Run Alliances Like Businesses

Not Like Appendages

How Business Cases are Developed and Applied in the Management of Alliances

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Introduction

Alliance management is a relatively new profession even though human collaboration is old as the human race. Only in the past fifteen years has there been an effort to truly define the business practices and competencies required to form and manage effective business collaborations. While forming relationships seems to come naturally to people, managing business relationships that consistently exceed expected outcomes does not; hence, high rates of alliance failure or under performance. Evidence of this is in several academic studies over the years that document 40% to 70% either fail or underperform.

A Business Case is Essential

"The fork in the road is the development of a case and operating plan…jointly with the partner."

Many of the most successful alliances manage their initiatives by applying business best practices and integrating alliance operations into the core of the business. A business case is essential in understanding what factors contribute to alliance success.

This does not diminish the importance of managing the 'relationship' side of alliances, ensuring that conflict is managed, diversity is harnessed into innovation, and trust is nurtured, but business outcomes can only be achieved through a solid understanding of the underlying business case.

An earlier study[1] focusing on alliances business planning practices identified three behaviors characteristics of higher performing alliances:

- Successful alliances had more formal processes for plan approval and dissemination to stakeholders.
- Successful alliances have greater involvement of high level executives in the planning and actual results review processes. Additionally, when actual results were mutually reviewed with the partner, alliances performed better.

[1] *5th State of Alliance Study: Business Planning Processes*, Dave Luvison, Ard-Pieter de Man, and Keith Gaylord 2015

- Successful alliances had planning processes that were more similar to the way that their organizations formally planned other aspects of their businesses.

Partner to Profit, LLC and Phoenix Consulting Group, LLC have collaborated in conducting research to understand current practices in the development of businesses cases within alliance management operations and how those business cases are used to inform decision makers in setting performance objectives and investment allocation.

Research Snapshot

The research was conducted by in depth phone interviews in June and July of 2015 with twenty global alliance professionals representing all levels from line alliance managers to senior alliance executives. They are predominantly from Fortune 50 companies in the technology sector with a sampling of pharmaceutical companies. See Appendix A.

Discussion focused on five areas of discovery:

- What business function and management level sets alliance business objectives, investments and expenses?
- Are business cases developed and applied?
- What business case tools are in use today?
- How effective are they…what are their shortcomings?
- How are documents stored and shared?

Research Highlights

Business "Case" and "Plan" often Undifferentiated

Most alliance organizations, especially in the technology sector, build an annual business plan for their alliances and review performance on a quarterly basis. But in our discussions, the terms business case and business plan were used interchangeably. Business cases typically focus on a single initiative or joint offer for an alliance. The initial purpose of the business case is to model the future performance of a joint offer to determine if the investments and effort will create a suitable Return on Investment in an acceptable time frame. A Business Plan provides an ongoing roadmap to manage the performance of the business. More specific differences between Business Case and Business Plan are profiled in Appendix B.

> **Primary Metric is Revenue Not ROI**
>
> *"On the sell side, the business case focus is on the short term revenue in the quarter."*

While revenue forecast is de rigueur, other elements such as profitability, margin contribution, resource requirements and ROI were not always part of the exercise.

Business Cases Widely Used but Inconsistently

While many of the interviewed alliance professionals indicated they did develop business cases for their alliances, it was rarely with any consistency. Often, business case development is a solo exercise for their own purposes and not as a part of overall strategic investment planning.

Still there were a handful of alliance organizations that conducted disciplined business case and business planning development and linked those exercises to the corporate strategic planning process.

The planning horizon varied by industry. For the technology sector planning was typically on an annual basis with quarterly business reviews and the primary metric was revenue. Pharmaceutical alliances have a much longer planning horizon given the protracted product development cycle. Business cases were developed at the onset of an alliance and typically not revisited unless there was a compelling event, such as a new competitor or poor results coming from clinical trials.

No Industry Standard Template

A few alliance organizations use standard approaches and templates across the alliance portfolio. This best practice enables the alliance organization to balance resources and investments across many alliances according to their relative value. However, in many alliance organizations, there is no standard template for business case and plan development in use internally, let alone one that spans the industry. Alliance professionals are left to create their own. "No dashboard, no tools. Each person has to do the analysis themselves and each has a different skill level in excel so quality varies. Each person looks at metrics differently."

Many are taking a Business 101 approach, evaluating the market opportunity, competitive landscape, top line revenue and expenses; however, there are big gaps in the financials. Measuring ROI is problematic. Revenue attribution is hard to capture in sell-with relationships. There is always the debate on what constitutes alliance-influenced revenue. Real cost numbers are often elusive other than perhaps marketing spend.

