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**SAMA 2022
ANNUAL CONFERENCE**

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**SAM AS
THE GREAT
DIFFERENTIATOR**



S A M A



Session 121

Maximizing breakthrough co-innovation through strategic customer relationships

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MISSION

Help clients maximize strategic advantage and achieve commercial and operational excellence by transforming the way individuals, teams, and organizations work together

FOCUS

We provide strategic and management consulting services and training solutions to help clients solve their most critical challenges and capitalize on their most important opportunities

EXPERIENCE

Over twenty-five years working with Global 2000 companies, fast-growing small and medium sized businesses, and the public sector, including the US Department of Defense, the United Nations, and the World Bank

THOUGHT LEADERSHIP

Ongoing research and benchmarking studies, seven articles published in Harvard Business Review, and adjunct faculty appointments at Harvard, Dartmouth, the US Military Academy at West Point, and Tufts University



Vantage's Sales and Account Management practice

Negotiation

Collaboration

Innovation

Transformation

We partner with clients to drive revenue growth, embed customer centricity, develop and implement new commercial strategies, and achieve world-class sales and account management performance through strategic advice, organizational transformation, hands-on advisory support, and design and delivery of training and coaching programs.

Transforming sales and account management and enhancing customer engagement for competitive advantage.



Session Outline

- The value of co-innovation
- Co-innovation challenges
- Co-innovation principles and best practices
- Real-world application

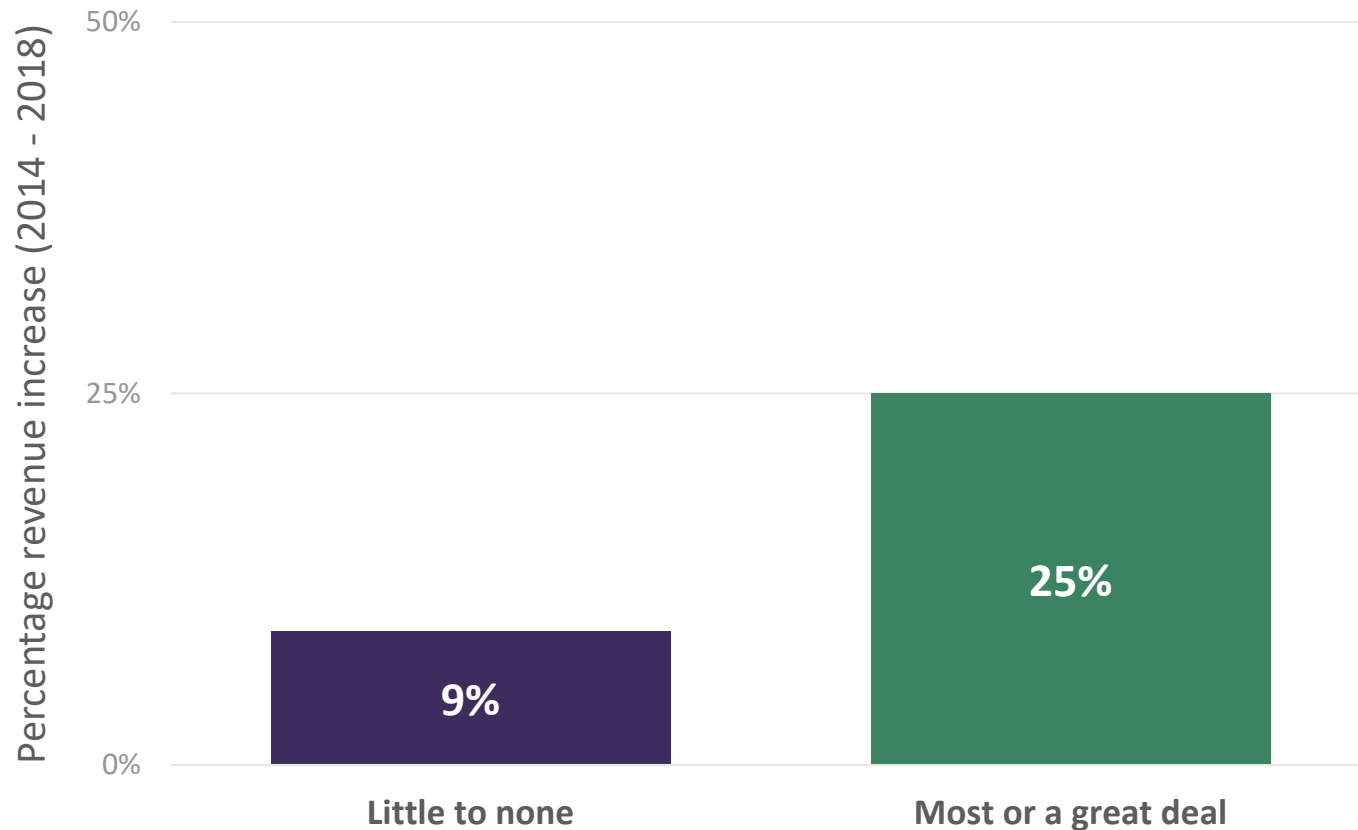


Why does co-innovation matter?



