

Getting Serious About Collaboration: How Companies Are Transforming Their Business Networks

Top executives are putting a fresh spin on collaboration with an updated approach to processes, culture and technology.



An exclusive survey and research report from **BusinessWeek Research Services**

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Executive Summary

- Large and midsize businesses plan to expand their reliance on their ecosystem of partners by more than a third over the next three years.
- Roughly half of the respondents said they are relying on partners for R&D, manufacturing, marketing, logistics, distribution, customer service, human resources or other corporate functions currently, and two-thirds expect to be reliant on third parties for these functions to some extent by 2011.
- While they are already outsourcing 13.4 percent of operations, respondents expect to boost that number to 18 percent by 2011.
- Approximately one out of three survey respondents identified access to new markets and customers as one of the top benefits of collaboration today, but that number jumps to nearly half in three years.
- Only half of the C-level executives responding to the survey are satisfied that their IT infrastructures would be able to support their collaboration strategies during the next three years.
- Eighty-four percent of the survey respondents said they are concerned about process complexity as a barrier to successful collaboration with external organizations.
- The percentage of operations that small and midsize companies outsource will triple by 2011 and approach the level of outsourcing currently relied on by large companies.
- One-third of the respondents said that internal workforce issues are a major obstacle to successful collaboration.

Methodology

BusinessWeek Research Services (BWRS) launched a survey and research program in early 2008 to discover and analyze the views of C-level and line-of-business executives on collaboration with third parties. The research sought to determine these executives' perceptions of the importance of engaging external resources to provide support for R&D, production, customer service, human resources, logistics, sales, marketing and other corporate functions.

The goals of this program included:

- Understanding the extent to which large and midsize companies rely on third parties for support of various functions now and in the near term.
- Identifying how executives facilitate and optimize these collaborations with third parties to achieve overall business goals.
- Examining the benefits, opportunities and challenges organizations confront as they develop collaborative networks now and in the next few years.

This research program included both quantitative and qualitative components:

- An online survey of C-level executives at large and midsize companies who are members of the BusinessWeek Market Advisory Board, an online panel of 20,000 business executives. A total of 353 C-level executives responded to the January 2008 survey. Of the respondents, 45 percent were CEOs and another 33 percent were CIOs. For more information about the survey demographics, refer to the "Methodology" charts on page 5.
- In-depth telephone interviews with C-level and other senior executives at large and midsize companies. The companies involved include:
 - Bang & Olufsen A/S
 - EMC Corp.
 - NatureWorks LLC.
 - OnStar Corp.
 - Procter & Gamble Co.
 - The Dow Chemical Co.
 - Sprint Nextel
 - Xerox Corp.

■ Interviews with leading independent consultants, industry analysts and academics to provide context and additional insights. The experts included individuals from the following firms:

- Aberdeen Group
- AllianceVista Corp.
- AMR Research
- PRTM
- Rhythm of Business

Triangle Publishing Services Co. Inc. supported BWRS in the development of the survey questionnaire as well as the in-depth telephone interviews and the writing, editing and production of this report. BWRS and the author of this report, Deborah Asbrand, are grateful to all of the executives who provided their time and insights for this project.

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For more information about this project, please contact *BusinessWeek*'s Director of Primary Research at chris_rogers@businessweek.com.

Introduction

Savvy companies have always collaborated with other organizations, but the importance and nature of corporate collaboration is changing. Why? One reason is that corporate relationships—whether joint ventures, alliances, supply-chain partnerships or outsourced business functions—are deeper, richer and more transformational than those of the past. Instead of viewing them as one-time undertakings, companies are adopting more strategic stances toward each pairing.

Few companies have collaboration as indelibly infused in their corporate DNA as OnStar Corp. The vehicle-communications company was conceived 13 years ago as a group effort, the offspring of General Motors, EDS and Hughes.

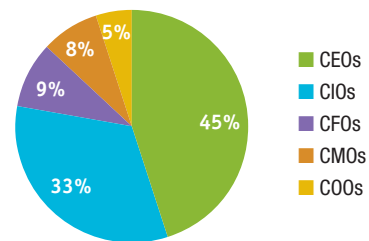
But ask Nick Pudar what he'd do differently, and the vice president of planning and business development doesn't hesitate. "We'd have tried to work much more collaboratively, much sooner, with key players," says Pudar, who has been with the Detroit-based company since its start.

In 1995, he says, "whatever support relationships needed to get formed, got formed. There was a much looser interpretation of how to manage obligations. We went from contract to contract." Today, OnStar, now a division of GM, has turned collaboration from art to science, employing a director and five alliance managers to oversee 14 strategic partnerships.

