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MANAGING CO-DEVELOPMENT PROJECTS: STRATEGIC ALLIANCE OR ALLIANCE STRATEGY?

As co-development becomes an increasingly important strategy, a body of research has grown up around this practice area. From managing a portfolio of alliances, to the finer points of Joint Development Agreements, alliance strategy has emerged as a field of study that is more and more relevant to product development. Ben Gomes-Casseres, a professor at Brandeis University (Waltham, Mass.), is an authority on alliance strategy and management, with a focus on technology companies. He has researched this topic for 20 years, taught it to MBAs and executives, and consulted with major companies in the United States and abroad. In the following article, we present some highlights from his ongoing research into best practices in the domain of alliances.

One of the most important, high-level findings of Gomes-Casseres's research is that it is necessary to focus not only on *"doing the deal,"* but also on *an overall alliance strategy* that is tied to overall business strategy. Individual alliance agreements must then fit within the parameters of the alliance strategy, which itself may evolve over time. The Arc of Alliance Strategy [see graphic on next page] shows the four key elements of an alliance strategy: (1) alliance design, (2) alliance management, (3) alliance constellations, and (4) alliance capabilities. Gomes-Casseres encourages companies that engage in co-development projects to consider the entire value chain and to carefully weigh the resources they will need to devote to the alliance to realize the benefits they expect.

Uncertainty and "Open-ended" Projects in Co-Development

One facet of alliance strategy involves choosing a position for each project on the spectrum of possible types of alliances. Some of these types involve clear-cut deliverables and tasks defined up-front and others are, by nature, more "open-ended." On one side of the spectrum is, for example, a simple contract between one organization and another to supply a component for a product. This type of agreement is simple, straightforward and definable. On the other end of the spectrum is "blue sky" research where there is a great deal of uncertainty around technologies and markets. This type of project, in which both risks and uncertainties are significant, lends itself to a more open-ended type of alliance that is more difficult to manage.

"The open-endedness is not something you choose, it is imposed on you because of the task," says Gomes-Casseres. *"If the task is not open-ended, you can define the requirements, timetable, milestones, payment and penalties clearly at the start of the project. If the task at hand is not well defined, then it's, by nature, open-ended, and you need to manage it as such. In these cases you need to create a governance structure that allows you the flexibility to go with the new information that you will gather over time. A flexible structure allows you to deal with things later that you can't foresee now."*

Between these two extremes there are numerous shades of gray all along the spectrum. *"One project might have some amount of certainty, but there will be uncertainty around some*

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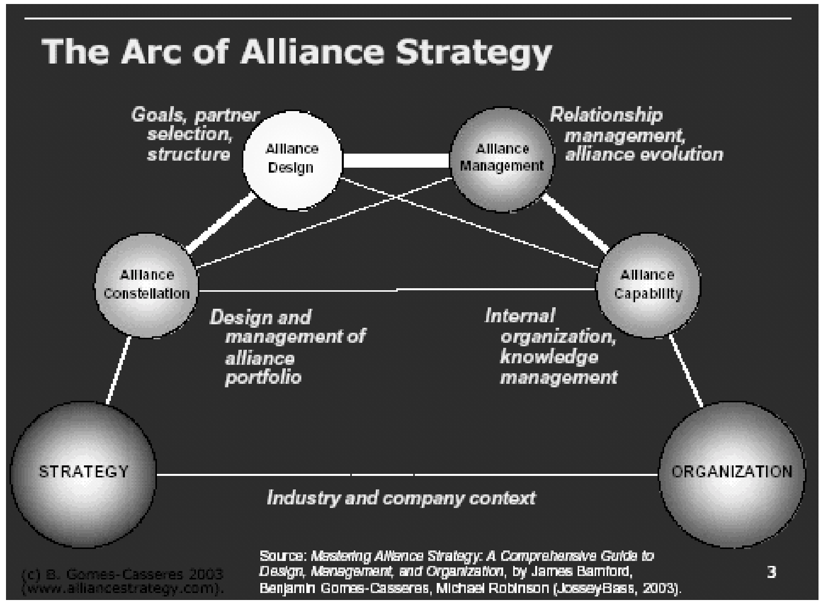
aspect of the project such as usage, cost, or materials design, and that particular aspect might need to be left open." Gomes-Casseres points out that, in addition to needing to have a governance structure which allows for flexibility, projects with large degrees of uncertainty require that the parties involved meet more often, and not tie themselves to early decisions when new critical information is uncovered as events unfold.



