

Partnering in the New Information and Communications Technology (ICT) Economy

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Abstract:

In the new Information and Communications Technology (ICT) economy, supplier chains will be replaced by complex “value webs”, co-ordinated and managed by influential organisations acting as “orchestrators” in their selected markets. Every business must decide how it will operate within these value webs, and make itself “partnership ready”, through sharing information, simplifying its offerings and support, and ensuring it has the right cultures, people and systems in place to quickly negotiate new partnerships.

This article examines the partnering issues that will arise in the new economy and advises how businesses can prepare themselves for success.

Executive summary:

Building on work done with major telecoms equipment suppliers and Warwick Business School, this article describes the dynamics of the new Information and Communications Technology (ICT) economy and its implications for how organisations will partner with one another.

The central premise is that a new core competence is emerging: that of organising collaborations of companies and marketing the capabilities of these consortia to the end customer. Organisations developing this new competence construct “value webs”. They have been called “orchestrators”, identifying, managing and sustaining sets of collaborative partnerships to deliver value to selected target markets.

The result is a set of commercial arrangements much like a spider’s web, with the orchestrator at the centre of this web, guarding its own set of competences; a small number of partners within an “inner circle”, each contributing a vital component of the overall; and a larger number of remote suppliers – all held together by the orchestrator’s “corporate glue”. Ultimately, success of a value web depends on how well the orchestrator co-ordinates the activities of the companies involved to deliver what the market wants.

To be successful players in the new ICT economy, companies must understand these dynamics and decide explicitly where they wish to play: as an orchestrator, a close partner or as a more “arms length”, commodity-type supplier. Companies may choose to play different roles in different markets; even smaller companies can be orchestrators in niche or geographically local markets.

Every new economy player must strive to be part of one or more successful value webs. The question is: Where do you want to play? As a supplier, a partner, or an orchestrator?

Whichever role or roles you decide to play, you must ensure that your organisation is “partnership ready”. This means making yourself attractive to partners, supporting them and being easy to do business with. In particular, you cannot afford to be risk-averse or too slow. Partnering in the new economy will be based on fewer certainties than today, and the market opportunities shorter-lived.

But for those businesses that do get it right, the rewards will be substantial. The key message is that you must build the right partnerships within value webs to support your company’s goals and objectives. Only then will your company prosper in the new ICT economy.

Introduction

This article is derived from work done between May 2002 and March 2003 with representatives of five leading telecoms industry suppliers. A series of workshops were held over a 10 month period to analyse the common issues facing traditional suppliers of telecommunications equipment as their market moves towards a fully integrated Information and Communications Technology (ICT) economy. As the workshops progressed other interested parties took part in the discussions, representing new media companies, telecoms service providers and an electronics firm.

Valuable input was provided by Warwick Business School [McGee (2003)]. This not only helped to structure the debates, but also stimulated the thought processes of those taking part in the workshops. The conclusions reached by the participants were captured in a presentation that has been used within participating companies to guide strategic thinking.

Much of the output from the workshops has already been documented in a chapter of a recently published book [Stubbs (2004)], and I am indebted to the publishers for their permission to reproduce material from that chapter in this article.

Overview

The convergence of telecommunications and information technology creates a growing opportunity for businesses to access new markets and deliver products and services to a wider range of end customers. The universal availability of online services and a rapidly burgeoning and increasingly sophisticated customer demand characterise the ICT economy, and consequently supply chains are becoming more complex and interrelated. For example, Herman (2002) points out that whereas the traditional value chain optimised a sequence of functions for just one business, in the new economy the supply, demand, and product design activities must be optimised for an entire network of partners.

For success in this economy, you and your business need to adapt to take advantage of new market opportunities. You also need to focus on what you do best and what distinguishes you from the competition – your core competences. Finally, you need to learn how to outsource some key activities currently performed in-house, such as product manufacture or managing your corporate network, and you need to become less risk-averse.