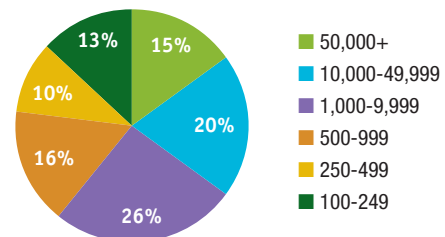
Call the current approach connect and collaborate. And as companies reshape their work processes to support their newly expanded networks of collaborators, attitudes and behaviors change, too. In many cases, collaboration has replaced contentiousness. Some major oil and gas companies, for example, have tempered the once adversarial, procurement-driven stances

Methodology

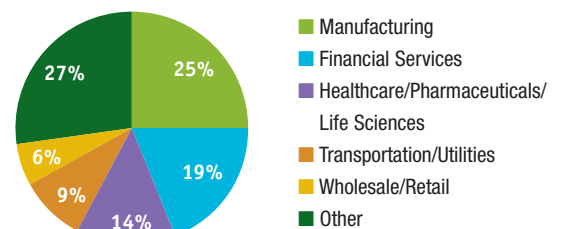
Respondents by Title



Respondents' Company Size by Number of Employees



Wide Variety of Industries Included



Source: BusinessWeek Research Services

they took to the providers of field services that help them find and extract hydrocarbons. “They’ve come to understand that they depend on each others’ talent and expertise,” says Jan Twombly, co-founder of Rhythm of Business, a Newton, Mass., consulting firm that has consulted with several oil and gas firms on developing more collaborative relationships with strategic suppliers.

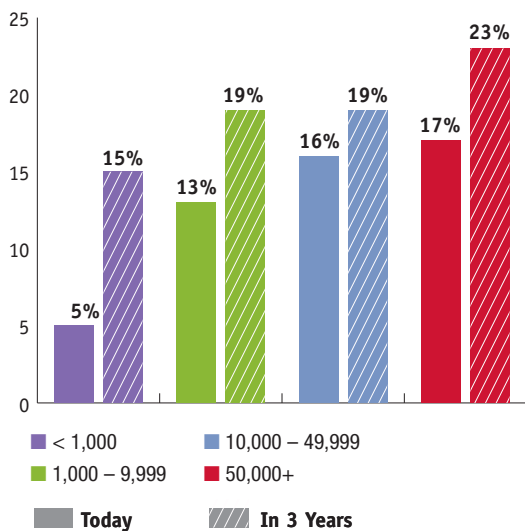
Globalization also looms large as a driver of collaboration and a force for the changing attitudes and behaviors. “You have to have a global mindset and work across cultural boundaries as well as cross-company boundaries,” says leading management authority Noel Tichy. The most successful executives will be those who construct a strategy that profits all partners. “You can’t

be looking to exploit them,” says Tichy, a professor at the University of Michigan and author of *Judgment: How Winning Leaders Make Great Calls*. “In today’s world, leaders who are hierarchical, command-and-control types aren’t going to be very successful.”

Chart 1

Current Outsourcing Profile

Percentage of operations currently outsourced and that will be outsourced in three years, by number of employees.



Source: BusinessWeek Research Services

Why Collaboration Is Booming

Large and midsize businesses plan to expand their reliance on their external partners by more than a third over the next three years. While they are already outsourcing 13.4 percent of operations, survey respondents expect to boost that number to 18 percent by 2011.

In the past, the larger the organization, the more likely it was to depend on outside assistance for critical help, especially for overseas sources. These days, though, small and midsize enterprises (SMEs) are beginning to see collaboration as a pathway to growth, too. Nearly twice as many SMEs expect to rely on collaboration to a major extent in three years as do now.

In fact, the percentage of operations SMEs outsource will triple by 2011 and by then approach the level of outsourcing currently relied on by larger companies (see chart 1, “Current Outsourcing Profile,” at left.)

The rush to outsource typically begins when a competitor’s move needs a fast response. “Getting into new marketplaces quickly is much easier if you have a partnership strategy,” says Kevin Schwartz, a director at global management consulting firm PRTM. “Partnerships give you capabilities that would be hard to build on your own. Everyone wants to compete and innovate, but no one can afford to invest unlimited dollars in R&D.”

High-end consumer electronics manufacturer Bang & Olufsen A/S recently faced such a transition. The era of the Apple iPod meant that the Danish luxury brand needed to wow consumers with stunning function as well as sumptuous form. For B&O and its 2,300 employees, the challenge was on. To get the software expertise the company needed, engineers at the independent-minded B&O began networking for the first time with their counterparts at other companies. The cross-company meetings with acoustic experts led to joint ventures like the cell phone B&O co-created in 2006 with Korean mobile-phone maker Samsung.

This Danish-Korean connection also represents other trends seen in the survey data. These days, “cross-company” often means “cross-country” and “cross-ocean.” While most U.S. companies currently rely on other U.S. companies as their primary collaboration partners, by 2011 four out of 10 will be relying on collaboration partners from China, India, Russia, Vietnam or other countries.

Expanding the Business Network

Although companies' initial vision for collaboration may just have been a simple contract manufacturing assignment in China or customer-service outsourcing in India, partnerships are now transforming businesses into vast corporate networks. Just about every corporate function—R&D, marketing, sales, human resources, logistics, distribution—is part of the collaboration landscape.

Roughly half of the survey respondents said they are relying on partners for these corporate functions currently, and two-thirds expect to be reliant on third parties to one extent or another by 2011. And a significant portion of the respondents indicated a major reliance on such relationships in the future (see chart 2, "Redefining Core Competencies," below).