C-Suite Involvement

"Partnership is fully developed internally, then jointly with the prospective partner; presented to the executive leadership team representing key operations: marketing, product, finance etc. Adjusted as needed then presented to the C-suite: CEO, President, COO, CFO."

Decisions are Made High in the Organizations

About 50% of the twenty alliance professionals we spoke to indicated that C-level executives are involved in the business planning process, which is an indicator of the importance the organization places on the strategic value of alliances.

For others who do not have C-level visibility, it is still common for the leader of a functional organization, such as Sales or Marketing or a Business Unit leader to be involved in the decision-making. A minority of the twenty alliance professionals indicated that their alliances are directly linked to a P&L.

Partner involvement tended to be at the back end of the process and varied from critical to as-needed. One alliance professional commented that the "most successful alliances do include the partner"…in the business case development process. Another commented that partner involvement is problematic when the partner is also a competitor and there are limitations in what can be shared.

Last Century Tools

"No dashboard, no tools. Each person has to do the analysis themselves and each has a different skill level in Excel so quality varies."

Last Century Tools in a 21st Century World

What are alliance professionals using to manage their businesses? Spreadsheets and presentations prevail. Sales and Channel organizations have moved their operations to enterprise platforms. Customer Relationship Management (CRM) Systems are in wide use throughout these organizations and to some extent used for the management of alliance revenue. But CRM systems are inadequate for business case development and are poor tools for business planning, especially for alliances. Partner Relationship Management (PRM) systems are in place for channel organizations, but these systems are purpose built for one to many ecosystems and the business planning tools available in these systems tend to be rudimentary. So where is the ARM? The Alliance Relationship Management System?

Run Like A Business

"I would agree with the statement that we know how to create and alliance; we now need to run an alliance like a business."

Cloud Sharing NOT in High Use

Planning documents, when shared, are more often than not emailed back and forth. Internal to an organization, many interviewees made mention of SharePoint sites. But sharing through the corporate firewall is not happening. Internal systems are not suited for sharing through the firewall. There remains concern about using cloud repositories for company sensitive information. A few alliance professionals slyly admitted to unofficially using Dropbox or Google Docs for their convenience in sharing planning documents with partners….at their own peril.

Manage Alliances like Businesses Not Appendages

Managing alliances like businesses, taking a more rigorous management approach, resonated with the survey group. As one of our interviewees remarked, "Run alliances like businesses not like appendages." Having better insight where new investments could have impact on alliance success would enable alliance professionals to be more effective in managing alliance outcomes. In a few instances alliance professionals remarked that each alliance is resourced based on its own merits and contribution to a business unit or P&L. For the majority, alliances are resourced from a top down budget and it is up to the alliance executives to allocate budget from that fixed pool.

What is lacking is an accurate picture of alliance ROI and the "levers" that could change the business case outcomes and enable fact based decision making around investments and performance. As one alliance professional remarked, "We don't have a discipline to understand what the real investment is."

Evidence of Strong Joint Governance

"Executive sponsors, QBRs, weekly cadence with principals on tracking pipeline and enablement; milestones on technical development, training and messaging."

What's Working? What's Not?

The Good News

Alliances, as a business model, are mature within the technology sector and within the pharmaceutical companies participating in the survey. Alliance processes and practices are well understood if not uniformly applied.

These companies depend on alliances to achieve strategic growth objectives. Many of these organizations rely on partners for greater than 50% of company revenue, alliances being a large part of that percent in addition to channel partners. In many cases the route to market for alliances offerings is through the channels.

Governance practices such as the quarterly business review (QBR) are ubiquitous and effective. Some alliances have even more frequent governance to manage pipeline and sales cadence.

Alliance management as a profession seems to be gaining in stature and recognition. Alliance professionals are taking on a very expansive role in managing alliance activities across business units and across functional groups though their management role is currently confined to one of influence and alignment. As remarked by one of our interviewees, "Alliance managers are general managers, but without teeth."

Metrics to Manage By

"Measure with a micrometer and whack with an ax?...NO! We measure with an ax!"

The Challenges

Demonstrating the Full Value. Alliance professionals struggle to demonstrate the full value of their proposed and existing alliances. They have difficulty showing a clear relationship between alliance contribution and corporate strategy. Their challenge is to articulate that alliances are growth engines for the company and …"here's how and here are the numbers." The numbers are there but difficult to extract when the typical company accounting and sales systems are not designed and built to capture the incremental revenue and costs linked to the operation of an alliance.