Most important, all businesses in the ICT economy need to learn how to partner with other organisations in ways they haven't done before, and with far less certainty about the outcome. Businesses will experience less certainty because partnerships will be established on the basis of a loosely defined market opportunity, rather than for a specific project. However, for those that do succeed, the rewards will be substantial. The ICT economy will be a “winner takes all” game in which a few, well-organised and co-ordinated consortia of collaborating companies will take control of the markets they choose to play in.

The New Competitive Model for Business

The role of information is having a profound effect on the way that products and services are delivered. Alongside the physical delivery channel, suppliers must ensure they have effective, interactive electronic channels for delivering information. This takes companies outside their areas of key competence and forces them to gain access to new skills and new distribution channels. So rather than being able to “go it alone”, every company will need to find partners who can deliver those ingredients of the product and services mix that they either are unable to or choose not to provide themselves.

Evans and Wurster (1999) give valuable insights into what this will mean for the structure and organisation of companies. They explain how the fact that transmission of information is no longer dependent on physical entities means that competitors who in the past were unable to reach a company's customers can now do so easily and provide them with rich, individually-tailored information to win them away. This will force traditional business structures to transform or “deconstruct”. The new structures that emerge will be influenced by two separate economics of information and physical entities, and will change the sources of competitive advantage. Intermediaries will find it difficult to survive simply by positioning themselves between producers and consumers. They will need to develop a new core competence of forming and maintaining complex partnership arrangements with a variety of different organisations in order to deliver the enhanced “customer experience” that consumers are looking for.

Market forces (the “economics of information”) combined with growing technological capability are resulting in a new “partnering imperative”. For most ICT companies it is a simple choice: either collaborate or die. Only a few very large organisations will attempt to do everything, through organic growth and/or acquisition.

Collaboration in the new economy will give rise to a number of partnering issues. For example: unless you take steps to avoid it, you will be in danger of becoming just a commodity supplier; you will have to be prepared to enter into partnering arrangements where there is no certainty as to the work to be done or even the end customer demand; and you will need to make your organisation easier to partner with. But through understanding these issues and incorporating them into your strategy development process, you can place your business in a prime position to take full advantage of the opportunities the new economy brings.

The Orchestrator

A small proportion of commercial operations will develop the key competence to organise collaborations of companies and market the capabilities of the consortia to the end customer. This type of business has been termed an “orchestrator” [McGee (2003)]. The competence it develops to make these collaborations successful and sustain them can be thought of as “corporate glue” – a unique and distinctive knowledge that enables the company to orchestrate product and service portfolios and develop successful, sustainable strategic linkages between partner companies.

There is growing evidence that this is already happening today in the media industry. For example, a well known digital TV company has invested in an infrastructure to enable it to conduct business directly with the end consumer and through third party network channel operators. The company aggregates its own media content and content from other third parties into products with their own sub-brands, then delivers them over an increasingly varied multimedia network, including cable, satellite, internet, broadband and mobile channels, all with their own distinct channel branding. In the Internet arena, the company works with external portal providers to deliver news and sports content, and in the broadcast arena has a network of partnerships for broadcast and transmission of content through cable operators and broadcasters. Within its selected target markets the company is acting as an “orchestrator”, bringing together the skills and capabilities of a variety of different organisations to deliver a unified set of services to the end customer. The company has further plans to develop more partnerships in order to offer targeted niche services.

“Corporate glue” is a type of organisational capital and a source of differentiation. It is derived from a combination of clearly articulated business vision, acute market awareness and the expertise to knit together mutually supportive commercial arrangements. It is sustained and defended by allocating the necessary resources to manage and nurture it, and by developing strong brands within the selected target markets.