Companies that prioritize external innovation achieve greater revenue growth

“How much innovation at your company comes from, or involves collaboration with, third parties?”



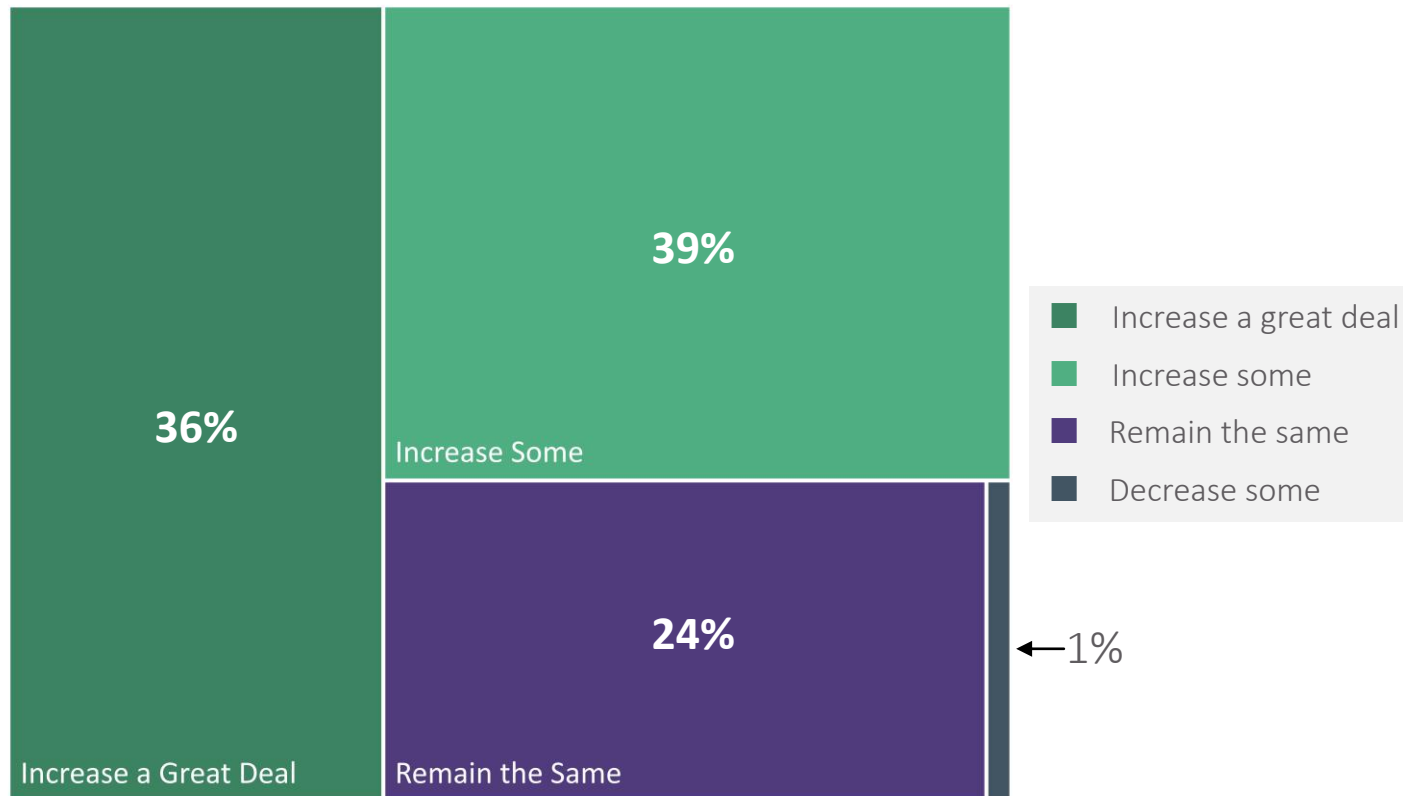
Companies that reported “**Most**” or “**A great deal**” of their innovation comes through external collaboration experienced a **178%** greater increase in their revenue compared to those with “**Little to none**”

Source: Research conducted by Vantage Partners from 2020-2021, involving 165 respondents from more than 150 companies



Expectations for external innovation over the next five years

“How will the amount of external innovation at your company change over the next five years?”