Not surprisingly, open-ended projects require a great deal more relationship management than simpler contracts. In these open-ended projects, he explains, *"You need to set, in the agreement, the way you will relate to each other, in addition to the things you expect each other to do. What you expect each other to do might change, because you don't know how everything is going to work out yet. The way you relate to each other, however,* can *be established."* For example, Gomes-Casseres has observed that some firms with a good alliance strategy...

- Have personnel assigned to project manage the alliance,
- They have some decision rules that say how they plan to resolve potential conflicts with partners,
- They have conflict management and escalation rules for the times when difficult differences arise between partners, and
- They have sufficient people-to-people contacts which greatly helps in managing the flexible part of the relationship.

In addition, alliances require that both partners have sufficient *internal* alignment, communication and coordination. Says Gomes-Casseres, *"One success factor is managing the relationship with the other party; another is managing the alliance process within your own firm. Managing alliances requires good internal alignment and communication as well as attention to the relationship management."*

Key Capabilities for Managing Co-Development Alliances

But in addition to these general principles, there are some key capabilities that make a firm successful in managing co-development relationships. *What are these capabilities and what are some common pitfalls to avoid?*

According to Gomes-Casseres, there have to be incentives within the organization that favor success in co-development. Peculiarities built into the incentives and processes in some organizations can inhibit successful co-development alliances. For example, says Gomes-Casseres, *"Some companies are set up in such a way that rules about contracting, or about how the P&L will be charged, may create biases against working externally, even when an external solution is demonstrably better."* Managers should check the incentive structure to make sure it does not put obstacles in the way of co-development success.

In addition, successful firms recognize that it takes personnel, time and investment in order to properly manage these external resources. *"It does not happen automatically. Once you create an alliance, you have not gotten rid of a management task – you have created a new management task,"* he says. He argues that *"outsourcing"* can be a misleading term, *"since it makes it sound like it is on somebody else's books and the main partner no longer needs to think about it."* On the contrary, he says, outsourcing of complex processes or project components typically *"requires a lot of management for it to work well, and to ensure that it is properly integrated into what you are doing internally."*

According to Gomes-Casseres, one of the most common errors firms make in managing alliances is that, after they conclude an agreement, they under-resource the ongoing management of the relationship. When it is done right, adequate human resources must be devoted to managing the alliance. Gomes-Casseres has observed that many firms have *alliance managers* whose task it is to nurture and watch over the relationship, to surface problems and fix them, and to make sure that communication is working well. Some companies gather together a group of alliance managers into an *alliance management unit*. *"When you group these people together, they share best practice and they get better at it,"* he observes. *"It's a learning process, just like any other capability."*

Another common pitfall is the *"Not Invented Here"* syndrome which, says Gomes-Casseres, *"can doom this sort of relationship. There has to be the attitude that the partner is capable and has sufficient technology in its field. You have to be open to use the best there is, be it your own or someone else's technology."* He points out that many leading firms *do not* automatically assume an open and accepting attitude toward outsiders. This is another area where learning and internal development are necessary if alliances are to thrive.

Measuring the Performance of Co-development Alliances

But how can the success of open-ended, co-development alliances be measured? Research and practice suggests that there are two broad classes of measurements associated with alliances. The first class of metrics measures the success of the project in technical and business output. This is *"not all that different from measuring the output of an internal project,"* he explains. These types of metrics are the basic measures many organizations are already using, such as adherence to the schedule, meeting project requirements, customer satisfaction, and so on.

Another set of metrics can be used to measure the progress of the relationship. These metrics monitor the quality of communications, the ability of the partners to understand each other clearly, etc. Gomes-Casseres believes it is important to separate these two types of measurements because it is easy for partners to blame each other for some technical result that may be in the nature of the technology or the marketplace. *"It's easy to confuse the value of the relationship with the output of the project, but they are two different things. The job of someone who is* *an alliance manager is to makes sure that the quality of the relationship is not a hindrance to the success of the overall enterprise,"* says Gomes-Casseres.

