working. When dealing with startups, the burden of onboarding shifts substantially to the GIC, which in-turn needs to tick all the right boxes for a successful start to the collaboration.

These are interesting times for Indian GICs. Rewards of working with a startup are exponential, however, GICs also need to be prepared to embrace failures in this journey and continuously strive to experiment and explore new opportunities. With a well-crafted risk mitigation approach, GICs would ultimately be better equipped to manage disruption, take right decisions, and continue innovating.

Conclusive Remarks

“Target’s startup accelerator program in India has been around for five years. Last year, the largest batch of the startups graduated from the accelerator. This demonstrates the success of the program and how an increasing number of business teams are engaging with startups to find innovative solutions”

Abhay Tandon, Lead Program Manager, Target Accelerator Program (India)

Source: Deloitte Point of View

Figure 9: Cohort in an accelerator program

How does a ‘Cohort’ in an accelerator program function?

Applications
- Finalize ‘Focus Areas’ for the cohort
- Invite the application from startups working in selected ‘Focus areas’

The Pitch
- Screen the applications and invite selected candidates to ‘Pitch’ their idea
- Evaluate the pitch and invite 8-10 startup to participate in the accelerator program

Program Kick-off
- Provide office space and tech support to the participating startups
- Connect with SMEs, share domain knowledge and provide access to customers and partners

Demo Day
- Provide opportunity to present to industry experts and strategic partners at the Demo Day
- Connect the startups with investors

Conclusive Remarks

“We didn’t do anything wrong, but somehow, we lost”
– Stephen Elop, ex-CEO, Nokia

“Target’s startup accelerator program in India has been around for five years. Last year, the largest batch of the startups graduated from the accelerator. This demonstrates the success of the program and how an increasing number of business teams are engaging with startups to find innovative solutions”

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Netvorks

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Let’s talk

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