Percentage of respondents

75% of respondents report that the amount of external innovation at their companies will increase **“some”** or **“a great deal”**

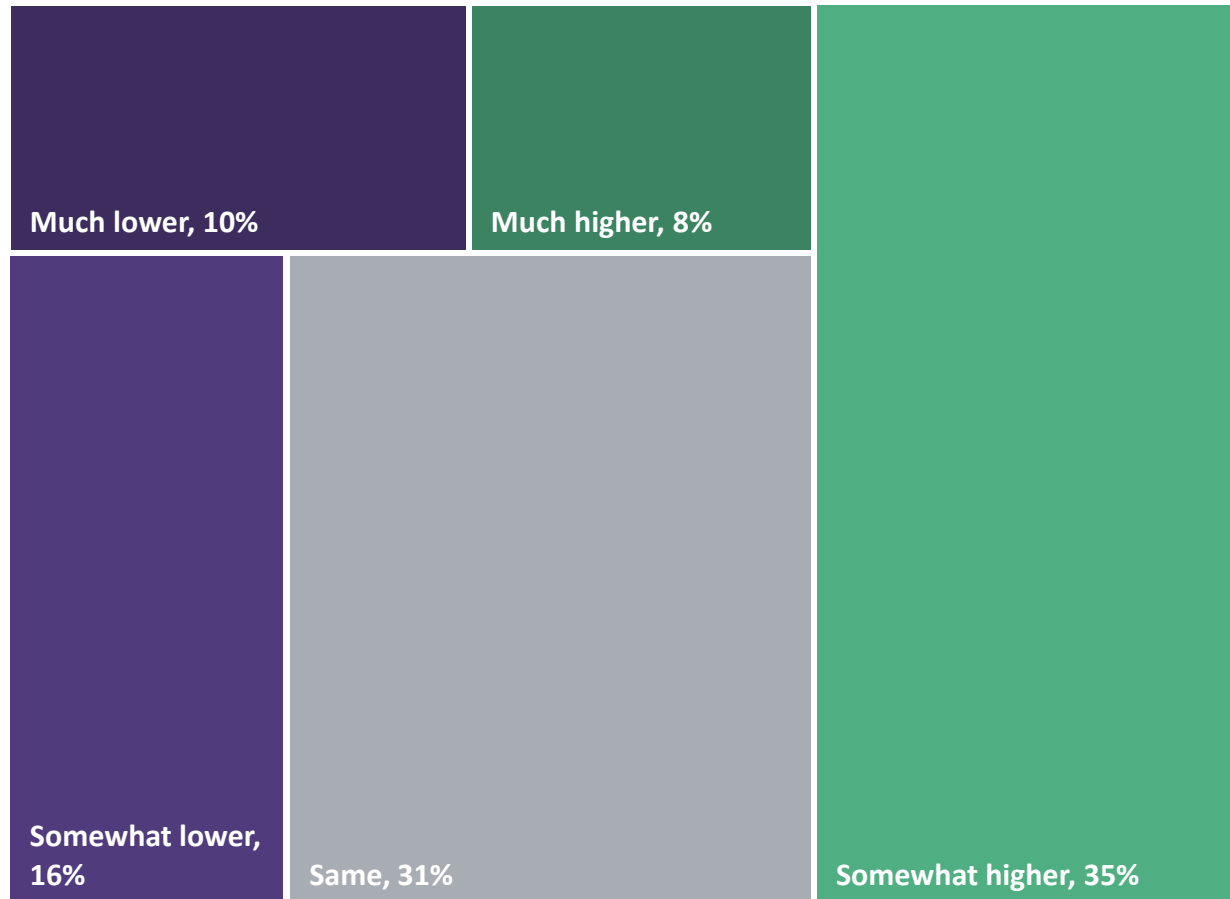
Source: *ibid.*



How much of your company's innovation comes from joint efforts with customers?



ROI from innovation with suppliers versus *internal* innovation efforts



43% of buy-side respondents report generating a **higher ROI on innovation from/with suppliers** compared to internal efforts, versus 26% who report lower ROI

Nearly half of buy-side respondents report new or significantly improved product design as a significant focus for their innovation activities with suppliers.

Source: *ibid.*



Types of innovation

Product

New products, or products with new features that satisfy previously unmet customer needs, or that meet customer needs more effectively

Examples

Digital camera; cell phone
Enhancing a cell phone with a digital camera

Business Process

Significant changes in the way work is done, leading to substantial increases in speed, flexibility, and/or quality – and/or that substantially reduce costs

Examples

Henry Ford's creation of the assembly line
Customer service provided using chatbots on websites

Business Model

Fundamental changes in the way a company delivers value to customers, and/or the way it generates profits