Tracking Incremental Revenue. Starting with the top line, alliance revenue is not easily isolated from business as usual. Organizations tend to track sell-with sales in the CRM system, but identifying the level of influence a partner may have had in the sales cycle continues to be difficult, often dependent upon a direct sales rep to tag the sale as a partner sale. Our interviews reinforced the claim that sales reps, intentionally or not, at times disallow credit for a partner's sales contribution.

Channels sales are clear-cut but when an alliance offer meets in the channel, the issue of what is attributable to an alliance becomes clouded again.

Isolating Incremental Costs. Tracking costs of operating an alliance is often difficult because again it is hard to separate what contributions are directly related to alliance activity and what is normal business operation. For example, marketing staff may be assigned to execute on alliance marketing activities, but there is no means to track how much time is dedicated to alliance activity versus other activities. This also means that since it is hard to isolate the contributions of these individuals, it is hard to recognize and reward their efforts.

Also problematic is that some portion of the alliance headcount and expenses are on the partner's ledger which can be difficult to understand if as a company you are gaining an advantage in shared costs or are taking on an unfair burden of the total cost.

Articulating the Value

"Alliance folks do not have a clear script or elevator pitch: Here's why we are doing what we are doing."

Applying Appropriate Tools for Collaboration. Our interviews indicated that individual alliances often operate in silos. The alliance organizations have not built a 'community of interest' that shares or builds upon best practices within the organization. Fundamentals such as common tools and templates are lacking which means that alliance professionals are left to create and maintain their own. Those tools that are in wide use tend to be based on presentations and spreadsheets. Collaboration and community require input from all stakeholders and shuttling files back and forth stifles the vitality of both.

Alliance Business Management Enablers

Despite the challenges of managing an alliance business, many organizations do so effectively and with successful outcomes. What are the keys to managing a successful alliance business?

Alignment with the Business Mainstream

Companies that partner are more successful than their peers[2] and most successful alliances are aligned with the core business. Alliance best practice research has shown top performing alliances are more consistently aligned to corporate strategy and more collaborative in involving senior leadership, stakeholders, and partners in designing the strategic intent of the partnership[3]. This includes becoming an integral part of the organizations' strategic planning and adopting the discipline of tracking and managing the alliance contribution to the company at top line, bottom line and in creating innovative value.

Alliances are increasingly becoming sources of innovation for companies and so becoming more integral to future success. One study cites that 51% of CEO's want innovation and access to new technologies from alliances[4]. This heightened importance of alliances in generating the innovation pipeline demands that businesses have the capacity to evaluate the investment required to produce these new streams of revenue.

Expansive Role Without Hardline Authority

"Alliance managers are general managers without the teeth."

Investment in Talent

Alliance professionals come from all walks. It's an interesting question to pose to a large group of alliance managers: How did you come into the profession? Some come from technical backgrounds, others from sales, some product management. Each brings a different perspective and skill set. Running an alliance as a business puts the alliance professional in a general manager role. There needs to be an ability to manage across business units and functional groups and to know the contribution each group adds to the successful operation of the alliance.

When you look at the composite of skills required by an alliance professional[5], it goes beyond the soft skills which by any measure are crucial, but an alliance professional also needs a strong complement of business management skills: strategic thinking, financial and business acumen as well as a sound understanding of industry trends and the competitive landscape.

With talent management coming to the forefront of corporate thinking these days, it would be well if they enabled and developed the full suite of general management skills of the alliance

[2] *Leading Through Connections: Insights from the Global Chief Executive Officer Study*, IBM 2012
[3] *Alliance Best Practices Research: Revealing the Leading Practices of High-performing, Go-to-Market Technology Alliances,* Phoenix Consulting Group 2013
[4] *18th Annual Global CEO Survey*, PWC 2015
[5] *The ASAP Handbook of Alliance Management: A Practitioner's Guide*; Association of Strategic Alliance Professionals 2013

professionals to drive innovation and incremental growth opportunities.

21st Century Tools

Is it time for a new category of automation for the alliance management function? Customer Relationship Management systems (CRM) are now universally adopted by businesses. Most large channel and partner ecosystems are managed through Partner Relationship Management (PRM) systems. Some alliance organizations are leveraging PRMs but in limited ways since the basic premise of PRMs is to optimize management of one to many relationships, which are programmatic in nature: a mile wide and an inch deep. There are over 600,000 people listed in LinkedIn with the title Alliance Manager and another 2.5 million listed as Partner Manager and yet there is no category of management platform purpose-built for the job.

