# Partnering for Innovation and Growth

By Douglas Ferguson

*Like HP and Apple, more and more companies are discovering what bridge players, square-dancers and WWF tag-team members have known for years: It's easier to win with a partner.*

In January, 2004, Apple and Hewlett-Packard made an announcement at the Consumer Electronics Show in Las Vegas that startled even "seen it all" industry insiders: The longtime Silicon Valley rivals would be teaming up around Apple's wildly popular iPod portable music player. In an exclusive, multi year partnership, HP would soon begin to sell an iPod version bearing its own brand (and signature blue color, as opposed to Apple's trademark white). It would also pre-install Apple's iTunes jukebox software on its consumer PCs and add a desktop icon pointing customers to the iTunes online music store.

The deal represented a significant departure for both firms: Apple, the stubbornly self-enclosed niche player, was for the first time allowing another company to put its name on a product it had designed and a company firmly embedded in the Wintel mainstream, no less. For its part, HP, the world's second-largest computer maker, was declaring its independence from (and risking the wrath of) its longtime software partner Microsoft. But each clearly felt it had more to gain than lose. The collaboration would provide Apple (whose CEO, Steve Jobs, had once expressed ambivalence about coming out with a Windows-friendly iPod) with a major new sales, marketing and distribution channel for its breakthrough product. For HP, which had recently abandoned attempts to build its own, better-than-iPod player, the alliance would fit squarely with the firm's new "focused innovation" strategy -- described by chief strategy and technology officer Shane Robison as "investing in technologies where we can lead and partnering for the rest."

Like HP and Apple, more and more companies are discovering what bridge players, square-dancers and WWF tag-team members have known for years: It's easier to win with a partner. Partnering in recent years has emerged as an increasingly critical competitive competency for any firm that aims to drive sustainable growth through innovation. In fact, it may not be an overstatement to assert that the success of innovative companies hinges on the quality and longevity of their collaborative relationships. In the face of shrinking product development cycles, rising development costs, rapid technology changes and increasing customer sophistication, innovative companies recognize that they can't go it alone. So they build extended networks of partners, sources and suppliers to capture emerging opportunities by acquiring and leveraging competences and by accelerating technology transfer and the pace of commercialization. They understand that effective collaborations allow them to reduce costs, increase innovation, deliver more value to customers and create sustainable competitive advantage.

Innovation leaders also recognize that partnering can be as powerful a tool within enterprises as between them. That building project-oriented networks across continents, divisions, departments, buildings or just cubicle walls can produce many of the same benefits as external partnering, and help any organization to maximize return on its assets. And that the "extended individual" is just as important as -- indeed, is a crucial building  block for -- the extended enterprise.

But creating positive, powerful relationships, either internal or external, one-on-one or firmonfirm, requires hard work and open minds. The mutual trust and respect, long-term orientation and commitment to creating a "winwin" environment that characterize successful collaborations often clash with a company's existing hierarchical structure and culture, and can be painstakingly difficult to achieve. Yet precisely because they demand so much effort and attention, relationships that are carefully nurtured to productive maturity become a powerful asset -- one that is extremely difficult for others to copy.

So just how does a company (or a division, department or individual manager) go about "winning with friends" and becoming a "partner of choice?" How does a firm begin to develop the capacity to attract and retain a network of relationships that will give it a first shot at the best ideas and market insights? How does it decide where and when to partner, and how to execute fair and equitable agreements that lay out specific outcomes and reasonable yardsticks of performance? There are no boilerplate answers; partnering, like innovation itself, is as much art as science. But through our many years of practice and research, we have gathered some valuable insights into how and why collaborations succeed.

## MAKING THE MOST OF WHAT YOU'VE GOT

An organization's ability to craft productive "win-win" relationships often begins with its ability to think creatively about the assets that it can bring to the table and how it can "market" them to potential partners. Companies tend to have more resources that are of value to others than they realize; examples include access to international operations; market research; and supply-chain efficiencies that can help a partner to both grow its business and execute against a particular transaction. Thus, an important first step to attracting partners is taking inventory of one's entire asset base--including not-so-obvious resources such as technology systems, outside networks, etc. that may be quite helpful to potential collaborators.

But it is not enough for companies simply to identify those capabilities; they must present them to potential partners in much the same as they would introduce a product or service to market. In other words, select target segments; tailor an offering; state the value for all parties; and follow through to exceed expectations.