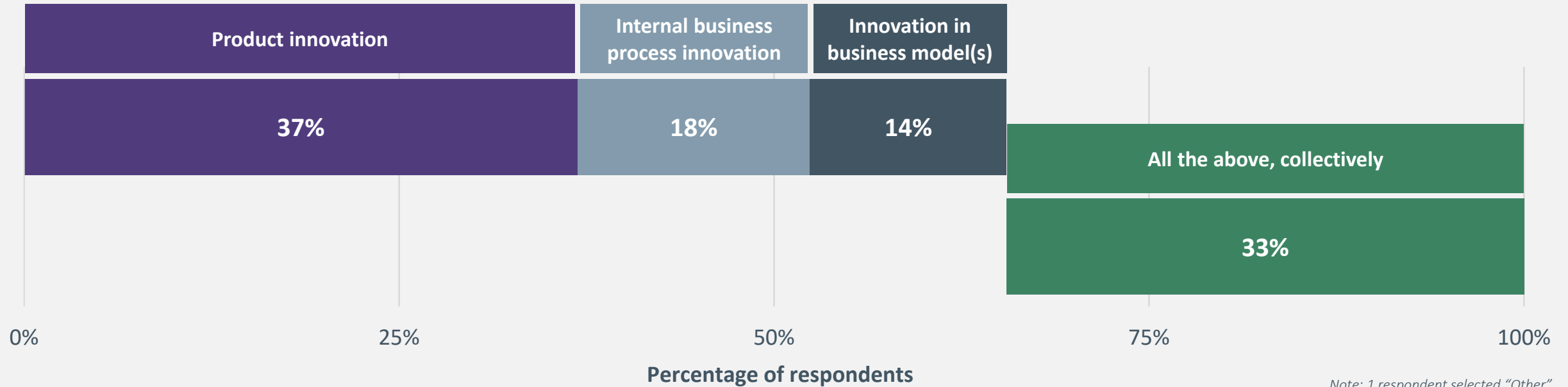
Examples

Apple's invention of iTunes, pricing music by song rather than by album
Harry's selling razors in a subscription model



Value realized from different forms of innovation

“What form of innovation has delivered the most value to your company over the past five years?”



Product innovation

New products, or products with new features that satisfy previously unmet customer needs, or that meet customer needs more effectively.

Internal business process innovation

Significant changes in the way work is done, leading to substantial increases in speed, flexibility, and/or quality – and/or that substantially reduce costs.

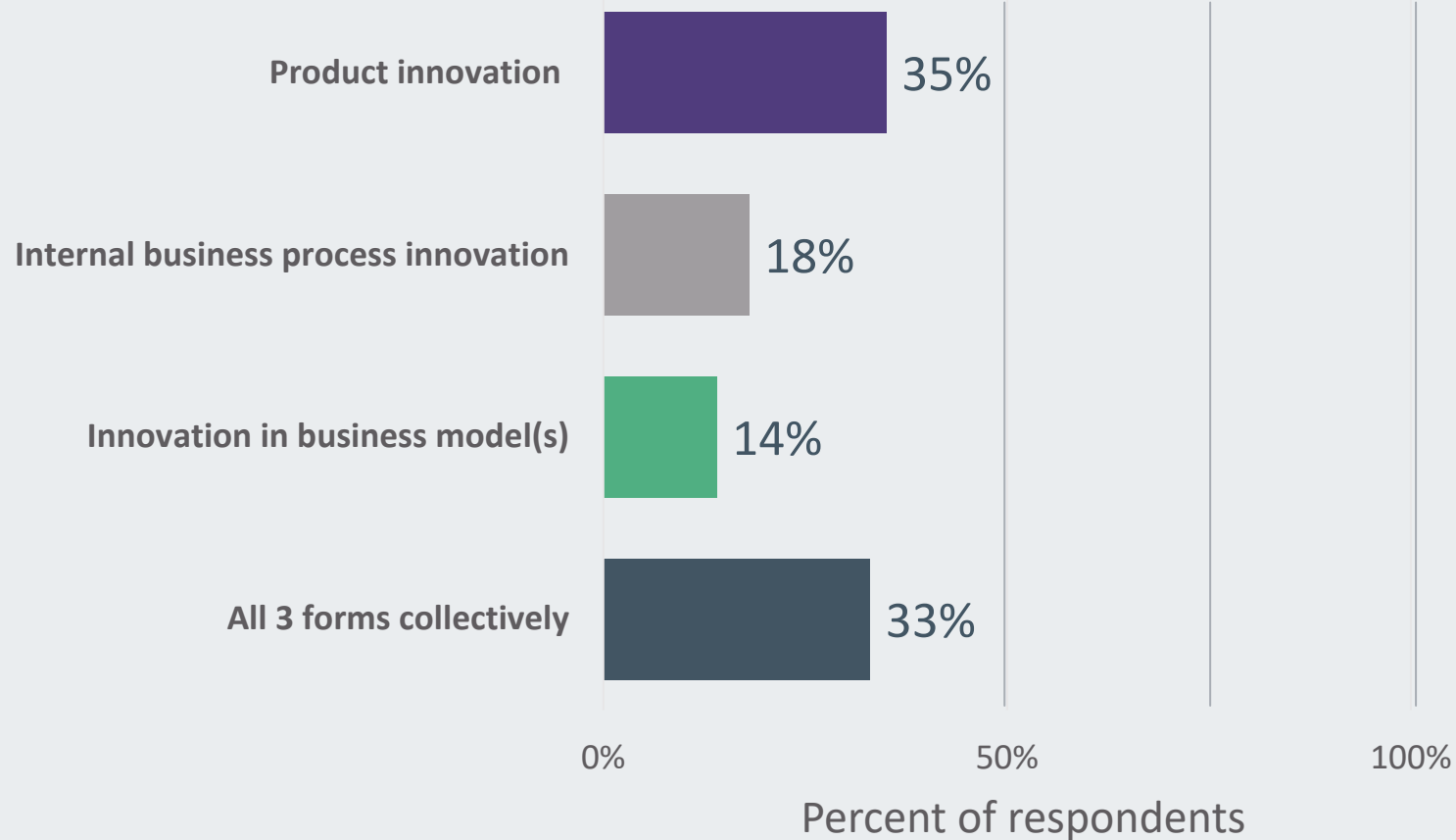
Innovation in business model(s)

Fundamental changes in the way a company delivers value to customers, and/or the way it generates profits.



