Case Study: The House That Lotus Built

"It is almost an absolute business imperative, where you cannot gain any kind of competitive advantage without using alliances to leverage your business."

—Dorothy Langer
LANGER AND COMPANY

Reprinted from "Strategic Alliances: Institutionalizing Partnering Capabilities"
A Conference Report published by The Conference Board

Case Study: The House That Lotus Built

In 1992, Lotus Development Corporation was in a development bind. Although its hot new Lotus Notes software held a strong lead in the groupware market, unbalanced alliances with powerhouse Electronic Data Systems and IBM and a disorganized approach to partnerships were slowing Lotus's pace.

"We were fragmented and inconsistent in our approach to strategic alliances and had disastrous contracts in place," says Hemang Davé. Now president and CEO of CMG Direct Interactive, Davé was formerly vice president of strategic alliances at Lotus, where he led the charge of redrafting the company's approach to alliance building. "Some of the alliances we had, if executed to their full level, could actually have put us out of business."

In short, the same disdain for sluggish corporate bureaucracy and disciplined corporate policies that initially put the groupware company on the fast-growth track began tripping up partnership growth. No single person or group was coaching the company's partnering activities, and no central game plan guided alliance activity. "We were really reactive to other companies who came to us and said: 'We want to part-ner with you,' rather than choosing those companies that would be best from our standpoint," says Davé. "We also had a minimal measuring of alliance relationships. We never knew how well we were doing, or how badly, until it had blossomed into something wonderful, or something really disastrous. We needed to find a way to get people to work in cohesion; they had to get to the same processes, the same vocabulary."

The company tended toward a short-term approach to pursuing partnerships. "All of our energy went into making the press release for this quarter or next quarter look good," says Davé. "We also had partners who were ambivalent about Lotus; we were not their first choice as partners. Put those things together—being reactive, gearing for press releases, and ambivalent partners—and you get a strategic alliance that can do you in."

Yet alliances were a central element of the company's future prospects. Unlike its former star product, Lotus 1-2-3, Notes demanded more support than Lotus was prepared or e-quipped to give. Clearly, the company needed partnership arrangements, but not necessarily the ones it had.

To solve the problem, Lotus took a "from-the-ground-up" approach, drafting an alliance process that would focus on the long-term. "We needed a blueprint," Davé explains. "If you don't have a blueprint, you will probably end up with a house that you don't want."

Lotus's blueprint proved effective because by 1995, the company had a proactive program that was integrated into the corporate strategy, with more than 10,000 partnerships in place and the tools and training to support them.

So how did the company recreate its alliance process? Step by step, says Davé. To design the structure, he called in alliance guru **Dorothy Langer**, president of Langer and Company, and created a five-step plan for developing a part-nership process.

Assessing Needs

The first step was to assess the company's needs. Interviews with key executives about the company's objec-tives and the role of an alliance process in realizing them revealed central issues. "What we found was that while exec-utives were willing to get involved, they argued against hav- ing a process," says Davé. "They saw 'process' as a dirty word. So we developed a 'non-process process.' " Executives expressed a number of con-cerns, including inconsistent partnering objectives, proliferation of deals, lack of coordination among functional units, minimal mea-surement and monitoring, and a strong need for training. "Each executive had a proliferation of deals that he or she thought were top priority and strategic," says Davé.

Involving the "Deliverers"

Based on the assessment findings, Lotus created a task- force made up of "deliverers," or people who would carry out the partnering process. The deliverers developed a formal two-year partnership strategy. "We brought in delivers from every function in the company—financial, legal, mar-keting, manufac-turing, sales, and support—who did the actual heavy lifting," says Davé. They recommended a number of process improve-ments including improving our outside requirements for partnership companies, appointing relationship managers, identifying reporting structures, evaluating alliances through post-mortems, putting tools and programs in place to support them, and getting every-body in the company signed up and involved.

Developing a Partnering Strategy

Despite a corporate culture that disdained rules, the end result was a general alliance methodology for the company as a whole, from which specific programs could be devel-oped for each partner. At this third stage, Lotus talked about develop-ing a set of measurable objectives about what the company wanted to achieve through partnerships, and a series of value statements about what Lotus could bring to the table, says **Langer**, the consultant for Lotus. "We iden-tified risks in partnering at the corporate level for people at the divisional level to think about. For example, a risk could be a competitor's response to a specific type of part-nership we might be putting in place or a potential lost opportunity. Also, we considered whether or not we were cannibalizing existing products with some of the things we were planning to do. The idea was to identify the risks and minimize them when building the strategy." Potential obstacles were also examined: internal barriers, such as an executive who didn't want to form partner-ships; a particu- lar partnership; or the limitations imposed by Lotus's lack of a global organization.