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One company that aggressively markets its partnering capabilities is Bristol-Myers Squibb--as just a quick glance at its website will attest. The site's top level navigation includes a robust Alliances section that details the firm's partnering assets (from clinical and regulatory expertise to marketing and sales to logistics and supply); enumerates its criteria and guidelines for evaluating, negotiating and managing potential deals; introduces its Alliance Management Group leadership team; offers case studies of successful partnering projects; and even features its own "Together We Succeed" logo. It's no accident, it seems, that Bristol-Myers Squibb has built four $1 billion-plus partnerships in the last decade alone, including collaborations with NCI (for cancer drug Taxol), Sanofi-Synthelabo (for platelet inhibitor Plavix) and Sankyo (for cholesterol-reduction drug Pravachol).

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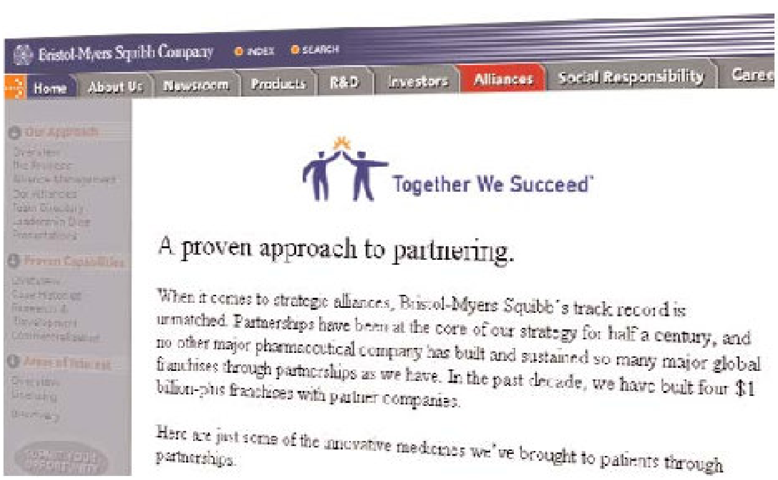


## COLLABORATIONS NEED SUPER COACHES, NOT SUPERSTARS

Many people assume that productive collaboration is restricted to high-performing companies or individuals. But the truth is, you don't have to be the biggest to be the best. Second-tier competitors are often more flexible and less bureaucratic than their larger counterparts when it comes to identifying future partnering opportunities and negotiating to make them happen. Thus, in many cases, the value proposition they can offer to potential partners is actually more compelling than that of their bulkier counterparts.

In fact, partnering can sometimes be looked at as a means of maximizing the performance of average players (whether companies, internal departments or individuals) who are put in exceptional situations in which their capabilities are tapped in combination with others. Viewed through this lens, partnering depends to a great extent on careful, thoughtful management: the ability to stimulate collective competences and put the collaboration--and individual collaborators--"in a position to win." (To extend the sports metaphor: Is there any better example of internal collaboration than this year's Super Bowl contestants, the New England Patriots and the Carolina Panthers? Neither was laden with superstars; neither was the best team in its conference "on paper." Yet both drew on values of selflessness, sacrifice and teamwork--orchestrated by savvy, strategic coaches--to wring the greatest possible value from the interaction of their individual assets.)

In order to build winning inter- or intra-company collaborations, leaders first need to analyze the various participants' needs and capabilities, so that they gain a deep understanding of both the value that individual relationships can create and the best ways that members of the network can work together to create that value. They need to deploy the collaboration network's resources flexibly, in order to maintain a fine balance between different functional (as well as internal and external) alternatives. And they need to actively manage the network: Because all network elements are rarely in play at the same time, networks whose leaders can retain dormant members' interest and attention (by means of a targeted communication program, for instance) are typically betterpositioned to respond quickly to changing market conditions.

Senior management support and coaching is critical to the success of any partnering campaign. As Tamar Howson, SVP Corporate and Business Development at Bristol Myers Squibb notes, "The support for partnering has to come from the very top of the organization. Only when senior management believes that working in partnership capitalizes on the best both partners offer and delivers results, is the partnership is successful. From a broader perspective--at least in the pharmaceutical industry--partnering has the potential to eliminate overlaps and ultimately reduce the cost of developing drugs."

**Companies improve position by:**

- Directing relationships--focus on value created, longer term goals, short term successes
- Integrating partnering into the business planning processes
- Contributing noncore assets to relationships
- Leveraging corporate investments in communications and IT infrastructure
- Changing organizational models predictably
- Disseminating performance metrics throughout the organization
- Expanding relationships beyond the original contact point

## LOOSELY COUPLED, TIGHTLY ALIGNED

If it's hard for any single individual, department or company to anticipate and plan for the future, it's exponentially more difficult for a network of partners from different organizations (or even different parts of the same organization) to do so. As a result, we have found that the most effective collaborations eschew detailed rules and guidelines governing future behavior in favor of a strong foundation of common purpose and fluid relationships that can readily adapt to mercurial business and market conditions. In other words, the best partnerships result from a flexible yet focused partnering strategy that is, as Sun Microsystems CEO Scott McNealy puts it, "loosely coupled and tightly aligned."