Value from different forms of innovation

“What form of innovation has delivered the most value to your company over the past five years?”



Companies reporting most value from business model innovation grew revenue **119% more** than the other companies in our data set, and their stock price increased by **271% more**, over the 2014-2018 period.

Source: *ibid.*



Co-innovation challenges

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General Electric's digital transformation efforts fall flat

Overview of GE Digital

- Established GE Digital as a stand-alone business unit in 2015
- Goal to drive \$20B in sales by 2020 through transformation of the Industrial Internet of Things (IIoT)
- Invested \$4B+ in development of analytics and the Predix platform, designed to help customers collect and analyze data to manage equipment



Results to Date

- Not on track to hit \$12B 2020 target (which was lowered from \$20B)
- GE Digital and the Predix platform have been unprofitable since launch
- Key parts of the digital business have recently been put up for sale as GE refocuses on core Power and Aviation businesses (still supported by Digital)

What Went Wrong

- **Misunderstood customer needs, due to inside-out versus customer-centric strategy**
- **Unclear value proposition**
- **Tried to play in all verticals at once**
- **Tried to develop all technology in-house, and failed to leverage third parties and their expertise**
- Customers wanted solutions tailored to their specific business problems, not an all-encompassing platform that required significant time and costs to customize
- Predix Complexity + Cost: Benefit equation was overly complicated and unbalanced
- Failure to prioritize and focus on select verticals slowed time to market and diluted value prop
- Overestimated internal expertise and ability to develop new solutions without engaging external partners with specialized expertise – wasted years of time, and billions of dollars building its own cloud infrastructure before deciding to work with Amazon and Microsoft

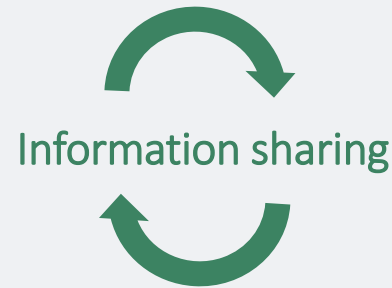


Attitudes and perceptions that limit innovation

Customer Perspective

Supplier Perspective

Supplier isn't very knowledgeable about our company, and clearly doesn't act like a partner



Customer complains we don't understand their business, but we can't until they open up to us more

We need to know what supplier's capabilities are in order to identify opportunities



We need to know what our customer's needs and priorities are in order to identify opportunities

Why should we give them preferred supplier status when they don't bring us their ideas?



Why should we keep giving them our ideas when they don't do anything with them?

Why did GE try to go it alone?

How can you help your customers, and your company, avoid a similar fate?

How can you overcome barriers to co-innovation with customers?



The elephant in the co-innovation room

“If any inventions, developments, improvement, art, idea, art form or the like result from assignments hereunder or are conceived or made during the course of an assignment pursuant to this Agreement or otherwise resulting from services offered by SUPPLIER to COMPANY hereunder, SUPPLIER and its employees and agents shall without further consideration from COMPANY assign all rights therein to COMPANY and execute any and all relevant documents necessary to vest sole and absolute title in COMPANY and perform any and all acts which may be necessary assist in obtaining and enforcing patent and tract secret protection for such inventions, developments, or improvements throughout the world”



Co-innovation success stories and best practices



Case study – Shell’s IT Ecosystem



Established IT Ecosystem in 2009, with top 10 IT suppliers

- ✓ Enable collaboration between highly competitive suppliers by ensuring adherence to strict principles of engagement
- ✓ Ensure Shell received the supplier’s best teams and ideas by directing half of ~\$3.6 billion IT spend to ecosystem
- ✓ Encourage R&D investment by suppliers in Shell’s strategic priorities by reducing risk through collaboration



- Double digit cost reduction
- Increased IT system reliability
- Faster issue resolution

“If I could get even 5% of the R&D budgets of [my vendors] targeted for differentiating possibilities across my businesses, I’d be ecstatic.”

– Alan Matula, CIO

Key Shell IT Ecosystem Suppliers



Case study – P&G Connect and Develop

“He [Jeff Weedman, P&G’s Vice President for External Business Development] says two principles have evolved in the years he’s been running the EBD. The first is that the second deal with the same company takes half as long to put together; and the third takes even less time.

Source: Intellectual Asset Management August/September 2007

The other principle is that follow-on deals that are unanticipated at the beginning are often much better and dwarf the initial deal. For these reasons, Weedman is interested in building relationships with P&G’s technology partners, He always seeks a sweet spot in every transaction that works for both parties, and promotes a sustainable relationship.”

