Forming and Managing External Technical Relationships

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Steps in External Relationships

- **Prepare** – enables the firm to approach alliances and acquisitions rationally, effectively, and efficiently through activities undertaken prior to assessing any particular opportunity.
- **Scout** – broad assessment of a collaborative opportunity to determine whether the opportunity meets certain basic criteria and whether additional effort is justified.
- **Decide** – in-depth evaluation of an opportunity leading to negotiation and closure, if appropriate.
- **Manage** – ongoing managerial attention to making the deal work and adjusting – or terminating – the relationship.

Prepare Phase: Key Actions

- Establish an infrastructure to manage collaborative efforts.
- Develop a partnering strategy based on needs.
- Move to scouting stage where appropriate.

Prepare

Establish a Partnering Infrastructure

- Develop buy-in on strategy among key internal and external stakeholders.
- Identify and train participants involved in the process and agree on roles/responsibilities.
- Develop collaboration guidelines reflecting needs, resources, culture, budgets, and control mechanisms.
- Set up procedures to respond to unsolicited needs – internal and external.
- Move the culture to a "Stage 3" Partnering mind-set

External Sourcing Posture

- Posture 1 - Self Sufficient

  "We do everything important ourselves"

  - Fails to recognize speed, complexity, and risks of new developments
  - Leads to lost opportunities, wasted resources, and development delays

- Posture 2 - Reluctant Partner

  "If we cannot do something ourselves we will go outside"

  - Confuses what we <u>could do</u> with what we <u>should do</u>
  - Leads to lost opportunities, wasted resources, and development delays

- Posture 3 - Strategic Partner

  "We recognize that it may make sense for others to do some tasks"

  - Built on realistic perceptions of capabilities, risks, and alternatives
  - Uses Technology Scouting/CTI to identify opportunities and sources
  - Develops organized process for forming and managing partnerships

Develop a Need Based Strategy

- Where are you now and where do you want to go?
- What new resources, skills, products, markets, etc. are needed?
- Identify areas where some form of external collaboration appears to have advantages from a cost, risk, quality, timeliness, success probability, or other factor.
- Identify areas of *your* expertise of potential interest to others
- Develop a strategy for acquiring, accessing, and developing required complements (e.g., internal development, acquisition, joint venture, alliance, purchase)
- Determine timing and inter-relationships of collaborative/development efforts.

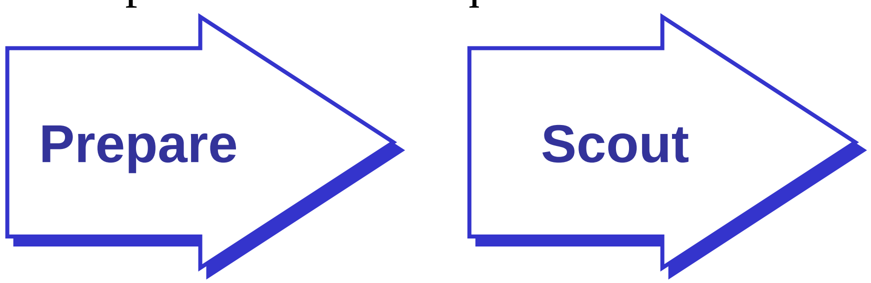
Observations About Needs

- Needs go beyond technology and cash:
  - Capital
  - Technology
  - Products/Services
  - Market access
  - Industry knowledge
  - Image
  - Culture
  - Infrastructure
  - Management
  - Experience

- Think broadly when looking at needs:
  - What we require
  - What we have to offer

Scouting Phase: Key Actions

- Launch proactive searches and/or respond to internal recommendations, or unsolicited inquiries.
- Preliminary assessments of the most promising candidates.
- Involve others to gain support and assistance:
  - Identify key stakeholders and influencing constituencies to determine level of interest, level of understanding, potential contribution, and likely position relative to collaboration options.
  - Involve other groups to lay the groundwork for their support and cooperation.
- Keep options open regarding development path and potential partners or acquisitions.



Launch Partnering Searches

- Define objectives, needs, timing considerations, key unknowns, and complementary skills of yourself and potential collaborator e.g., cash, skills, image, or access to products or markets.
- Identify characteristics of the ideal candidate relative to needs and politics.
  - Skills and resources
  - Size, profits, share
  - Breadth of technology, markets, and products
  - Business history
  - etc.
- Do not stop at first good fit: attempt a reasonably complete cataloging of external sources of the skill or resource.
- Preserve anonymity as long as possible to protect bargaining position, control timing, and conceal strategy.

