



## Strategic Partnerships

intelligent financial software

## Technology partnerships: separating the strategic from the tactical

Partnering is a subject about which increasing numbers of technology suppliers are talking. Businesses speak increasingly of partnerships as being core to their strategies, and their reasoning is easy to understand: sales teams need partnerships to open new markets and segments, while developers seek partnerships to acquire technology, knowledge and capabilities

Call them what you will: joint ventures, technology alliances, supplier-chain alliances, outsourcing, or virtual companies. Many consultancies offer seminars on partnering and strategic partnering is a buzz word on the rise!

This new approach, often referred to as High Touch Partnering, has emerged in a time of rapid economic and technological developments and has overthrown traditional thinking about partnerships and how software suppliers could benefit from a new perspective on partnering.

### What drives a Technology Partnership?

Software suppliers, active in all business sectors, are constantly offering up their software proposition for comparison with their competitors. These comparisons are sometimes made in a structured manner as part of a broader business strategy; however they are more frequently driven by the success (or lack of success) in the sales process.

The pressure for the broadening and deepening of software functionality and features is constant.

Major gaps in functionality are considered, by definition, outside the normal system competencies of the supplier, so the routes to filling the gaps are to be carefully considered:

- Larger systems providers have often grown their product by means of acquisition of specialist software houses and then looked to consolidate their position by integrating the new members of their system-family. This route is expensive and brings with it all the business integration challenges that attach to the main object of the acquisition, which is to lay hands on the intellectual property needed to extend the main product offering.
- The obvious alternative to acquisition is to develop the required software in-house. As the development is by definition concerned with an area within which the supplier has not previously been active, it can be a high risk option. The business analysis or development knowledge required for the new build will either be absent or thinly present in the supplier's organisation: the technical skills may not be well developed – for example when the new development moves heavily into web-based systems from a more traditional internal network system. The new build will require the diversion of valuable resource, or the hiring of new resource, into a Research and Development exercise that lowers revenue for the business and will hit profits.
- The alternative to building yourself, or buying a software house which brings that ability, is to seek to create a partnership with another supplier organisation: cooperation not acquisition.

### What makes a technology partnership 'strategic'?

A technology partnership typically fits into one of three basic categories. The first is an agreement with a supplier to use basic technologies, such as databases or operating systems, in the development of software solutions. These partnerships are 'below the functional line', being

enablers for the development of solutions and, therefore, not of primary interest in the consideration of strategic technology partnerships.

The second is an agreement for a principal supplier to cross-sell the software solutions of a partner supplier. These cross-sold solutions are distinct from the core system, being supplied by the principal supplier. They can be used to provide a purchaser with a simpler route to fill gaps on the periphery of a software solution, without the principal supplier needing to engage in major in-house development. A good example would be the cross-selling of an imaging platform which supports the workflow solution provided by the principal supplier.

The third is an agreement for two suppliers to construct a software proposition jointly, and then sell it as a distinct product. This is an arrangement which is 'strategic' in the true sense of the word, as it will arise from all parties recognising that the total to be gained is greater than the sum of their parts. Whilst the first two forms of technology partnership are quite common and largely tactical in nature, this third type is much less common and we will look at it in more detail, in the remainder of this article.

### **The shape of a strategic partnership**

The strategic partnership, as it is described above, is best founded when it provides a solution to a problem perceived independently from their own perspective by one or more suppliers. These perspectives are important, because they define the partnership in terms of its goals and its benefits.

Effective strategic partnerships are a combination of the following factors:

- **Shared Risk:** Each partner bears a fair and appropriate share of the risk in the alliance. No partner has a disproportionate level of risk.
- **Shared Resources:** Each partner commits an appropriate proportion of the resources, whether they are capital, people, knowledge, technology or other.
- **Shared Rewards:** Each partner shares appropriately in the rewards, the partners work together to create mutual wins.
- **Shared Vision:** The partners share a common view of the objectives, results and outcomes of the alliance. They share a common vision of the importance of the relationship.
- **Shared Values:** They share common value systems and complementary cultures. This shared value system is the bedrock of the relationship, providing the means, motivation and commitment to resolve problems with the relationship and growing the relationship.

### **Building a strategic technology partnership**

Consultancies will tell you that, in many of the partnering discussions they facilitate, they see people focusing on what they want to get out of the partnership, but little time on how it will work or be sustained. There are important questions that need always to be addressed:

- Is the partnership characterised by a short-term very specific focus, or is it to be long-term, evolving over time?
- Are expectations for the results to be produced by the partnership understood? Do we have differing or shared objectives?
- Is there real value to each of us in investing in this partnership? Are we sharing appropriately in the results?
- How does the partnership reinforce and build the business strategy of each participant? What happens if those strategies should change?

- What commitments are we making to ensure each partner is successful in this partnership?
- How do we share information and knowledge with each other?
- How do we grow and learn from the partnership?
- How do we build trust in the relationship?
- Do we have complementary competencies to enable us to build a strong, working partnership?
- How do we manage changes in expectations or strategy over the term of the partnership?
- What level of risk is each of us willing to take in implementing the partnership? What happens when the risks are too high?
- What happens when the original sponsors to the partnership move on? Can we sustain the partnership without them, or have we lost the motivation for being partners?
- What changes in the environment or the relationship will make the partnership unacceptable? What changes are allowable?
- In what areas do our partner and we compete? How do we manage those overlaps? At what point is the overlap intolerable?

### **Strategic technology partnerships being stimulated in today's financial climate**

As the Credit Crunch turned off the important money raising sources, many lending institutions looked to put in place (or if already there, re-invigorate) savings conduits to attract deposits from which lending can be more predictably pursued.

This demand has pushed out into the outsourced service market for savings, as lenders look to 'helicopter in' a solution via an outsourcing partnership. It also pushes into the software market, as lenders look to systems suppliers to offer end-to-end savings solutions to be operated within the lender's own operation.

This demand in the software supplier space has generated some interesting strategic partnerships, linking suppliers of best-of-breed, web-based savings sales and administration offerings with heavy duty back-office savings processing systems. In more complex partnering, this Front-to-Back system pairing has been joined with an outsourcing partner, to provide a solution that can be fully hosted and run outside the lender's operational model.

### **Some conclusions**

Despite the trend towards increasing use of strategic technology partnerships, mortality rates of these cooperative agreements have always been extremely high. Partnering seems to be a natural route to increasing sales, markets and growing a company. However, a majority of partnerships fail to achieve their goals. Some data indicates the failure rate of partnerships as high as 70%. Others, while not declared failures, end up as mere paper partnerships, rather than genuine collaborations producing meaningful results.

The truth is, as business complexities increase, no organisation can do everything. So alliances become powerful means of enriching the solutions and value we provide our customers, improving our access to new markets and customers, and growing our own knowledge, capabilities, and companies.

As our market place develops and changes, opportunities for systems solutions from well constituted strategic partnerships will arise increasingly. If the lessons on how to best form these partnerships are learnt, their value will be seen and their success rate improve.