Capturing the Full Investment

"We are looking at capacity to the market versus what capacity we need to capture the market."

Alliance Relationship Management (ARM)

The overarching purpose of an Alliance Relationship Management system is to enable fact-based decisions to better manage alliance partnerships. Key business capabilities:

- Forecast and track resource requirements.
- Predict and track revenue and profitability of alliance initiatives.
- Provide insight into alliance ROI and breakeven of investment decisions.

What would be some of the attributes and benefits of a purpose-built Alliance Relationship Management platform?

- A secure and accessible forum to share information and to collaborate with internal stakeholders and with all partners in an alliance
- Function as the plan of record between the collaborating parties. Current methods of emailing plans and spreadsheets back and forth inevitably become nightmares in version control.
- Robust permissioning at the data level, so alliance partners can share what needs to be shared and protect sensitive data such as SG&A or margin that may be crucial to the investment planning and management but not necessarily appropriate to share with the partner(s).
- An ability to accommodate different business models since alliance partners generate revenue in different ways. Service

oriented businesses will optimize for the service component. Software business will look at unit sales or recurring revenue.

- Integrate with and preserve the investment of other enterprise systems, most notably the CRM for deal tracking and sales performance but may include other systems such as the PRM, or Learning Management System (LMS), etc.

Refer to Appendix C for a more feature specific comparison of CRM, PRM, and ARM.

Conclusions

Alliances, for many organizations, are becoming "the way businesses grow and innovate" and are experiencing a rising profile within the C-suite. Yet, business case development lags behind in what is needed for fact-based decision making and the process is not always well aligned to the strategic planning of the core business.

Alliance professionals struggle without standards to model and manage the alliance investment, track incremental revenue, isolate incremental costs or evaluate the full measure of their contribution.

The tools available to manage the alliance business are antiquated and are not ideal to a collaborative business. While CRM and PRM enterprise systems are available to manage major components of a company's revenue; a purpose built ARM (Alliance Relationship Management) system is not. Hence a major portion of company revenue, investment and innovation is not optimally managed.

Alliance management requires a demanding skill set. Alliance professionals should position themselves as not merely managing a relationship or even partner sales, but managing a business with the capacity to deliver innovation, new streams of revenue and bottom line impact.

Alliance professionals should take the initiative in managing their alliances like businesses. Seek forgiveness…not permission. There is no fault in acting in the interest of the enterprise.

The 21st Century Vision

"A single platform… a single portal. We understand that is unrealistic. But anything that could help simplify the overall process and alliance experience."

About the Authors

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Keith Gaylord is CEO and founder of Partner to Profit, LLC (www.partnertoprofit.biz), a cloud-deployed business planning, analysis and management tool designed specifically for alliance partnerships. A former IBM Alliance Executive and a co-author of the original *Alliance Management Workbook* (IBM, 1994), Keith played key roles in creating a "Branchise" business model for IBM and the design of the professional certification program for the Association of Strategic Alliances Professionals.

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Appendix A
Participating Companies

Astra Zeneca

Dassault

Dell

EMC

Genesys

IBM

IDC

Informatica

JDA

KPMG

Medifast

NetApp

Qlik

Quintiles

Rudnicki Consulting

SAS

SUSE

VMware

WiPro

Xerox

Appendix B

Business Case vs Business Plan

Attribute	Business Case	Business Plan
Organized around…	Single Action	Organization or whole enterprise
Predicts…	Cash flow results	Organization performance
Focuses on…	Business objectives for the action	Business objectives for the organization
Is based on…	Cost model…benefit rationale… designed for the case	Business model for the organization
Measures…	Financial (ROI, breakeven, etc.) and non-financial (new account, etc.)	Performance terms such as sales, profits, “business health”

Source: Marty Schmidt - Copyright © 2004-2015. Solution Matrix Limited

Appendix C

CRM vs PRM vs ARM

A Comparison

Feature	CRM	PRM	ARM
Focus	Customer	Channel	Alliances
Function	Sales Management	Channel Management	Alliance Development and Management
Complete Workup by Partner	No	No	Yes
Create/view/edit Permissions	Limited	Limited	Full
Top KPIs	Sales	Channel Development and Sales	Financial and Non-Financial Performance
Collaboration and Community	Limited	Limited	Full
Modeling	No	No	Yes
Joint Offer Bill of Materials	Generic	Generic	Specific
Competitive Evaluation	No	No	Yes
Resource Forecasting	No	No	Yes