Sources of Leads

- Related past behavior: patents, papers, proceedings, products and services
- Firms pursuing related applications: think generically of the value added
- Personal and professional networks:
  - University relationships
  - Conference associations and meetings
  - Former work colleagues
- Survey participants of recent partnerships for other firms they considered
- Formal CTI and Technology Scouting programs
- Venture Capitalists

Preliminary Assessment of Opportunities

- Potential fit to your needs:
  - Quality and uniqueness of needed skills or resources relative to other firms and yourself.
  - Consistent with strategic, operational, timing, and organizational/political constraints and goals (yours and theirs).
  - Soft factors (partnering experience, culture, decision making, etc.)
- If not already known, what are the alternatives?
- Use external information sources and research firms to:
  - Accelerate process
  - Preserve anonymity (arms-length due diligence)
- Determine if this opportunity is worth pursuing, using assessment templates as needed.

Representative Candidate Review Criteria

- Does the firm have the skills and resources we need?
- What is their reputation in their industry for quality, integrity, management, etc?
- What is their financial and business health?
- How are they different from us in products, technology, markets, style, culture, etc.?
- How are they similar to us in the above areas?
- What is the chemistry like?
- What are the main advantages and disadvantages of doing a deal with this candidate:
  - costs
  - risks
  - quality of our products and services
  - time to market
  - impact on other deals
  - competitive response
  - profits
  - control
  - etc.
- Have they done deals like this before?
- Are they interested or could they be made to become interested?
- How else can we meet our needs considering both other firms and other types of relationships?
- What can we do to minimize the costs and risks of pursuing this opportunity?
- How soon do we need to act to avoid losing the deal or the potential benefits?

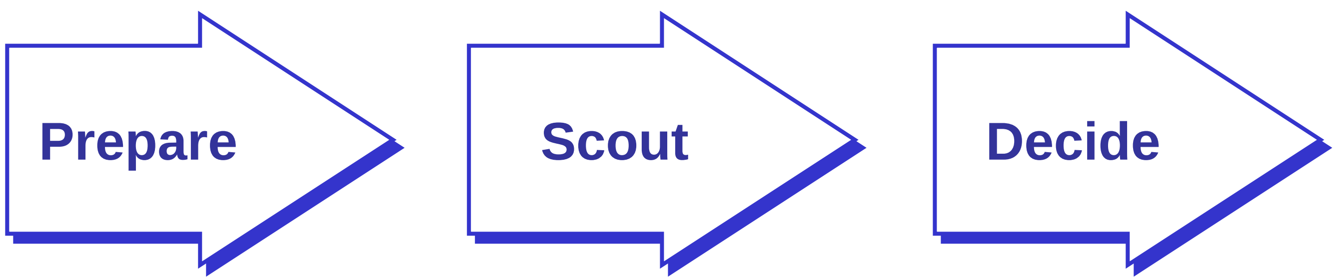
Comments on Initial Assessment

- There are few “no-brainers.”
  - Clear and obvious benefits.
  - Strong match with needs and objectives.
  - No close alternatives.
  - Well understood throughout organization.
  - No debate about logic or desirability.

- Most opportunities require additional investigation and selling.
  - Clarify benefits and logic to key constituencies.
  - Make hard choices among close alternatives.
  - Satisfy existing organizational/political biases.
  - Find a champion willing to make it work.

Decision Phase: Key Actions

- Assemble a team to pursue the opportunity
- Develop an investigation plan
- Pursue the opportunity
- Develop a strategy and plan for negotiating the deal
- Close the deal



Assemble a Team

- Responsibility for assessment will normally have a logical home based on existing relationships, collaboration strategy, and eventual business home.

- Members will be drawn from across the organization to ensure key skills and constituencies are involved:
  - Legal
  - Accounting
  - Marketing
  - Technology
  - Different functions within the business units.

Develop an Investigation Plan

- Develop a list of key issues and unknowns to be resolved and assumptions to be confirmed, both to make a final decision and to conclude a deal.
- Outline likely timetable and sequence of events needed to pursue the opportunity.
- Assign responsibilities and clarify roles.
- Identify internal and external resources needed to accomplish investigation in a timely manner.

Pursue the Opportunity

- Gather detailed information on the capabilities, reputation, background, intentions, etc. of the opportunity.

