Arthur D Little PRISM

Partnering for success in the digital era

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Company growth strategies are facing headwinds. Competitive visibility and market predictability have fallen to an all-time low in the digital era, while volatility and disruption, in parallel, have risen to an all-time high. Finding and harnessing growth opportunities in today's digital business environment is therefore a tall order.

The traditional make or buy models for driving growth are being disrupted by digitalization, which is putting the focus on partnerships as a growth strategy for businesses. This article explores what this means for companies and outlines the skills and processes they require to successfully embrace partnering in the digital age.

Historically, growth was commonly achieved via either a make or a buy model. However, digitalization disrupts these two growth paths. Risk levels are higher today, particularly concerning capital and competence needs, and time-to-market expectations are high. Digitalization, however, strengthens the case for the partnership model, making it a more relevant and powerful growth vehicle. However, managing partnership lifecycles successfully requires different and more demanding skill sets from CXOs and boards alike. Does your company have what it takes?

A mix shift in growth practices

In previous industrial eras the pipeline business model prevailed. This focused on building supply-side economies of scale, enabled by capital-intensive capabilities and networks. Markets, customers, technologies, and competitors were predictable and relatively slow moving. To generate additional volume, prices were lowered, which increased competitiveness and demand, thereby creating a reinforcing cycle. Make and buy models made sense in that environment. The digital era has brought with it disruptive technologies, ecosystem-like markets and platform business models.

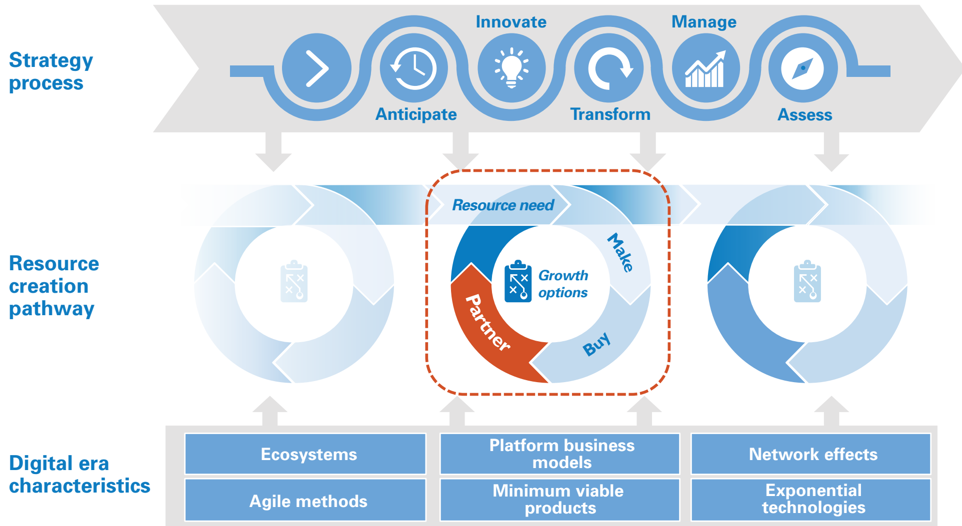
Each of these have profound implications for businesses in virtually all industries. The platform model, which creates and harnesses large, scalable networks of producers and consumers, is becoming dominant in many industries, such as technology services. Platform business models have been enabled by an exponential increase in the number of internet users, smartphones and cloud-based services, as well as a rapid decrease in the cost of storage, computing power, bandwidth, and software development. The result has been new competitors appearing overnight, even in market segments such as financial services and retailing, which were previously protected by high entry barriers.

In this context, we believe that there is a mix shift in growth models, in which partnering[1] is becoming a more important strategic growth vehicle relative to traditional make or buy options.

The increasing relevance of partnering for growth

Once corporations have decided on their strategic ambitions and objectives, the question, “How do we get there?” is the obvious next step. In the digital era, the strategic decisions related to resource creation have morphed from being relatively infrequent yet extensively analyzed, to becoming part of an agile corporate strategy process, as illustrated in Figure 1.

1. In this article our definition of “partnerships” and variations thereof includes a wide range of collaboration formats, such as joint ventures, alliances and partnerships, with and without equity stakes.