Source: Intellectual Asset Management August/September 2007

In 2000, only 15% of P&G’s innovation projects met profit and revenue targets. By 2011, 10 years after the launch of the company’s external innovation program, Connect and Develop, that number was 50%. By 2016, 35% of products originated outside of P&G. Since 2000, P&G’s stock price has increased by 255% – 19% and 54% more than its peers Unilever and Colgate, respectively.”



Case study: BMS embarked on a digital transformation initiative.

CONTEXT

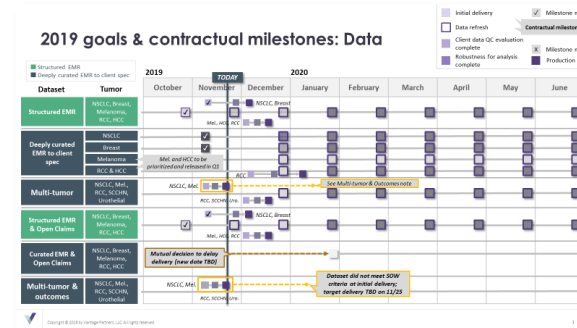
- Entered a co-innovation partnership with a nascent data & analytics supplier; total contract value is over \$100M and potential value to company is at least 10X, creating significant pressure to rapidly deliver measurable value.

APPROACH

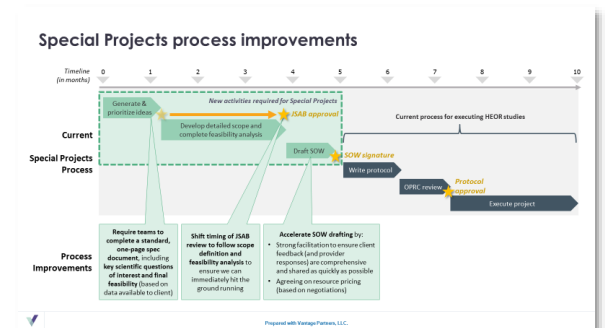
- Proactively identified and addressed barriers to co-innovation.
- Embedded a “co-create” (vs. “buy”) mindset across company
- Articulated a compelling vision for the value of new capabilities, executed a cascading communication plan from senior functional leaders (CEO – 1) through users, and delivered joint training on co-innovation.

RESULTS

- Digital partner has **delivered against 95% of contractual milestones to-date.**
- **Novel data and analytics capabilities have been developed and deployed** that company believes will transform clinical trial design and execution to **generate breakthroughs** in the real-world evidence space.

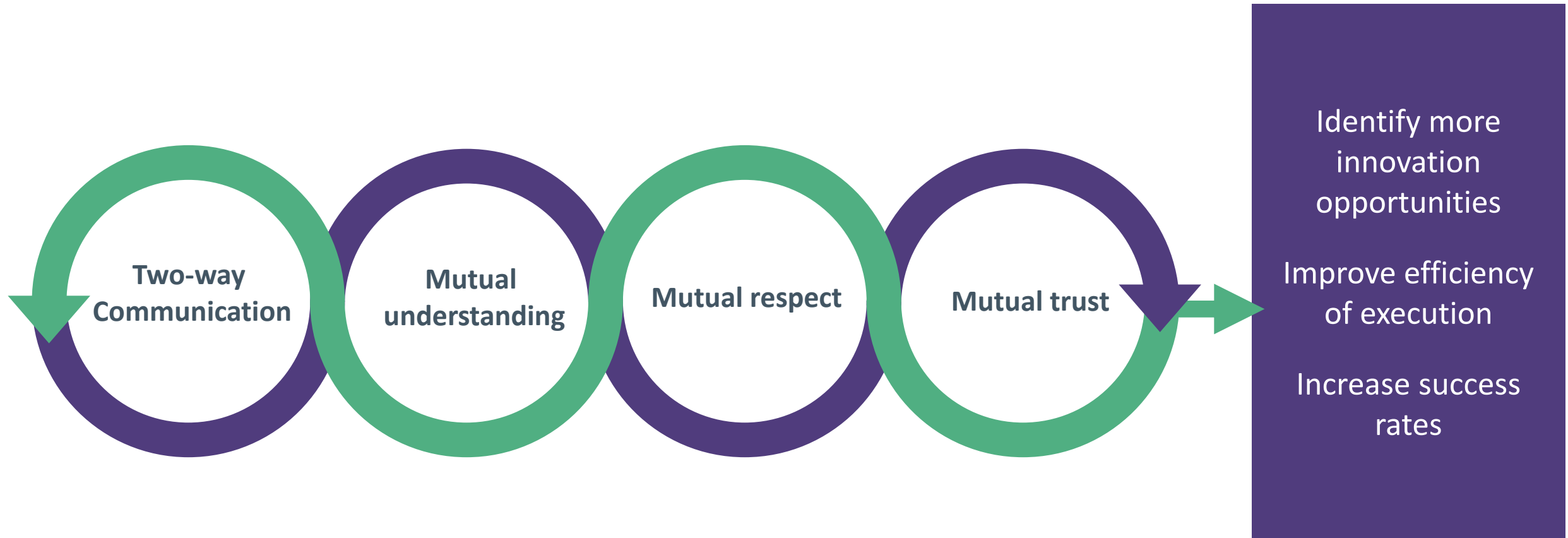


Executive-level view of key data delivery milestones, categorized by dataset and disease indication