Globalization requires a more holistic approach to supply chains, so it's no surprise that, in addition to outsourcing traditional functions like transportation, companies are expanding their distribution partnerships (see chart 3, "Opening Up to New Markets," on page 8). The sharp uptick in using partners to obtain and deliver goods around the world foreshadows another trend driving collaboration: the shift from a myopic bottom-line focus to a more balanced view that includes top-line opportunities, as well.

Cost reduction remains a top motivator for collaboration, but the ranking of benefits is shifting dramatically. While 67 percent of respondents identified reduced costs as a key benefit of collaboration, in three years that figure slumps to 59 percent.

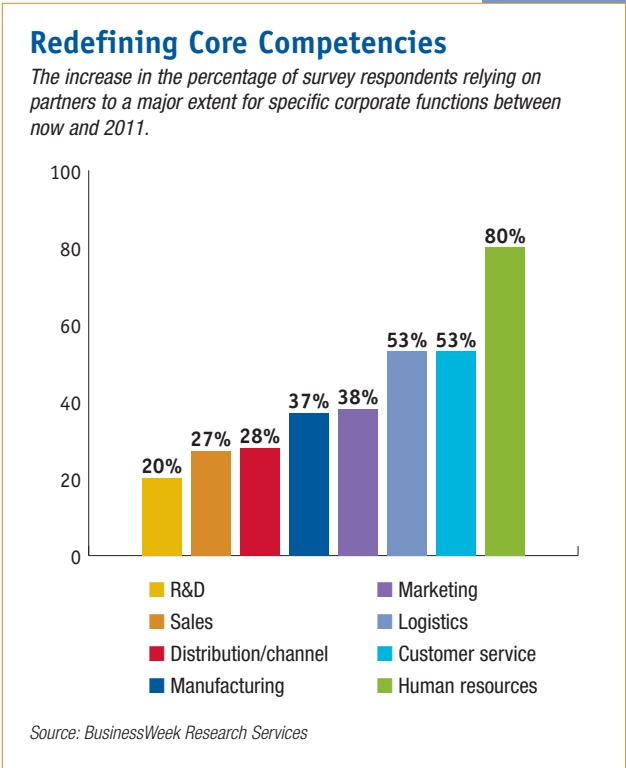
What's changing? For one thing, many companies have already achieved their objectives for cost-based outsourcing. Many respondents indicated that they have plucked the low-hanging fruit when it comes to cost savings. Furthermore, many companies learned the hard way that while the production cost of an overseas partner may be lower, the total cost of procurement might have been higher.

We're not just talking about rising fuel prices and related shipping costs. If not managed correctly, the increased complexity of offshore collaboration can drive product design, T&E and other ancillary costs way beyond even the most pessimistic budget. A recent study by Boston-based AMR Research found that 56 percent of surveyed goods producers that outsourced production offshore reported that the total cost of the goods had actually increased.

The new big opportunity in a global collaboration strategy is the chance to find new customers. While approximately one out of three survey respondents identified access to new markets and customers as one of the top benefits of collaboration today, that number jumps to nearly half in three years. The growing industrialization of the BRIC (Brazil, Russia, India and China) countries and other developing nations beckons as an emerging market, not just as a new sourcing opportunity.

Another important, but until recently overlooked, benefit of third-party collaboration is to increase access to new ideas, skills and products, which in turn leads to new markets. Once considered a last resort, going external has gained new respect as a proactive strategy for driving top-line growth. This shift to recognize external abilities extends even to the giants of American industry.

Chart 2



“The reason we had to do it was that the world had changed,” says Jeff Weedman, vice president for external business development at manufacturer Procter & Gamble Co. “Only about one-third of the products we brought to market were successes. The fast-followers were getting faster, and the retailers were increasingly our competitors.”

Since famously throwing open its product-development doors to ideas from beyond its own considerable R&D resources, P&G has elevated collaboration to an art. Weedman says he currently has a number of joint ventures underway, with many more in the pipeline.

A large chunk of P&G’s success in new markets has come from its newfound skill at uncovering potential partners. “Over time, we’ve been able to understand networks and the value of them, so we’ve added places to look” for ideas and technologies, says Weedman, a 31-year veteran of the Cincinnati bellwether.

Overly North American-centric at the start of its open-innovation approach, P&G now scours all continents for new opportunities. Weedman recently signed on to work with a U.K. consortium of entrepreneurs. “We never knew they existed,” he admits, “but they have access to technologies we never would have been able to get a hold of.”

Fostering a Positive Business Network

Finding the right talent at the right time and in the right place is a challenge. Indeed, workforce issues are the number one internal challenge survey respondents cited (see chart 4, “Internal Obstacles,” on page 9). When working with external partners, a key challenge for companies is managing their own core players and the internal disruption that can be an unintended consequence of collaboration.