Thus, it is important that collaborative roles and responsibilities not be overly prescribed, and that formal collaboration agreements be broad and flexible enough to allow partners the freedom to act in ways that could not have been anticipated at the onset of the relationship. Another key to ensuring flexibility: Clearly define and constantly reinforce collaborative values (such as shared decision-making norms, a preference for growth over productivity, or the goal of defeating a common foe) in order to create sharp focus and allow for quick, decisive responses to fast-changing conditions. Continual intelligence-gathering and intelligence-sharing among partners also facilitates quick--and smart--on thefly decisionmaking.

Intelligence, flexibility and shared values in internal partnering helped Clorox to mount a swift, successful response to rival Proctor and Gamble's 2001 launch of the innovative Swiffer WetJet mop, which sprays water on floors and cleans with a disposable cloth. Not only did Clorox get its own version of the product, called ReadyMop, to market within a remarkable four months, but aggressive pricing and marketing quickly propelled ReadyMop to category leadership. It became Clorox's biggest new product ever and placed among the top 10 package goods launches of the 21st century to date.

"It sounds simple, but from day one, all of the key stakeholders were at the table together," says Christine Vickers, director of ReadyMop marketing for Clorox. "From Research and Development to Product Supply to Sales and Marketing, everybody realized the magnitude of this launch and knew that no single group could take it on."

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## STRATEGIC FRIENDSHIPS

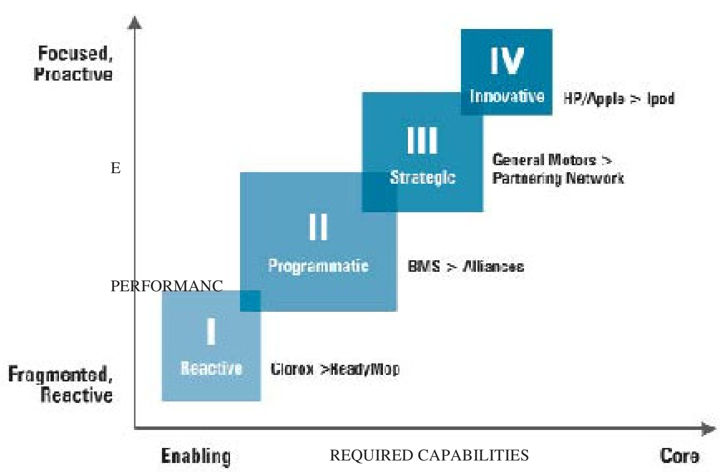
Most companies carefully weigh the strategic implications of both their choices to partner and their partnering choices. As well they should: After all, partnering strategies represent a longterm investment whose earnings rarely accrue in the current business cycle and, in any case, can be a challenge to quantify. Partnerships often occupy critical portions of R&D budgets, product components, manufacturing capacity, channel access and brand support. Capitalintensive companies may be forgiven for thinking twice before placing big bets on what seems like a long-range and risky strategy.

And yet, there is an undeniably powerful strategic imperative for partnering:

- Partners can be used proactively, to supplement incomplete skills or fill capability gaps.
- Partners can be used provocatively, to thwart competitors by locking up sole sources of technology, proprietary access to customers or use of limited production capabilities.
- Partners can be used prospectively, as assets to increase a company's strategic options and generate insights and innovations that would not otherwise have been possible.

A company's (or department's, or individual's) choice about the relative balance of different partners in these three categories represents its partnering portfolio. And its partnering portfolio, like its financial portfolio, must balance strategic options with considerations of timing and riskmanagement. At the same time, companies must recognize that partnering carries hidden, ancillary benefits that, over time, can prove to be nearly as significant as the primary strategic goals: benefits such as a more flexible corporate culture, and, at the individual level, more expansive personal knowledge and networks for managers.

PARTNERING FRAMEWORK




General Motors is an example of a company that appreciates the strategic value of collaboration. GM recognizes that innovation is the key to winning in an increasingly competitive marketplace. Yet like many multinational giants, GM faces the challenge of developing world-class innovation capabilities with only marginal expansion of its internal R&D resources. To meet this challenge, the company has moved to develop a global R&D network of collaborators and partners, combining newly established labs in such emerging knowledge centers as India with an increasing number of research partnerships with universities around the world. The carmaker hopes that this partnering network will expand its technical capabilities and help it respond with the creativity and speed needed to maintain its leadership in strategically important technologies.

Strategic alignment is an important consideration, and alliances are usually sought to fill competence gaps and accelerate time-to-market. But unlike most companies, which tend to partner with suppliers in technology ventures and sourcing activities, innovative companies differentiate themselves by partnering up and down the value chain  not just with suppliers, but with customers, competitors and other industry participants. By stepping outside the usual bounds of collaboration, innovative companies derive value from accelerated commercialization, as well as from technology venturing and sourcing.