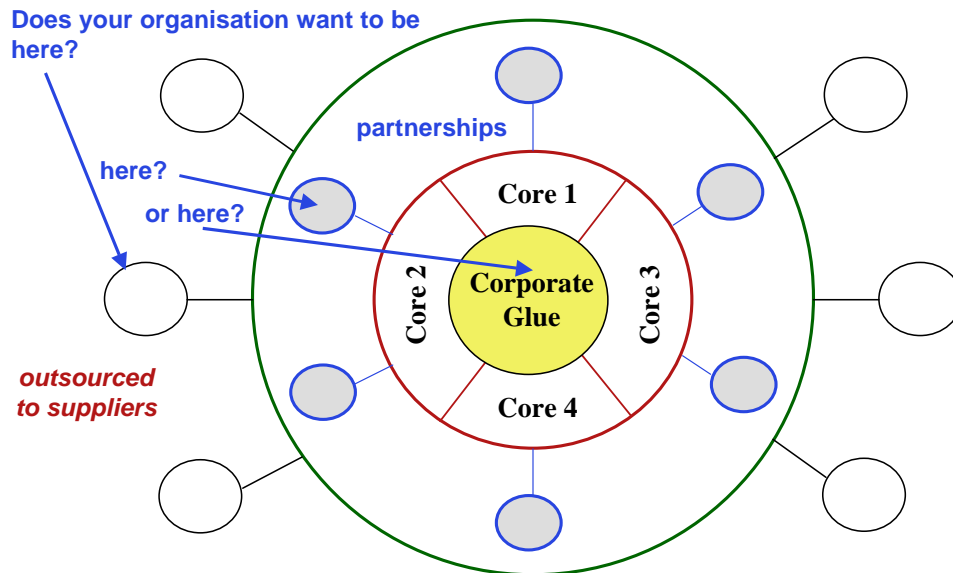


Figure 1: The structure of a Value Web

Orchestrators build “value webs” – a term originally coined by Selz (1999) – which are groups of companies brought together to serve a particular market or market niche. Figure 1, adapted from Figure 5.7 “The Value Web” in McGee (2003), illustrates how a value web is constructed.

At the centre of the web sits the orchestrator, with its key competence of “corporate glue” and a small number of other core assets or competences. Some companies in the value web have products, technology, intellectual property, skills, or some other attribute unique and crucial to sustain value in the target market. These are kept close to the orchestrator through recognised partnerships. Others in the web have contributions to make, but their lack of uniqueness or peripheral importance means the orchestrator’s relationships with them are more transactional (i.e. similar to many outsourcing deals today).

The result is a set of commercial arrangements much like a spider’s web, with the orchestrator at the centre of this web, guarding its own set of competences; a small number of partners within an “inner circle”, each contributing a vital component of the overall; and a larger number of remote suppliers – all held together by the orchestrator’s “corporate glue”. Ultimately, success of a value web depends on how well the orchestrator co-ordinates the activities of the companies involved to deliver what the market wants.

Every new economy player must strive to be part of one or more successful value webs. The question is: Where do you want to play? As a supplier, a partner, or an orchestrator?

Therefore:

- Decide in which market segments of the new economy your business fits
- Identify which companies are likely to become orchestrators in those segments

- For each market segment decide where you want to play: as a supplier, a partner, or orchestrator

Don't think you must be a large company to be a successful orchestrator. What is more important is that you have a strong presence and brand in your target market segment. Within specific niche or geographically local markets (for example, providing information services to a metropolitan area), it is quite feasible for smaller businesses to develop the core competences, "corporate glue" and brand awareness necessary to be an orchestrator. Of course, it is also possible for your business to be an orchestrator in one market, and a partner or supplier in others. For example, you might have the knowledge, contacts, and brand recognition in your home market to be an orchestrator for your industry, but overseas you would seek to ally yourself with other companies positioning themselves to be orchestrators.

A medium-sized IT organisation in the UK West Midlands is setting out its store to perform the role of orchestrator in bidding for local public sector contracts. Traditionally these contracts have gone to larger players, because only these companies have the breadth of capability to deliver all the contract requirements. Now small and medium-sized enterprises (SMEs) are challenging this assumption, by partnering with the orchestrator or entering into supply agreements to form a collaborative "value web" that can offer all the products and services demanded by the contract. Figure 2 illustrates how the orchestrator, the "prime contractor", constructs a value web around its own core competences of solutions, systems and services to create a collaborative network of SMEs that can deliver all the requirements of the public sector contract. Examples of where the prime contractor might want to develop closer partnerships are with companies that have unique IPR, a strong market presence, key skills or specialist applications. Computer hardware, more standard software and generic skills can be bought in via more traditional, "arms length" supply arrangements.