“Workforce issues” describes a number of staff-related challenges. First is the NIH syndrome. “Not-invented-here” inertia continues to stymie companies’ efforts to reach out and mingle technologies with other businesses. So do “organizational blocks.” Research on biomedical innovation by Bentley College found that many ideas fail to come to fruition not because the science is bad, but because organizational or inter-managerial influences prevent them from happening, says Sue Newell, management professor at the Wellesley, Mass., college.

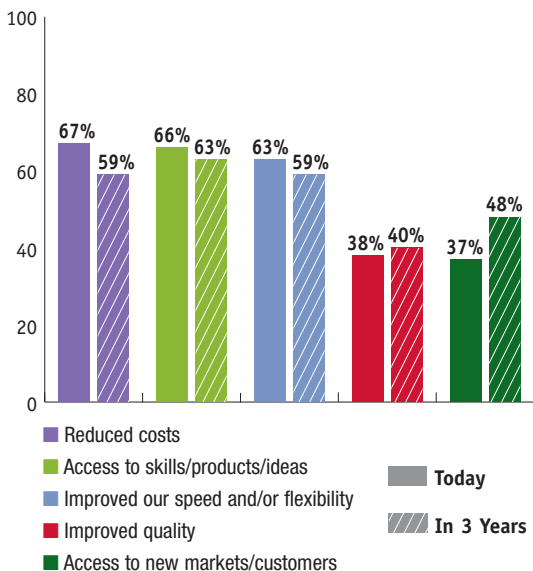
So how do companies foster a positive business network? For starters, they need to know which individuals within their own ranks make the collaboration tick. Identifying the right collaboration movers and shakers is harder than many executives think. “Leaders can correctly guess 50 percent of those central players, but they’re always surprised by the remaining 50 percent,” says University of Virginia professor Rob Cross, who studies social networking in the workplace.

Even when influencers are known, companies grapple with how best to compensate them. Collaborations are still a new element to many businesses, and they involve much more than replicating existing networks or finding new distribution partners. They often create new networks that combine marketing, manufacturing and sales or other functions in novel ways.

Chart 3

Opening Up to New Markets

Respondents said access to new markets and customers is a growing impetus for their collaboration efforts, while cost reductions fade as the primary driver.



Source: BusinessWeek Research Services

Companies need to recognize who is responsible for aligning the partners with opportunity and, perhaps more important, to rethink the corporate incentive structure. Survey respondents agreed, indicating that they intend to beef up organizational acceptance of collaborative ways of work through revamped incentives and rewards.

“If a marketing manager is responsible for a collaboration that provides a year-one revenue of \$25 to \$50 million, do you pay them like a marketing manager and give them a 10 percent max bonus?” asks Andrew Hargadon, author of *How Breakthroughs Happen: The Surprising Truth About How Companies Innovate*. “Or do you pay them like someone in sales, and give them a percentage of revenue? A lot of companies don’t invest in that.”

The results are partnerships that fall short of their potential. Survey respondents said a combination of flawed workforce strategies and external factors can lead to collaboration disappointments. Roughly a quarter of the respondents noted that the quality, cost or revenue achieved by their collaborations fails to meet expectations (see chart 5, “Collaboration Disappointments,” on page 10).

Disappointing collaboration is usually the result of a number of factors. A 2007 review of 45 global collaborations found that in more cases than not, the companies turned to collaboration to reduce costs and never evolved beyond that goal, even after six or more projects. The study, conducted by Harvard Business School and Wipro Technologies, observed that the relationships were driven at a department or division level. Worse, it wasn’t unusual to have multiple strategies, one per department or division. Disappointing quality could be the obvious result of a cost-driven collaboration program where QA, marketing and sales were not adequately involved.

The study also found that the competencies required to achieve top-line growth through global partners are different from those required for successfully reducing costs. However, many companies managed global collaboration projects the same way they managed cost reductions.

EMC Corp. has successfully expanded its view of its outsourcing partners. The Hopkinton, Mass.-based hardware storage maker credits its relationships with other companies for helping to boost services from fewer than 10 percent of revenues to 16 percent. “The mindshift we’ve had to make is that there are reasons to partner with Indian and Chinese firms that are beyond cost advantage,” says Tom Roloff, senior vice president of EMC’s Global Services arm. “Cost savings is often what compels you to partner initially, but what keeps you there is the access to world-class talent.”

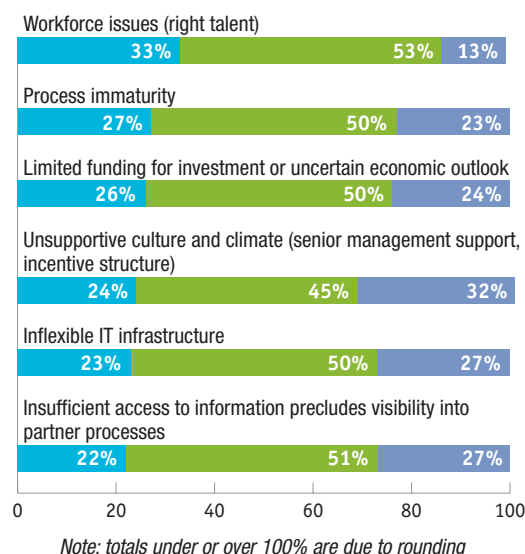
The View from the Top

More than a few partnerships are created on the fly without senior-level recognition of the challenges and implications. “A lot of collaborations happen when someone in business development has a great networking meeting at a conference with an executive from another business and sees an opportunity to work together,” says PRTM’s Schwartz. “That’s great at the surface, but it doesn’t ensure that the collaboration is aligned with your overall business strategy or bought into by the rest of the organization.”