- Test logic and desirability with internal and external constituencies.
  - Internal groups who needed to approve and support the effort
  - Commercial Challenge Teams were appropriate
  - Others affected by the partnership

- Contact the target firm(s) if not already done.

Representative Negotiation Concerns

- Goals:
  - What is this deal worth in financial and strategic terms?
  - What do we want out of the deal?
- Negotiations:
  - Are there any deal killers to be resolved early on?
  - How do we approach the other party: who, when, where, how?
  - Do we use other parties to assist in the negotiations?
  - What is the BATNA (Best Alternative to a Negotiated Agreement)
  - What is the minimum we are willing to accept?
- Agreement:
  - Are goals and roles clearly spelled out?
  - Who owns and manages the IP?
  - How do we review or terminate the agreement?
  - What side agreements are needed to execute the deal?
- Support:
  - How do we obtain the support or neutrality of the key stakeholders?

Keys to Forging a Viable Partnership

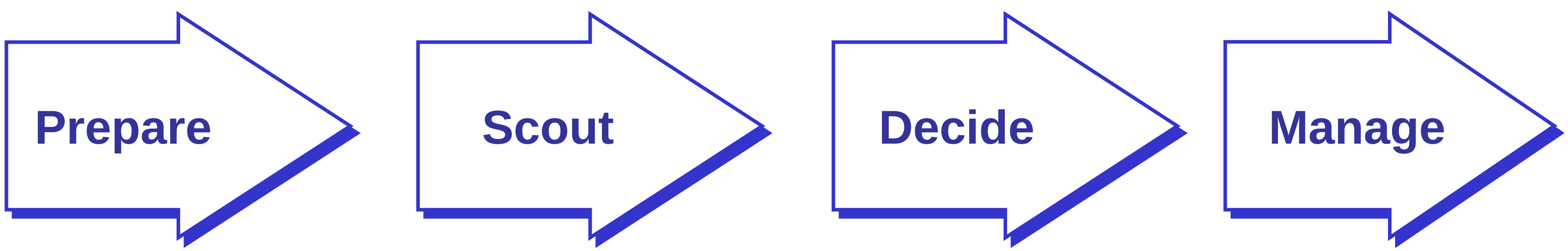
- Involve others for support and assistance
- Keep BATNA (Best Alternative to a Negotiated Agreement) in mind at all times
- Focus on the objectives not the deal
- Make sure it is win-win
- Manage the IP starting before the first contact to minimize
  - Contamination
  - Unintended disclosure
  - Downstream ownership and use rights

Considerations in Selecting Option

- Sources: Who is available?
- Fit with needs, capabilities and intentions.
- Technology:
  - Stage of development (pre-commercial through application)
  - Relative maturity and likelihood of substitution
  - Value of technology in providing a competitive advantage
  - IP considerations: desirability and possibility
  - Investment level needed to maintain technical position
- Organization:
  - Organizational, cultural, and political realities
  - Strategic importance
  - Level of cost/risk to be managed
  - Time and resources available
  - Relationship to other development efforts

Management Phase: Key Actions

- Assign the right people and provide them support
- Provide ongoing management attention
- Manage the relationship
- Have a clear exit strategy