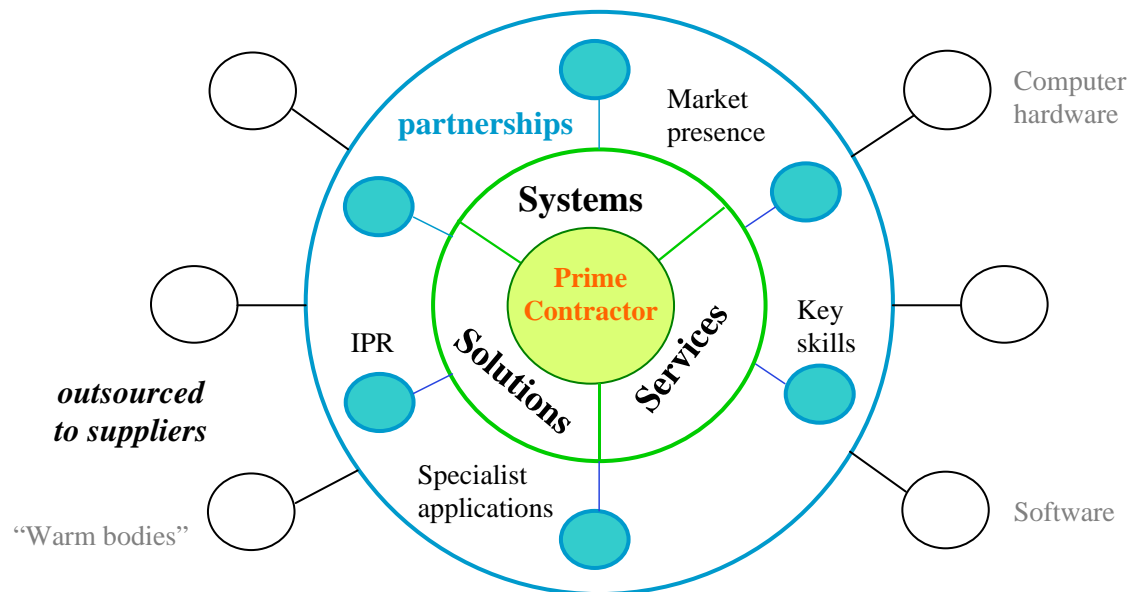


Figure 2: A Value Web for bidding for public contracts

Partnering Issues

Unless you are doing everything yourself, or acting as an orchestrator, there will arise some fundamental issues. In the composite value chain (the “value web”), how do companies articulate value to the end user? Traditionally, the power drifts downstream, to those few companies close to the customer. Players in the new ICT economy must avoid becoming just a commodity supplier, by finding new things to do. The customer base is becoming more of a spectrum than a set of discrete market segments. The organisations in direct contact with end users, with the flexibility to react quickly, will win.

All these changes will affect players’ negotiating power with partners. You will have to work hard at making yourself attractive, either with protected and unique technology, excellent cost/quality, or other product/service features, or by creating end user demand through branding (like “Intel inside”). One thing is certain: the traditional way of setting up partnerships for collaborative working will change. Those organisations that anticipate and prepare for this change will be successful. Those that don’t will be left out of the value webs.

Work out what you can or need to offer to other companies in value webs. If you are looking to become a partner of an orchestrator in a close relationship, what is it that you can do that is unique or vital? Do you have any key technology or specialist applications? If you are looking to be a supplier of choice to a number of orchestrators, you need to be easy to find and do business with. Do orchestrators and potential orchestrators know you and what you can do? Are you able to react quickly when a new opportunity arises?

Analyse what preparations you must make to work in this new way. Is your product information easy to understand and incorporate into bids? Are your pricing structures clear and flexible? Do you provide sales support material that is concise, accurate and easy to use? Have you briefed your staff – particularly your legal and commercial staff – on the need to make decisions quickly and accept a higher level of risk? Do you have an organisational structure in place to manage and support your company’s involvement in the value webs?