Chart 4

Internal Obstacles

One-third of the respondents said that internal workforce issues are a major obstacle to successful collaboration (% of respondents).



Source: BusinessWeek Research Services

Sprint Nextel has propelled its focus on partnerships straight to the executive suite. In 2007, the wireless carrier's seven strategic alliances rang up \$2 billion in wireless and wireline revenue. While conversation about partnerships often hovered at mid-management level, strategic aspects of the partnerships required input from senior leadership, says Vice President of Strategic Alliances Susan Nelson. The idea behind Sprint's newly formed internal steering committee—its members are direct reports to CEO Dan Hesse—is to ensure that collaboration becomes part of the \$40-billion company's strategic bedrock.

"In this era of our strategy, we're going to partner more, and we need to elevate the conversation," Nelson says. The big-picture view, she says, "is producing benefits that include driving focus and defining funding for alliance priorities, and it's motivational for the alliance team to have the support of their executive team."

External obstacles also pose challenges to successful collaboration. The biggest external challenge is managing complex processes across enterprises. Eighty-four percent of survey respondents said they are concerned about process complexity, while 66 percent worry about government and legal restrictions (see chart 6, "Concerns About Collaboration," on page 11).

This concern is based on the fact that managing integrated processes across multiple corporate boundaries has reached new levels of complexity. In the old days, telephone calls and faxes were the two primary communications methods used to link partners. Now add the myriad virtual private networks (VPNs), e-mail attachments, text messages, Instant Messages, shared digital workspaces and a slew of other technologies to the mix. And that's on top of the fact that each partner has its own processes and systems for approval cycles, workflow and communications. Expensive technology infrastructures, platforms and applications need to somehow share data. And they may call the same document by different names.

However, the intricacies of collaboration are worth resolving when companies set the bar high enough. "You don't collaborate on small wins, you collaborate on big wins—big improvements in the supply chain, new paths to market—so the level of return justifies the level of investment," PRTM's Schwartz says. "Once you get really good at it, the incremental costs of adding new partners become less. You've already changed the mindset, the culture and the processes, and that makes it easier to add new partners."

But change comes hard. When two companies come together to collaborate, meshing corporate processes can require unexpected diplomacy. Seemingly small stylistic distinctions can become deal-breakers. "We had one company say, 'we're a voicemail culture, and they're an e-mail culture, and we couldn't communicate,'" recalls Dave Luvison, director of curriculum development at AllianceVista Corp., a Raleigh, N.C., consulting firm that specializes in collaboration.

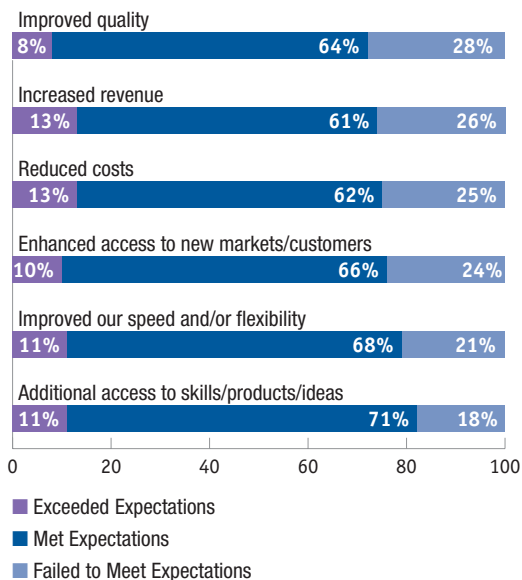
The Challenges of Size

Especially tricky are pairings of small startups and large companies. David-and-Goliath matches appear to offer the brass ring of nimble technology combined with global distribution networks. But they can be the toughest unions of all to succeed at.

Chart 5

Collaboration Disappointments

Quality, cost or revenue goals are the most likely to fail to meet collaboration expectations (% of respondents indicating extent to which performance failed to meet expectations).



Source: BusinessWeek Research Services

“You have rigorous process flows trying to sync up with an ad hoc, fast culture that doesn’t write things down but gets things done quickly and iteratively,” PRTM’s Schwartz says. “For one company, a process spec is 30 pages of details; for their partner, it’s a half-page memo on the back of a napkin.”

P&G’s Weedman agrees. At \$76 billion in sales, P&G is the ultimate giant. Yet it’s not the right partner for every startup or small company. Weedman says that the lengthy approval cycles of a multinational like P&G sometimes make a poor match for more fleet-footed entrepreneurial organizations.

“We have a work process that includes steps to ensure regulatory approval, safety testing and preplanning with customers for 18 months,” Weedman points out. “Entrepreneurs sometimes want to launch next week. The question for smaller organizations is whether they have the patience to work with us.”