Source: Arthur D. Little

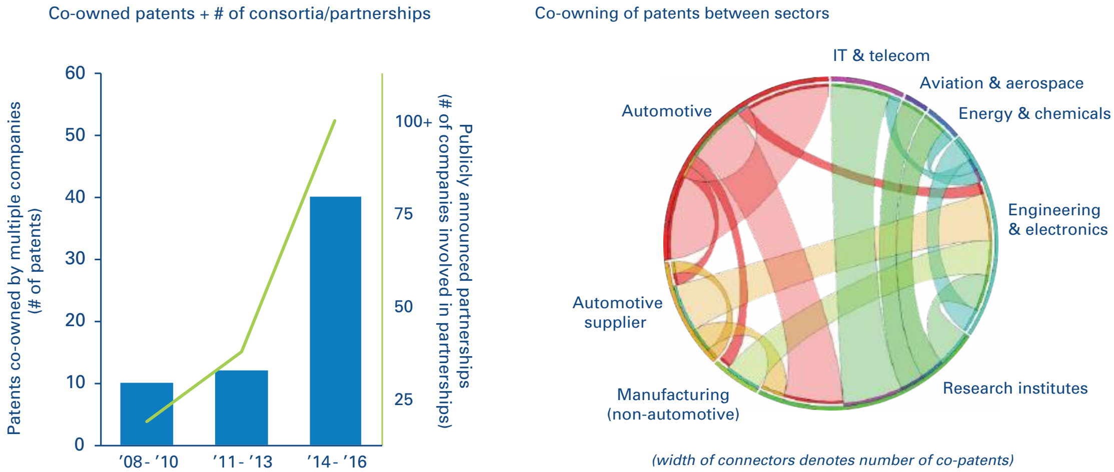
Figure 1: **Agile corporate strategy process in the digital era**[2]

In parallel, platform business models, network effects and lighter regulation have collectively created a "winner takes all" outcome in multiple industries, notably the tech sector. This is increasing momentum for stricter regulation of big tech through consumer protection legislation (e.g., the General Data Protection Regulation in the EU), and has sparked a debate concerning reduction of market dominance ("trust-busting") in the US and beyond.

Increased competition in and across industries means competencies and other key resources will be more widely distributed across players than they are today. This makes partnerships a more attractive vehicle for creating and accessing the scarce strategic resources needed for growth.

The increase in the number of partnerships is supported by data from a recent article from Arthur D. Little in Prism H1 2017, "Ecosystem innovation – The growth of hyper collaboration in a fast-moving world". Figure 2 shows partnerships and patent sharing among and between sectors.

2. Industry sources, Arthur D. Little analysis



Source: Arthur D. Little

Figure 2: **Partnerships on the rise – co-owning of patents**

The following contemporary partnerships (in this case, all JVs) are manifestations of the above, all conceived in the context of the digital era.

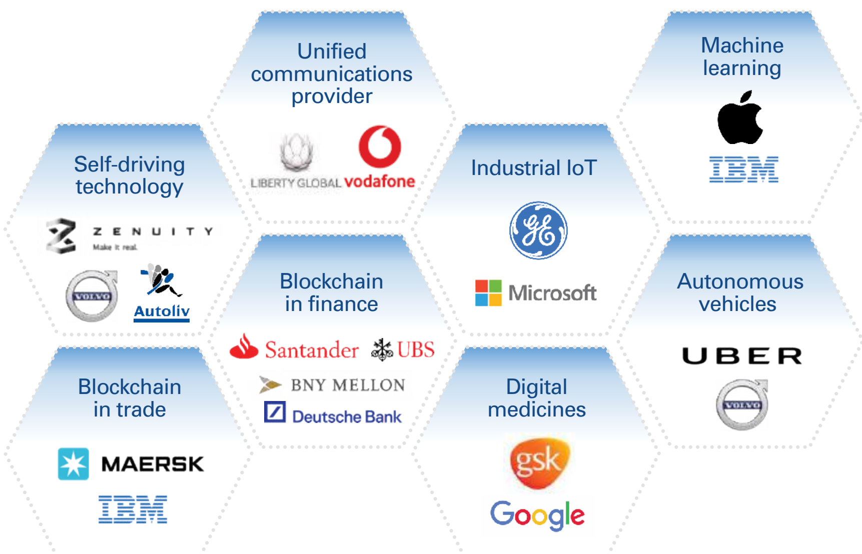


Figure 3: **Examples of contemporary JVs within and across industries**[3]

So, having laid out the case for increasing the use of partnering – what are its key success factors in the digital era, and how do they differ from those of the past?