Next, the company addressed boundaries, an area that required flexibility within Lotus. "We talked about setting up boundaries, things the people in the organization could and could not do in a partnership, and it was clear that Lotus as a company was not comfortable with rules," recounts **Langer**. "In the end, we developed a set of 35 guidelines for the people in the corporation who were building partnerships."

Getting Executive Buy-In

To sell the program, Davé headed straight to the top. "We sought a participatory commitment from Lotus CEO Jim Manzi," says Davé. "We spent half a day covering it with him soup-to-nuts and got him to commit to promoting it as a strategy and communicating it both within and out- side the company." Senior vice presidents were next on the list, and again Davé sought more than just acceptance. "They had to buy into it because it made sense, not because the boss said so. They had to identify certain per-sonnel to be trained, name partnering liaisons, and discuss how they would apply the strategy in their current and future deals."

Communicating the Strategy

The final step was to enlist the entire organization in the effort. This began with an announcement by Manzi, even as the company continued to promote the process through internal and external publishing, the development of a part-nering database, recognition of employees' partnering achievements, and wide-spread training. "It needed to be made a part of the fabric of the company," says **Langer**. "One of the things we learned is that partnerships don't work when people throughout the company charged with making them work get an ambivalent message from the organization. They aren't really sure, unless it's a big part-nership, that they will get something out of it."

The Real Thing

To put theory into practice, the company had to dissemi-nate the new process both externally and internally. "We had to make Lotus a user-friendly company," says **Langer**. "We needed to have a front-end platform to tell our part- ners and prospec-tive partners, 'here's our organizational structure, here's who we are and how to talk to and work with us.' " To ease communica-tions, the company urged its partner firms to set up their own relationship managers and establish an approach to explore new opportunities with partners once a strong relationship was in place.

Internally, Lotus planned periodic appraisals of ongoing partnerships to make sure that objectives were achieved, both parties were fulfilling their responsibilities, and that the pay-off was worth the effort. To address internal organization and managerial responsibilities, Lotus provided managers with an outline of four different levels of partnership and the relative degree of support each level should require (see box). The company also developed a training workshop program targeted at the 500 employees who had some involvement in the partnership process, as well as a workbook-style manual and support tools. "We made sure that we had representa-tives from all the func-tions at each workshop, so that everyone would be exposed to every aspect of the process," **Langer** says. "We encouraged holding a partner strategy ses-sion to assess compatibility, and provided a value-risk matrix to aid with the process."

In the end, the company's new alliance structure was a win for both parties. "We went from under 100 busi- ness partners to more than 10,000 on a worldwide basis," says Davé. "We renegotiated all of our disastrous con- tracts for a mutual win-win situation. And when we were finished, we found that we and our partners had a high degree of satisfaction, which we saw as a competitive advantage."

Types of Partnerships

Breaking partnerships into four types, Lotus assigned each a different level of resources based on its expected degree of contribution:

- Important strategic relationships: Large, long-term partnerships that have an impact on the company's business model. Includes Lotus partnering with AT&T to move into public networks, and developing a relationship with IBM (which eventually bought the company) to gain distribution in large companies. Requires a dedicated relationship manager and support team.
- Major partnerships: Similar to strategic, but having little impact on the company's business model. Includes teaming up wit Hewlett-Packard, Digital, Compaq, Electronic Data Systems, and Andersen Consulting. Each requires at least a dedicated relationship manager, sometimes more people as well.
- Project-oriented: Joint, generally short-term efforts to develop a new product or incorporate a new technology, sometimes acting as an entry point to more significant partnerships. Relationship managers handle between five and seven at a time.
- Programmatic: A business-partner program of more than 10,000 relationships following a cookie-cutter approach. All are handled by a central business partner and a recruiting and support team.

This report is based on a speech presented by Dorothy Langer and Hemang Davé at The 1997 Strategic Alliances Conference: Institutionalizing Your Alliance Capabilities, held on April 29 and 30 in New York City, sponsored by The Conference Board and co-sponsored by Booz-Allen & Hamilton.