In fact, when large companies and SMEs collaborate, the risks extend in both directions. Small businesses need to protect themselves when partnering with large enterprises on deals that they count on to deliver hefty revenues.

It’s a complex dynamic, says Snehal Desai of NatureWorks LLC, a Minneapolis-based maker of plant sugar-based polymers. As chief marketing officer, Desai leads the eight-year-old company’s strategic and commercial development. An important part of his job is discerning which collaborations with brand owners, who turn NatureWorks’ raw materials into eco-friendly packaging such as shrink labels, water bottles and coffee-cup liners, will become happy unions.

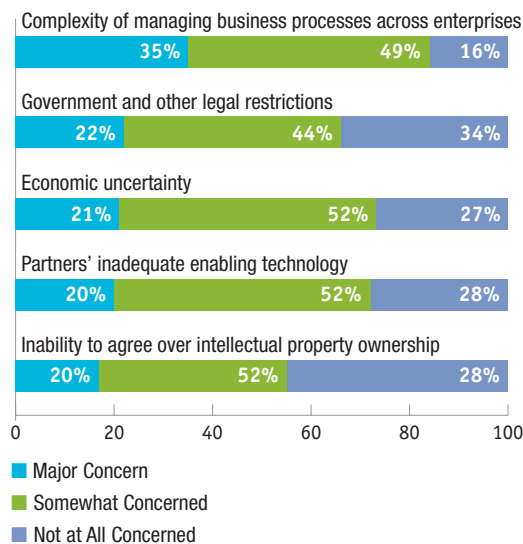
Experience has taught Desai that a small amount of interest on a large company’s part won’t go far. When it comes to working with big companies, priority ranking is everything. “Is it number seven on their list, or is it one of the top two? Finding that out early on is a critical decision criteria,” Desai says. So is determining whether the collaboration already has the top-level support it needs.

For their part, big companies can encounter trouble when smaller enterprises fall behind on project timelines. To hedge their risks, larger companies “might want to put equity into the smaller company and secure a seat on their board,” suggests Russ Buchanan, vice president for worldwide alliances at Xerox Corp. of Norwalk, Conn. “When you’re going beyond being channel partners, you have to be very thoughtful in your arrangements,” he says, with guidelines and safeguards that protect both parties.

Chart 6

Concerns About Collaboration

Survey respondents rank cross-company process complexity as their top concern (% of respondents indicating concern about the following obstacles to successful collaboration).



Source: BusinessWeek Research Services

Collaboration Evolves from Art to Science

Although some level of complexity is integral to partnerships, survey respondents singled out complexity as an issue they want to act on. The most important change to their business processes over the next few years is simplification and integration of their existing systems to facilitate information flows. As chart 7 on page 12 shows, upgrading IT to provide enhanced visibility of process information to partners and customers ranks closely behind.

Systems integration and simplification is a multi-front war, with battles in the COO’s office, the finance department, the IT department and elsewhere in the enterprise. At The Dow Chemical Co., Dave Kepler is the point man for ensuring that collaborative efforts at the world’s number-

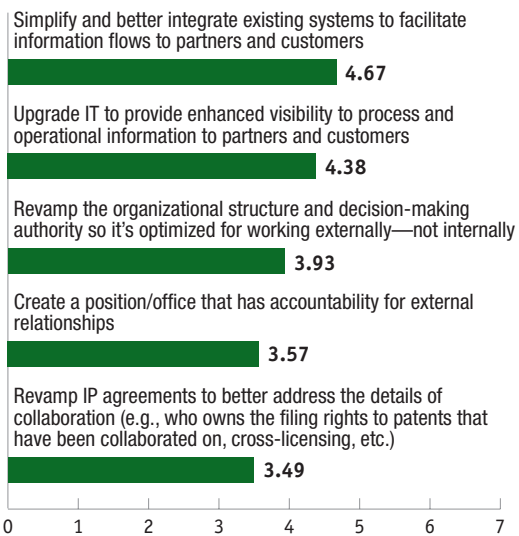
one chemical company stay on track. As CIO, it's Kepler's job to manage the complexity of Midland, Mich.-based Dow's carefully selected strategic alliances.

"One of my roles is to recognize that these collaborations are not about IT, but about the value you bring from services like the supply chain, and how to deliver such services in a bundle," he says. "In the end, the joint venture wants value and capability, and that's not just technology but the work processes and capabilities that come with it."

Chart 7

Overcoming Process Obstacles

Systems integration is the most important planned change to respondents' business processes over the next few years (mean number of respondents' ratings, on a scale of 1 to 7 with 7 indicating extremely important).



Source: BusinessWeek Research Services

Dow's heavy investment in IT in the mid-1990s set it apart from other companies in the low-margin chemical industry. It ditched fragmented legacy systems and created common work processes. Its smooth-running technology became the gold standard among large companies in its industry.

Dow's IT infrastructure is the crucial foundation platform that enabled a successful overhaul of its strategy and business model. During the past decade, the company shifted emphasis to its specialty-chemical business, which is more profitable and less exposed to volatile energy markets than its commodity portfolio. That expansion means rapidly moving into new markets and technologies.

