

2010 IRI CTO FORUM

Eight CTOs met at the 2010 IRI CTO Forum to discuss the challenges of managing innovation partnerships. Although they represented a wide variety of industries, participants identified a number of common issues in managing partnerships; proactive management of intellectual property issues is a particularly critical component of successful partnerships.

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At intervals throughout the year, chief technology officers (CTOs) of large research and development departments across industries gather for an open exchange of information and an opportunity to learn from each other; this gathering is known as the CTO Forum. The 2010 CTO Forum addressed the challenges associated with the effective management of open innovation and innovation partnerships to create breakthrough products. Gathering at the 2010 Annual Meeting, eight CTOs discussed the increased need for innovation partnerships, critical success factors for managing them, and issues that must be confronted to make them work.

All participants agreed that there is an increased need for such partnerships to create value in today's marketplace, and that partnerships need to be managed both carefully and fairly if they are to be valuable and sustainable. Each of the CTOs reviewed a specific case that had created a dilemma for his or her company. The partnerships under discussion covered the gamut, from open innovation programs to channel partnerships, supply chain partnerships, and partnerships associated with contractor/subcontractor relationships. Four basic criteria for a productive partnership emerged from the discussion:

- *There must be a match between what each party is seeking and what the other brings to the partnership.* One CTO discussed a creative partnership in which the smaller partner got investment and access to the market, and the larger partner gained access to unique capabilities and ownership of jointly developed intellectual property (IP).
- *The parties must be willing and able to negotiate a win-win agreement.* Members noted cases where lopsided agreements led to eventual breakdown of the partnership.
- *The participants must have compatible intentions for the partnership.* One partnership between two large companies foundered when it became clear that the

time frames for monetization were significantly different.

- *All participants must be willing to put "skin in the game."* All sides of a partnership must be willing to devote both financial and time resources to the relationship. Even where partnerships were well funded, when management time was not invested by either partner, the partnership failed.

Once the parties decide to enter into a partnership, the relationship must be managed on an ongoing basis. Based on their experience, the CTOs identified several critical success factors at the management stage. These translate into specific practices for partnership management:

- Be very clear about the goals of the partnership and who is to do what to achieve those goals.
- Negotiate difficult issues, like IP ownership, in the initial partnership agreements.
- Assure that there is a champion in each company who can oversee the partnership and address issues as they arise.
- Establish contacts at multiple levels to build trust throughout participating organizations and create a sustainable partnership.
- Understand the partnership in the context of the whole value chain; otherwise, it is likely that the results will not be optimal. This requires a degree of transparency that may be difficult for some companies.

Three issues that require special vigilance are the management of IP, the selection and integration of partners, and the management of risk. All CTOs participating in the forum agreed that intellectual property is becoming more, not less, important, even as open innovation, the emergence of a patent commons in some areas, and open-source platforms proliferate. IP is seen as a key

source of future competitive advantage, one that cannot be permitted to become eroded by partnerships.

CTOs also concurred on the importance of having a managed approach to partner selection. Critical to the success of any approach is an awareness of what the company's earnings drivers are and how these will be supported by the partnership. All participating CTOs reported that they have formal processes to monitor and address threats to their core earnings drivers and to assure that the company is prepared to win in its cornerstone technologies. Other less critical areas can be managed on a more *ad hoc* basis.

Risk in partnerships must be carefully managed. The larger the system, the more intertwined and vulnerable are the linkages and the more difficult is risk management. The CTOs participating in the forum sought to minimize risk by understanding their product weak points and formulating backup plans for key suppliers. The importance of testing key points of integration throughout the process of new-product development was discussed, although it was recognized that this is

not always possible. If testing everything is prohibitively expensive or time-consuming, it is important to develop an understanding of the critical factors and have systems in place to identify and mitigate risks as they arise. It can also be valuable to keep meticulous records to allow for forensics should something go wrong.

Although participants' companies operated in industries ranging from high technology to food production and beyond, all of the presented cases reinforced the same conclusions. In fact, the commonality of issues and the agreement on principles regarding partnerships was striking given the range of industries involved.

IRI will continue to use the CTO Forum for cross-industry collaborations. Forums are led by an expert facilitator; the agenda is developed by those attending and focuses on common challenges and opportunities. Participation is by invitation only. CTOs interested in participating in the 2011 CTO Forum, to be held May 5–6 in Chicago, should contact Diana Schipper at schipper@iriweb.org or call (703)647-2591.

Call for Session Proposals....

IRI's 2011 Annual Meeting

May 23-26, 2011

Loews Philadelphia Hotel * Philadelphia, PA

Navigating the New Normal

What is the new normal of innovation? Has the economy truly changed and do we need to change with it? These are the types of questions we will be exploring with innovation practitioners and thought leaders. We invite submission of session proposals on a variety of topics related to how organizations are managing their innovation capabilities differently for new results.

Deadline: January 2011. Visit www.iriweb.org for more information.



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