3. Industry sources, Arthur D. Little analysis.

New imperatives in partnering

Most partnership frameworks, and the skills involved in executing them, were developed during the pre-digital era, and now need to be overhauled to become fit for purpose.

Our research and project experiences have been distilled into the following five key imperatives, which will help you succeed when planning and executing partnership life cycles in the digital era:

1. Co-create your minimum viable product equivalents

In traditional acquisition/divestment processes, each party naturally seeks out the best deal. Over time, companies gain deal experience and learn what to look for, where to probe, whom to bring to the negotiating table, etc. This collectively results in better deals and improved post-deal performance. However, in partnerships, success only comes when both sides contribute and benefit; the establishing process must render trust. Partnerships, for this reason, require a different mind-set and working style. Historically, deal teams brought their internally created visions and business plans to the table, after which prolonged debates and negotiations ensued to stitch the inputs together into cohesive partnerships.

In the digital era, companies have less time to strategize, plan, execute and iterate. This impatient nature and sense of urgency are multiplied in partnerships, in which a greater number of stakeholders are expecting more in terms of results. Deal teams are therefore well advised to co-create in an agile, focused, and explorative fashion. Establish a joint deal team, and task them with crafting the partnership's vision, strategy, business plan, and operating model. Avoid wasting critical resources and time on attempting to plan how to hit moving targets, which is what markets and competition in the digital era essentially are. Rather, set tight deadlines and ensure multiple sprints while focusing on a minimum viable product level. Details can be worked out post-deal, as circumstances may have altered. The team's minimum viable product output will be scrutinized and hardened in due course, but a disciplined focus on an appropriate granularity level is key to maintain momentum. How a partnership's spirit and joint aspiration are established is vital to creating shared ownership.

2. Only X-teams win

Great teams are the foundation of corporate success and partnerships alike. Traditionally, establishing partnership teams followed a planning approach in which extended processes created multiple versions of organizational structures, detailed role descriptions, and extensive governance processes.

However, in the digital era, partnership teams need to navigate and thrive in complex and hyper-competitive contexts. To do so successfully, the partnership team must be capable of independently diagnosing, deciding, and acting on a wider and more heterogeneous set of topics than before. This requires cross-disciplinary and cross-functional teams ("X-teams") that master strategy, technology and financials seamlessly in a hands-on way, as well as having a strategy-to-operations grasp. Establish a joint X-team at the outset, which should immediately focus on key tasks such as the partnership's business plan and operating model. This not only creates a bedrock for your relationship, but also stress tests the capabilities and cohesiveness of the team.

3. Secure an ambidextrous organization

Traditionally, organizations were generally designed to deliver on scale and productivity. Their focus areas were often cost control and optimization, and their ways of working were less dynamic and more evolutionary. Partnership deal teams and processes, and subsequent organizations, followed suit.

Today, organizations are increasingly designed to deliver speed and creativity. Their focus areas are trial and error, cause and effect, ingenuity, and the ability to scale up fast. Be careful not to mechanically transfer your current organization's scale- and productivity-focused legacy to your partnership or the process to get there. Acknowledge that the partnership has a clean slate and equip it with ambidextrous capabilities and incentive mechanisms. This will help it cope and thrive in today's digital environment.

4. Sprint strategically via light footprints

Previously, to enter a market and become competitive, physical assets and networks were fundamental prerequisites. Designing and setting up partnerships were consequently both a capital-intensive and time-consuming journey, often spanning years.

The prevailing volatility and frequency of disruptions in the digital era today require all companies to adjust strategy and positioning against competitors frequently and, at times, forcefully. As the partnership team blueprints the operating model, flexibility and agility should be core principles. Cloud-based IT capabilities, staff on demand, community and crowd-based development configurations, and virtual operations increase your partnership's ability to sprint strategically – a necessity in the digital era.

5. Pave the way for sprints and frequent decisions

Setting up a partnership that combines capabilities, competences, staff and technology from two previously separate companies is a difficult and complex process. Once the set-up is complete, the journey of leveraging the combined assets and scaling the partnership to deliver on the jointly agreed plans begins. In the pre-digital era, partnerships had more time to make decisions according to processes centered on decision support, analysis and formal documentation.