Collaboration is key to the effort's success. Kepler describes the revamped \$54-billion company as "hugely complex but built fundamentally on our ability to work with other companies. We want to be agile."

Agility only happens if the complexity and overall costs are under control. Balancing the three dimensions requires Kepler to leverage Dow's IT assets while freeing the partnerships to use technologies that work best for them. "The challenge is in the gray space of managing the back-office environment while letting our partners have the flexibility they need and the low-cost backend," he says.

In 2007, for example, Dow bought Wolff Walsrode AG, a German unit of Bayer. The new company, called Dow Wolff Cellulosics, is a \$1-billion business. Kepler says 80 percent of the new company's IT is being folded into Dow's infrastructure. The remaining 20 percent is unique to Dow Wolff's manufacturing and will become part of its new parent company's portfolio.

Kepler's advice on managing collaboration complexity is to keep the objectives of relationships simple enough to be described on a single sheet of paper. "That simplification addresses a lot of complexity, because it creates alignment," he says. "You can always come back to it."

New Ways of Work

As Kepler notes, IT plays a key role in collaboration success or failure. As companies grow increasingly reliant on overseas third parties, they require more robust networks and systems. In addition to managing multiple systems, IT must ride out the risks associated with partners' incompatible or outdated technologies.

Survey respondents' IT goals leave no doubt as to the collaborative direction in which they see their businesses moving. They said the consolidation and integration of databases is their number two goal for the year, surpassing even network and data security in importance.

Database integration and systems consolidation are only part of the IT agenda. Only half of the C-level executives responding to the survey are satisfied that their IT infrastructures will be able to support their collaboration strategies during the next three years (see chart 8, “The Challenge for IT,” below).

New styles of collaboration will require new technology tools. But the order in which companies adopt new tools is key. New processes must be put in place before the technology that supports these processes is implemented. Toward that goal, companies are implementing helpful metrics—everything from hiring alliance managers to modifying performance reviews to including how well employees work with partners or utilize and contribute to shared resources.

Due in part to the Internet's influence, collaboration has become a cultural norm. And this works in companies' favor. Web 2.0 tools like Wikis, blogs and Web services have made sharing and contributing part of the national discourse. Organizations are collaborating “better and consistently now that they have identified a set of best practices that have given alliances a grounding of predictability and consistency,” says AllianceVista's Luvison, “much the way projects got managed better when project management came along.”

Intellectual property ownership in a collaborative context remains an area of concern. More than half of respondents worry about releasing important documents among partners and clashing with external partners over ownership of specialized knowledge and patents. Other research also highlights the need for protection. A 2006 study by Boston-based research firm Aberdeen Group found that globalization among manufacturers increased their IP exposure, with 27 percent of respondents reporting lower margins because of compromised product IP.

Yet thoughtful legal and process protections give companies the measure of security they need to move forward. And a dollop of flexibility, borne out of enlightened self-interest, is appearing in even heretofore unlikely places. “We used to say we wouldn't do business if we couldn't control the IP,” says P&G's Weedman, “but ownership of IP is something we've gotten a lot more flexible about.”

Conclusion

Collaboration doesn't happen by chance. But under pressure to grow new sources of revenues, CEOs and other senior executives are making it a top priority. They're redefining collaboration, dropkicking loose couplings with partners, suppliers and customers in favor of purposeful, strategic ways of work that draw on all parties' resources—and grow top-line revenues for all, as well. The message they bear? It's never too soon to collaborate the right way.

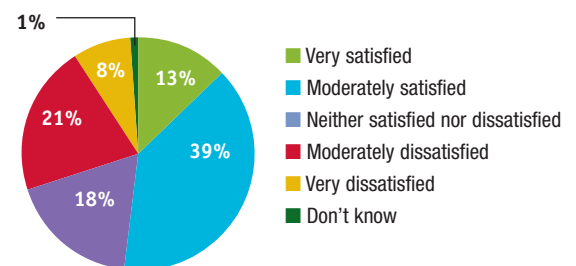
Indeed, collaboration has changed the balance of the business network, transforming large chunks of it into a surprisingly cooperative place. As Pudar explains about OnStar's approach, “It's not a one-way focus. Our key alliances have obligations to us, and we have them to them.”

The introduction of communications technologies and the globalization of business practices have leveled the playing field for businesses. ■

Chart 8

The Challenge for IT

Only half of the survey respondents are satisfied that their organizations' existing IT infrastructure can support their collaboration plans.



Source: BusinessWeek Research Services

The Prerequisites for Successful Collaboration

An ecosystem of partners, suppliers, consultants and customers, supported by the right IT architecture, enables innovation. The SAP ecosystem is an example of business network transformation and a key enabler for SAP customers to transform their own business.

To better understand how companies should utilize their ecosystems of partners, suppliers, customers and other interested stakeholders to accelerate innovation and improve return on investment, BusinessWeek Research Services interviewed Zia Yusuf, executive vice president of SAP's Global Ecosystem and Partner Group. Mr. Yusuf has spent the past decade building marketplaces and collaboration networks of software, hardware, service and customer organizations. Currently, he leads the team orchestrating the SAP Ecosystem, which includes SAP's Communities of Innovation and Partner Solutions and Services. An edited Q&A of that discussion follows.