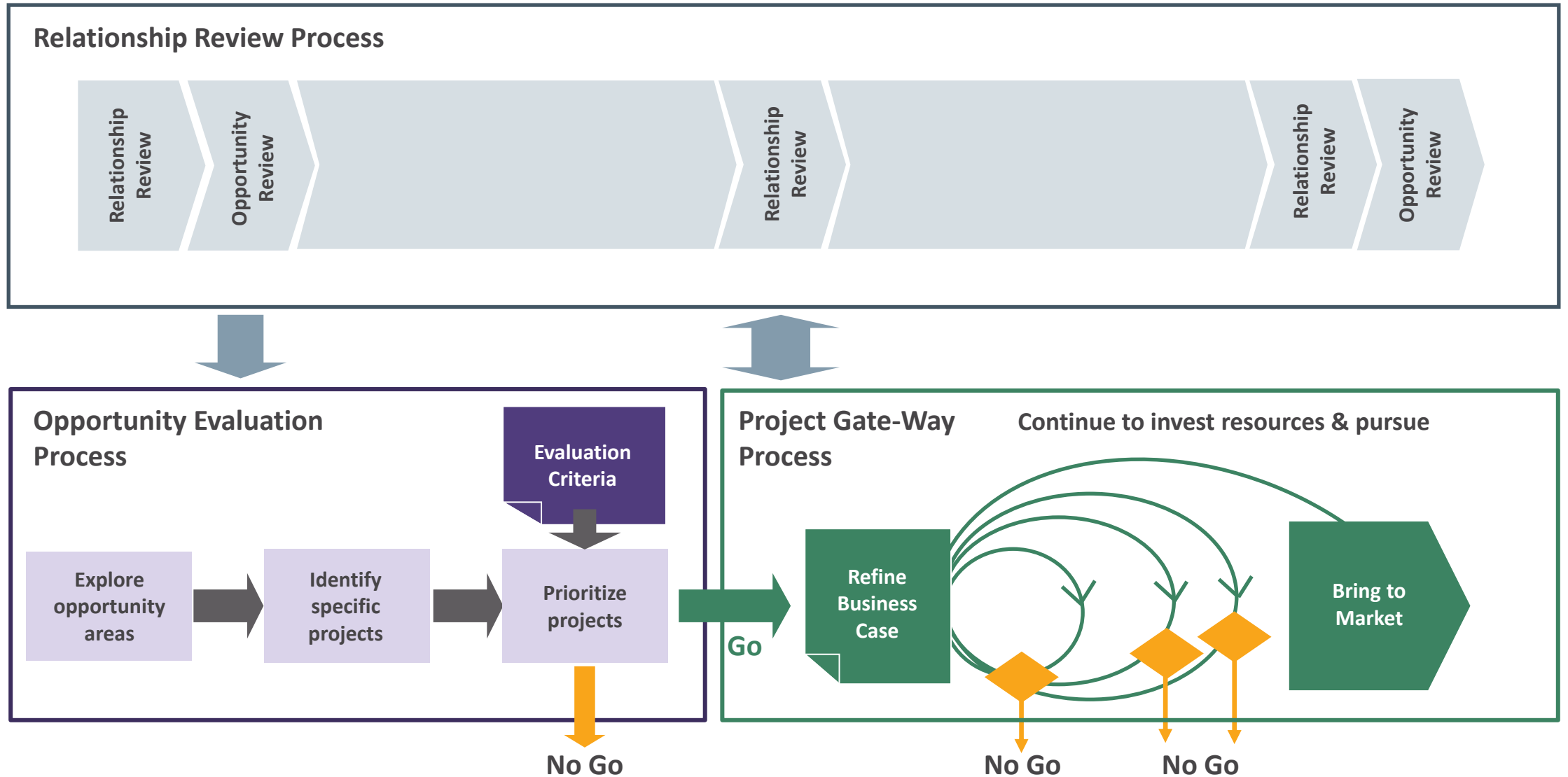


Example of business process mapping and improvement

Collaborative relationships are essential to successful innovation



Co-innovation process overview



Characteristics of most versus least successful co-innovation partnerships

Characteristics of *least* successful Customer-Supplier partnerships

- Both sides have unclear and/or unrealistic expectations of one another
- “You work for us” / “We work for you”
- Low transparency
- Lack of clarity and alignment around processes, and roles and responsibilities
- Work is either micromanaged by customers or “thrown over the fence” to suppliers with minimal context or guidance
- Problems are not addressed until they metastasize; finger-pointing and defensiveness are common