In today's fast-moving digital era, a partnership's ability to make a large number of reconsiderations and decisions on a daily basis is critical. Decisions range from branding, marketing, sales, and recruitment, to technology, pricing, and operations. Consequently, governance, decision allocations, and associated mandates need to be as explicit as they are sprint-friendly. Speed and risk-taking are core sources of oxygen necessary for healthy partnerships today.

Case example – Project "Fusion"

Background: "Joint-venture partner Alpha"

Alpha had experienced a century-long period of growth and success by focusing on economies of scale and control – establishing a network of almost 100 retail stores, delivering quality services and goods, building trust, and gradually becoming a well-known Nordic brand. Management set out to chart diversified growth in the digital space, where it had limited experience, yet saw potential. The e-bike market segment was identified, and believed to represent a natural extension of its strategic priorities. A strategy analysis, however, concluded that Alpha did not have the necessary time or technical skills to build a digital platform. It was too risky. A partnership was therefore considered the best path to diversified growth.

Background: "Joint-venture partner Beta"

Beta had started its business only three years earlier in a venture capital model, with speed and creativity as its hallmark. It had experienced strong growth due to its passion for high-performance e-bikes, technology, and customer journeys. However, while it had attractive business potential, it needed to extend its capabilities to maintain growth. Early investors were worried; Beta was burning capital fast and more customers were needed to sustain growth. At the same time, customer acquisition costs were skyrocketing when other players entered the market. Physical retail stores were ultimately needed to supplement its online offering, as customers wanted to be able to visit physical stores. However, establishing a retail presence required capital, calendar time, and a different skill set. A partnership was therefore considered the best path to sustained growth.

The joint venture's value creation

Alpha and Beta formed a joint venture through a series of pragmatic planning and execution sprints influenced by Beta's venture-capital ways of working, the speed and precision of which impressed Alpha's more phased-strategy mind-set. The following value was created rapidly:

- *A reduction of customer acquisition costs was achieved by plugging Beta's marketing and sales into Alpha's proven and efficient marketing machinery. By integrating customer loyalty clubs and performing data analytics, as well as by incentivizing customers to engage, growth and market-share gains were achieved. While this potential was identified early in process, the partnership knew it needed to tread carefully and leverage the potential step by step. Hence, only minimum viable analysis was made pre-deal, given that the impact would be significant and shorter time to market was deemed key. Confidence in the partnership's ambidextrous organization to realize the full potential post-deal was made explicit.*

- *Alpha's most attractive retail stores were retrofitted to include a store-in-store solution, which housed the e-bike business. An ambitious number of store-in-store targets were identified pre-deal, as was the process in which they were going to be built. Speed was again prioritized; confidence and mandates were placed squarely on store-opening capabilities in the ambidextrous partnership organization with its rapid decision mechanisms. Creative refinements of the store concept and the opening process, as such, were expected to be built through trial and error.*

- *The integrated services offering and the meshing of physical and online products and services created a powerful omnichannel position, which increased competitiveness. From the outset, only selected processes where integrated and a common customer database was created. The ambidextrous organization with agile development teams created additional integrations and a more and more powerful customer journey each week through constant sprints.*

- *The frequent interactions from Alpha's and Beta's joint business activities increased app traffic significantly, which, in turn, generated more data and insight than before. This enabled the joint venture to take important strategic decisions frequently and drive success.*

Insight for the executive

Today, businesses need to embrace a relentless pace of innovation to stay relevant and competitive. Coupled with exponential technology development and platform business models, this is collectively placing companies in a growth bind. The risks associated with make and buy models are higher than in the pre-digital era, making the partnership model a more relevant and powerful growth vehicle. However, managing partnership lifecycles successfully requires different skill sets in the digital era.

In this article, we have presented five imperatives for partnering for success in the digital era. The most important enabling factors CXOs should focus on are:

- Consolidate previously functionally focused teams and experts into cross-functional teams to better understand and leverage the complex cause-and-effect relationships between areas such as business models, technology, human capital, and IP. This will improve your ability to identify and evaluate value creation sources, their scalability, and associated risks.

- Design and drive your strategy analysis and partnering processes in a dynamic and sprint-like fashion, in which debate and holistic analysis play key roles. This will allow you to focus on fewer vital deal-breakers and enablers, and then progressively build out your thinking and planning.

- Recruit staff from new sources to secure a heterogeneous and cross-disciplinary competence and capability pool. It is likely that they will represent some friction in the beginning, but ultimately they will accelerate the gradual shift to new and better ways of working.

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