Our research indicates that collaboration with third parties has dramatically evolved in most industries. What had been a tactical solution organized at the mid-level for solving a short-term problem is now a C-level-based strategic initiative for the long term. Why has this happened?

Globalization. The increased use of, and access to, technology around the world has significantly increased the number and the type of people and resources available. And, the sheer diversity of real-time input from around the world has tremendous value.

While interacting within a value chain is not new, the speed of business has changed as a result of globalization. The connectivity of people is an order of magnitude better than before, and that has strategic implications.

Now, it is very important for C-level execs, as part of their strategy, to be much more connected to their organic ecosystem, or business network. They realize that the only way their companies succeed is if they can enjoy the benefits of an ecosystem consisting of third parties such as partners, consultants, suppliers and customers.

Successful collaboration with third parties over the past two decades is how SAP has succeeded. Could you describe the benefits of collaboration?

The greatest benefit is the ability to quickly introduce new products and services. This is very important for SAP, our customers and our partners. Collaboration helps every-

one be efficient and effective in developing and distributing those new products and services that are well aligned with what customers need.

However, to accelerate innovation requires more than just throwing partners at a problem. It is important to figure out which partners provide relevant and trusted solutions and services. SAP plays that role for its ecosystem. We work with hundreds of independent software vendors, for example, and our job is to help customers identify the right partners through efforts such as certification and joint solution development. That pre-selection increases the speed and success of innovation.



Zia Yusuf
*Executive Vice
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The best way to accelerate effective and efficient innovation is by bringing the best of your ecosystem to the customers. But ultimately, the participation of customers fuels that entire collaborative process, because they drive better insight about what's really needed. For that reason, customers must also be active partners in the ecosystem. That way, the ecosystem is focused on real customer needs.

For example, 83 percent of the members of our SAP Developers Network are from customer and partner organizations. There are more than 1.1 million people on our developer network. They are posting more than

5,500 comments per day, with an average response time of less than 18 minutes from the time a question is asked. And, in the latest release of SAP enhancement pack, more than 50 percent of the enterprise service bundles were developed via the SAP Ecosystem—feedback directly from customers and partners. So this collaboration is producing results for everyone.

This 24x7 access to knowledge and resources not only provides innovation, it also reduces costs.

How does collaboration reduce costs?

A key feature of ecosystems is communities that allow people to quickly get the information they need, which dramatically reduces the cost of insight. You don't have to fly people around the world to collaborate and benefit from the knowledge of others.

Also, the ecosystem drives common standards and best practices. It's the "wisdom of the crowd" effect. Their collective insights formed into standards and best practices provide real bottom-line value.

What are the biggest challenges your customers encounter when partnering with other organizations?

One of the biggest challenges is an organizational issue to optimize the value of an ecosystem. While large organizations may need one individual in charge of a relationship, the wider and deeper the collaboration, the more you'll gain from it. While companies historically try to control their partnerships, they should instead open the doors to broader participation across the company. Let the benefits permeate the organizations.

How can companies reduce the level of complexity that hinders collaboration with third parties?

Complexity slows collaborations, but there are ways of simplifying the engagements. You can manage the complexity through the clarity of significantly enhanced communications. There are technologies today that allow you to do that.

Also, complex collaborations on product or service development should be managed through rapid prototyping and rapidly developed proofs of concept. Let's not work for 18 months on the business plan that will change the

world. Instead, let's discuss for a week what we want to accomplish. Then iterate our deliverables very frequently.

Half of the C-level officials responding to the survey said they weren't satisfied that their internal IT infrastructures could support the level of collaboration they need to achieve their business goals. What advice can you offer CEOs, CFOs and others concerned about the gap between the IT they have and the IT they need?

CIOs and their partners in the C-suite need to agree on their *business process platform* and the base set of corporate capabilities—HR, financials, etc.

Once that is in place, then the CIO shouldn't be upgrading the infrastructure and apps every year. Instead, they should just implement enhancement packs for their existing platform.

These packs are a collection of new processes and underlying services delivered two to three times a year. Each organization should pick and choose the relevant and appropriate processes and services. These enhancement packs can be switched on in minutes or a few hours.

The packs and the platform rely on *Enterprise Service-Oriented Architecture*. This is an IT architecture consisting of a collection of 5,000 to 6,000 enterprise services. The Enterprise SOA approach enables significant innovation without switching out the underlying platform.

Then the ecosystem allows you to turbo-charge those SOA capabilities with industry and process specifics. The business-process expert community collaborates on how to define and improve these business processes. It is a recipe for accelerated innovation and fully leveraging an existing IT investment. ■

For More Information

SAP's Web site offers an extensive collection of information about how organizations can enjoy the benefits of collaboration. Go to www.sap.com for more information about the SAP ecosystem, enterprise SOA, the business process platform and the SAP Developer Network.