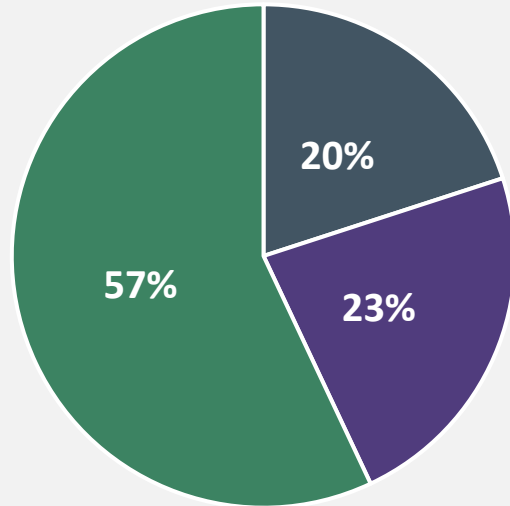
Characteristics of *most* successful Customer-Supplier partnerships

- Differences are acknowledged and jointly managed
- “We are all colleagues”
- High transparency
- Processes, roles, and responsibilities are clearly defined and well-integrated
- Individuals from both companies work together seamlessly
- Potential problems are spotted and addressed early; both sides explore root causes and develop solutions together



Company culture related to risk taking and “mistakes”

“Which response best describes your company culture?”



Percentage of respondents

- Our company encourages smart risk-taking, and there is no penalty for “good mistakes” that contribute to learning and innovation
- Our company is risk-averse, and there is little tolerance for mistakes *of any kind*
- Our company has an accountability problem. Poor performance and “bad mistakes” are tolerated.

Companies that have a “**smart risk-taking**” culture achieved **40%** greater increase in revenue compared to “**risk-averse**” companies



“Bad” versus “good” failures

“Bad” failures

- Come as a surprise, and arise from insufficient analysis of potential risks
- Result in costs that outweigh the potential benefits that were sought
- Occur without well-defined mitigation strategies in place
- Are swept under the carpet, or trigger defensiveness in the face of attempts to assign blame
- Recur, due to lack of root-cause diagnosis, and a failure to learn
- Do not generate new insights

“Good” failures

- Are not unexpected, and arise despite careful analysis of potential risks
- Result in costs that were deemed acceptable in light of potential benefits
- Result in limited harm because mitigation strategies were well-defined
- Are candidly dissected to identify all contributing factors
- Occur only once, and are not repeated, due to effective after-action review and organizational learning
- Generate new insights and innovation



Application

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The Three Hats of co-innovation



Our Customer's Customer

- What end-customers does our customer serve?
- How can we help our customer solve problems for *their* customers?
- How can we minimize customer fear loss of control or disintermediation?



Our Customer

- How does our customer make money?
- How will they make money from co-innovating with us?
- How will co-innovating with us advance their strategic objectives?



Our Company

- How does this co-innovation opportunity align with our strategic objectives?
- How will we monetize what results from co-innovation with other customers?
- Does the incremental revenue from co-innovation outweigh potential competitive risks?

The quality of the answers we get is determined by the questions we ask

Common Questions

- How do we sell more to our customers?
- Why do our customers focus so much on price, rather than value?
- Why won't our customers us to deliver more innovation to them?
- How can we deliver more innovation *to* customers?

More Useful Questions

- How do we help our customers make more money?
- How can we help our customers deliver more innovation to *their* customers?
- How can we reduce the risks our customer might perceive in early engagement with us?
- How do we create more innovation *with* customers?



Joint business planning framework

Customer		Marketplace, technology, and business practice trends and issues	Our Company	
Customer key corporate objectives			Our company key corporate objectives	
Key challenges	Key initiatives		Key challenges	Key initiatives
How can our company help the Customer			How can the Customer help our company	



Joint business planning framework (cont.)

Initiatives that are similar between our company and our customer	Ways to coordinate or collaborate on similar initiatives
New initiatives that could be undertaken for mutual benefit	Activities and resources required from both companies
Risks and potential roadblocks	Ways to mitigate risks and overcome roadblocks



Co-innovation Rules of Engagement template

Collaboration with each other's competitors	<ul style="list-style-type: none">▪▪▪
Sharing sensitive information about strategic plans, etc.	<ul style="list-style-type: none">▪▪▪
IP protection and ownership	<ul style="list-style-type: none">▪▪▪
Revenue-sharing arrangement	<ul style="list-style-type: none">▪▪▪
Connections to BAU	<ul style="list-style-type: none">▪▪▪
Issue escalation and resolution	<ul style="list-style-type: none">▪▪▪



Reframe IP “ownership” debates

Define Customer Exclusivity for Specific Fields of Use

Define Timeframes for Customer Exclusivity

Prohibit Use of Jointly Developed IP with Named Competitors

Preferred Pricing for Customer

Explore Co-ownership and Licensing Arrangements

Almost all innovations become less valuable over time and eventually obsolete

Customer-supplier relationships that operate as continuous engines of innovation are the only source of sustainable competitive advantage

Many opportunities for suppliers to monetize innovations jointly developed with customers can be pursued with no loss or risk for customers



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