Larger companies currently positioning themselves to take advantage of the opportunities the new economy brings are building loose confederations or associations, usually with smaller companies that have unique technology or some other distinctive advantage that “might be useful one day”. In these cases, the developing partnership agreements cannot refer to specific projects, opportunities or even market segments. They are more like an agreement to work together when the opportunity arises. If your company is too risk-averse or otherwise unprepared to collaborate in this way, then you are already missing out on this growing trend. So the question to ask is, “If an orchestrator knocked on your door tomorrow, would your business know how to respond?”

Partnering in the New ICT Economy

As a player in the new economy, you will have to make partnering simpler. You need to:

- Make your offerings easier to understand – for example, describe what your products and services do in terms of benefits to the end customer in the orchestrator’s selected target markets
- Make your products/tools/support simpler
- Share information to raise your partners’ awareness of what you can do

Your legal/commercial advisors need to draw up guidelines/frameworks for partnering, rather than creating bespoke contracts for every opportunity. They should check the activities of business development managers rather than drive the partnering process; otherwise it will take far too long.

Your company should also make itself “partnership ready”. Ensure it has the right cultures, people and systems in place to quickly negotiate and “bolt on” partnerships. This will mean explaining to your key staff why you need to collaborate – sometimes with organisations you view as competitors. How they have to be adaptable to accommodate the requirements of partners and other players in the value web. Why it will be necessary to share information more openly than in the past and with less assurance about likely rewards than you have been used to. How you will need your people to communicate effectively with partners and produce documentation that succinctly describes the key contributions you can make to the value webs in the target markets. And above all, why senior managers have to be prepared to make rapid decisions based on incomplete information.

You need to learn how to measure the performance of partnerships cost-effectively and manage them indirectly. This means you must set mutually agreed goals with your partners and develop automated processes to feed the results of partnering into your day-to-day corporate management systems. Specifically, you must ensure there are people in your organisation who are targeted on making the partnerships successful and are rewarded appropriately.

To be a successful player in the new economy you must motivate your partners to stay with you. You must:

- Find a way to stimulate end user demand
- Make your organisation easier to do business with
- Exchange information with partners and operate a good partner relationship management (PRM) system

Most importantly, you must pay attention to quality-of-service (QoS) issues. The other organisations in the value web will be relying on you to deliver what you promised, to time and to specification. If you (or anyone else) fail to maintain the levels of quality expected by the end customer, the value web will not be successful and the orchestrator will be under pressure to find an alternative source for the key components you supply. The same is true for your after-sales support service, marketing materials and other associated services you provide to your partners.

Sustaining Partnerships

The new ICT economy will be dynamic, opportunities short-lived and demand ephemeral. Traditionally, companies have depended upon clear, tangible objectives to sustain a partnership. Players must now learn how to sustain a partnership in the new environment through the development of mutually supportive core competences, synergistic marketing strategies and investment in learning how to work together.

Be Partnership Ready

For success in the new ICT economy, you and your business must understand that things are going to be different. Educate senior managers about the dynamics and structure, and then debate where your company wants to play in the value webs. Identify what competences the company will build and which ones it will outsource.

To prepare, every ICT business must identify suitable partners and learn how to collaborate on activities, knowledge, and competences, rather than on specific projects. Your company must be “partnership ready” and able to respond quickly to opportunities. Internally, you should set targets and manage the relationships that are already in place. Externally, you need to communicate value to partners and customers, through brand awareness marketing and customer-oriented sales support materials.

Crucially, you must build the right skillsets to support your chosen aims and objectives and organise so as to use these effectively. You will need people who can manage relationships, communicating at all levels with partners whilst upholding the interests of your company; staff who can describe the uniqueness of your offerings in terms that end customers understand; others who can explain the technicalities of what you offer and can work successfully with teams from other organisations; and legal and commercial assistance that can operate quickly and flexibly within pre-defined frameworks. For continuing success you must work at motivating your partners and sustaining relationships.

The bottom line is that you must build the right partnerships within value webs to support your company’s goals and objectives. Only then will your company prosper in the new ICT economy.

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