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Today's (and tomorrow's) hyper-competitive, fast globalizing, increasingly commoditized business environment virtually guarantees that collaboration strategies will become more and more common. It is becoming harder and harder for any one company to "do it all"; increasingly, firms will concentrate on a handful of core competencies and innovatively collaborate on the rest. Even competitors will look to leverage each others' specialties; witness the aforementioned archrivals Clorox and Proctor & Gamble, which recently entered into a joint venture that marries the former's strong brand (Glad) with the latter's technology to apply to bags and wraps. Though challenging in many arenas (consider the corporate-culture and intellectual-property issues alone!), such arrangements are likely to proliferate. And the ongoing development of more sophisticated online collaboration tools such as WebEx, SharePoint/Groove Networks and Centra will help partnering relationships of all kinds to start, run, and survive changing personnel more smoothly.

The bottom line: Partnering, whether with competitors, allies, or other segments within the same enterprise, is emerging as a key strategy to ensure sustainable, innovation fed growth. Those companies that embrace its full potential are likely to thrive. Those that choose to ignore it do so at their peril.

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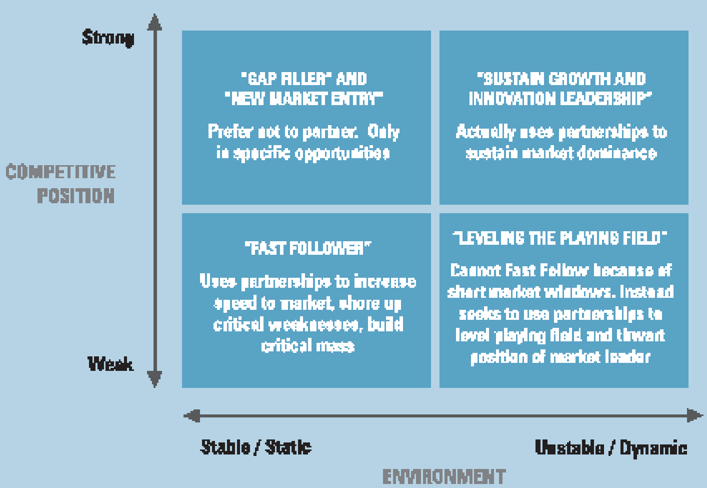
**A Study and Framework**

In 2003, Mr. Ferguson conducted in-depth, discussions with senior executives from 18 global companies regarding how they use partnerships to support innovation. Those discussions yielded the following insights:

- Across and within industries, companies have identified strong partnering capabilities as an increasingly critical competency. However, while some participants indicated that they have an explicit partnering strategy, many others conveyed a topical or cursory approach.
- Participants appear to have passed through several distinctly different phases while developing their partnering capabilities. Although development inside each phase was incremental, moving from one phase to the next was always accompanied by radical change.
- Strategic partnering requirements differ by industry and by specific situation. The role that partnering plays in each individual company ranges from being a core competency to being strictly ad hoc to address a specific capability gap.
- Achieving a higher phase of partnering than the rest of the competitive field can result in sustainable competitive advantage. Tracking the partnering capabilities of the competitive field is a valuable way to discover opportunities or warning signals at an early stage.
- Most companies link their partnering strategies to their corporate strategy, whereas innovation leaders ensure alignment and linkage with relevant products and markets and innovation platforms.
- Each participant's partnering objectives are related to its competitive position and environment (market, product, industry, etc.).
- Over the next five years, supporting the overall strategic imperative is expected to become a more important partnering objective than achieving opportunistic revenue growth.
- Participants reported that, although seldom the initial objectives of a partnership, more innovative cultures, enhanced flexibility and accelerated innovation have often proved to be among the most substantial benefits of collaborating. In response to this insight, some participants have begun to reverse-engineer partnerships in order to achieve these "secondary objectives."
- A variety of external and internal pressures ranging from technology convergence to reduced R&D budgets drive companies to increase their emphasis on partnering.
- Each organization identified certain "permanent and recurring barriers" against partnering that need to be explicitly recognized and continually managed.
- Failure to identify and address the barriers to partnering often results in "partnering paralysis." Culture and metrics are critical levers to overcome organizational resistance.

The analysis suggests four distinct phases of partnering to support corporate innovation, which are represented graphically below. Although development inside each phase was incremental, moving from one phase to the next was always accompanied by radical change.




PARTNERSHIP MANAGEMENT PROCESS -- STRATEGIC FORMATION

For each individual participant, the objectives pursued through partnering are related to its competitive position and to its environment (market, product, industry, etc.)