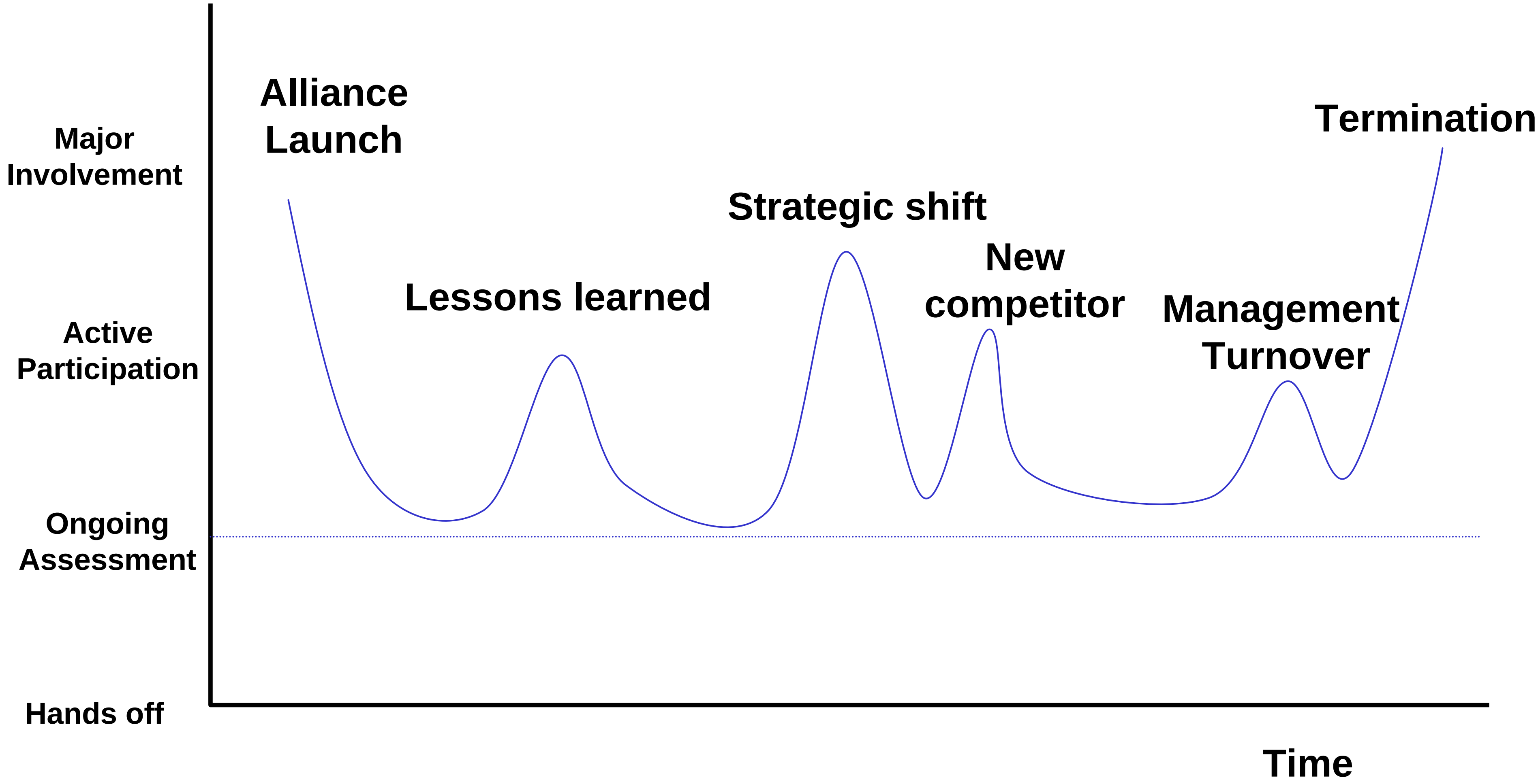
Manage the People

- Assign the right person:
  - Technical fit
  - Cultural and interpersonal fit
  - Availability
  - Interest
- Provide training and support.

Manage the Management

- Senior management commitment is vital:
  - Ensure compliance.
  - Resolve conflicts over priorities and approaches.
  - Make adjustments as the circumstances change, e.g., in the skill sets of the partners, the strategic need, and the success of the relationship.
  - Identify opportunities to extend the relationship to further leverage external skills.
- Manage the involvement of senior management to balance interference and support

Management Attention Over Time



Manage the Relationship

- Begin with a clear statement of roles, responsibilities, and expectations of all parties
- Provide team development for you and partner:
  - Mission
  - Norms
  - Roles
  - Communication
  - Decision making
  - Conflict resolution
- Ensure that there is regular two-way interactions to maximize learning and skill enhancement.
- Exploit ‘co-wired’ opportunities for collaboration using shareware, global telecommunications, and other technologies to create ‘virtual teams.’

Manage the Exit

- Constantly reassess the value of the relationship.
- If strategically sound, redefine relationship in response to:
  - Changes in partners' capabilities and needs.
  - Actual versus expected costs and benefits.
  - Lessons learned from initial interactions.
  - Anticipated changes in context of either firm.
- If logic disappears, exit gracefully.
  - The goal is to achieve objectives - not sustain the alliance.
  - Have exit strategies for all situations.
  - Have agreement call for decision to continue, not to end.

Focus on business goals not the alliance

Conclusions About Technical Partnering

- Partnerships often save worker time and development time but usually require greater management time.
- Don’t overlook the ‘soft factors’ - culture, internal acceptance, and personalities.
- Concentrate on the expected benefits - not doing a deal.
- Recognize it is easier to make a deal than to make a deal work.
- Regularly reassess the relationship as needs and circumstances change and have an exit strategy.