The purpose of measuring the progress of the relationship is to help reduce *avoidable* friction between the partners, knowing that there will be *unavoidable* successes and failures in the market and technology. *"What you are trying to do is limit the total risk in the project,"* explains Gomes-Casseres, *"so you have to limit the degree to which involving outside parties will add to your risk."*

In fact, alliances, in themselves, can be a method of managing the risk inherent in new product development projects. *"Sometimes alliances allow you to spread the risk around,"* says Gomes-Casseres. *"But they do it at the cost of raising relationship risk. When you deal with partners you create uncertainties, in part because you can't fully control your partner's behavior. Good alliance management tries to lower the relationship risk, so that you can engage in projects with significant technical or market risk."*

Being a Good Partner – Choosing a Good Partner

Gomes-Casseres emphasizes that alliances must always be a two-way street. To benefit from co-development partnerships, and to attract good partners, it is necessary to *be* a good partner. He recommends that firms who wish to be successful must step in the shoes of the partner and see themselves from the partner's standpoint. *"Remember that the reason you are working with another company is because you think they can do something you can't do or can't do as well. They have answers and you have to listen to their point of view."*

A good partner, says Gomes-Casseres, asks the key question, *"'how can we, together, create something more valuable than either of us can do separately?' If you are not comfortable with this approach then stick to narrower vendor-type relationships. But you will not get out of these what you might get out of a well-managed alliance."* By definition, suggests Gomes-Casseres, these relationships cannot be maintained through the usual command and control structures that executives have been taught to use in managing a company.

But what about choosing partners who will be able to travel down the "two-way street"? *Are there signs to look for that will indicate whether or not a potential partner will be an effective one?* According to Gomes-Casseres, *reputation* is a good indicator: *"In this world, where there are more and more partners, the ability to partner can become a corporate asset or a liability. If you are a small firm dealing with a large partner, try to find out how they have dealt with other firms of comparable size. Track what has happened."*

In addition to a good reputation, another positive indicator is whether or not a potential partner is willing to commit the resources necessary to manage the relationship effectively.

Gomes-Casseres proposes a few questions to think about when selecting partners:

- When they work with you, do they have the attitude of creating a partnership?
- Are they concerned with building the relationship or just with negotiating the hard facts?

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- Do they devote attention to your views and the quality of the relationship?
- Will they put an alliance manager in place?
- Is the structure they propose balanced or one-sided?

Keys to Developing "Alliance Strategies," not just "Strategic Alliances"

1. Let business strategy drive alliance decisions
2. Design the alliance to fit the strategy
3. Grow relationships, don't just "do deals"
4. Use portfolios of alliances, not stand-alones
5. Organize internally to cooperate externally

Gomes-Casseres also indicates that the information available about potential partners depends, to a certain extent, upon the industry in question. For example, in the pharmaceutical industry, partnerships between large firms and much smaller entities are extremely common. The ability to be a good partner to a smaller firm is a corporate capability on which larger firms compete. In this industry, market-research firms have been known to produce rankings of firms rating their performance as partners. In other industries, information about potential partners might not be discovered as easily.

Alliance Constellations: A Portfolio Management Approach to Co-Development

In addition to managing individual relationships, Gomes-Casseres also counsels co-developers to look at their entire suite of alliances – and to manage them as a portfolio. This portfolio-based approach, what he calls managing *"alliance constellations,"* is a way of handling the multiplicity of alliances that many companies now require. *"Usually, companies that are co-developing products are dealing with more than one entity,"* observes Gomes-Casseres. *"When you think about these partnerships, you need to think of the total value chain that is going to be delivering this product or service. Managing this chain is managing the constellation. It is a portfolio, a group of alliances that have to work together."*

Gomes-Casseres points out that there are many different types of alliance constellations. For example, there are constellations to create products and services; there are constellations that are formed to create a standard within a given industry; there are constellations to create vertical markets (for example for a technology or a material that has many different applications in various industries or in a variety of geographical locations); there are also constellations of market allies. Gomes-Casseres suggests that someone in the company has to pay attention to managing this alliance portfolio. *"It goes beyond striking deals,"* he says, *"and includes managing the portfolio over time to see how it's growing, which alliances tend to be the most beneficial and which could be closed, how resources should be allocated, and so on."*

This question brings him back to the theme that underlies his work: Rather than focus on stand-alone *strategic alliances*, he argues that firms should pursue a comprehensive *alliance strategy*. Says Gomes-Casseres, *"It's not just a question of 'did this alliance succeed or fail?' but what is the bigger picture? Will this portfolio get you the result you're looking for?"*

In sum, he suggests the following key points, (see also the other tips found in the side bar on the previous page):

- Realize that certain tasks are inherently open-ended and require a partnership approach
- Focus on the whole alliance strategy rather than the single deal
- Devote resources to managing alliances; be sure that the relationship gets the proper attention.PD

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