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IDEA WATCH

How Partners Shape Strategy

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How Partners Shape Strategy

Is your company the hub of a network of partners that don't interact with one another? If so, you may be well positioned to produce radical innovations, but you could be on your own if trouble strikes. Or are you part of a web of interconnected allies? Then you may be limited to incremental innovations—but you'll probably be much less isolated during a crisis.

In 12 years of research we've learned which kinds of alliance networks are best for which types of firms and how you can tailor your network to suit your strategy, position, and business environment.

Consider the alliances formed by Samsung and Sony with suppliers, sales channels, and R&D partners from 2008 to 2011. Samsung is at the center of its network—a vantage point from which it can combine insights from such diverse partners as DreamWorks and KT, which do interesting things with 3-D technologies but don't typically work together. Like Apple, which invented the iPhone after gleaning insights from Motorola and disparate other partners, Samsung is well placed to look to the future and conceive a breakthrough product—perhaps the first handheld device for watching 3-D movies without special glasses. (Its Galaxy S4 phone has cutting-edge gesture- and eye-tracking features.) But it risks the isolation experienced by another hub firm, Boeing, whose network did

not foster the deeply integrated partnerships needed to tackle manufacturing problems on its innovative 787 Dreamliner and to avoid product launch delays.

Sony is part of a web of allies, including Sharp and Toshiba, that work with one another. Although highly integrated networks like this one are less likely to yield breakthrough innovations, they have a big advantage on another front: Their members often reach out to partners in need. For example, after the March 2011 earthquake in Japan, customers and suppliers of Renesas Electronics sent 2,500 workers to help rebuild a damaged plant.

Consider, too, these insights from our research:

- In a fast-changing environment, it's crucial to be at the center of a hub-and-spoke network so that you're constantly exposed to new ideas. Firms in dynamic industries had higher returns on assets if they were part of this type of network.
- Highly diversified firms gain a lot from being hubs, because employees with different back-

grounds can see more opportunities in diverse ideas coming in from the spokes.

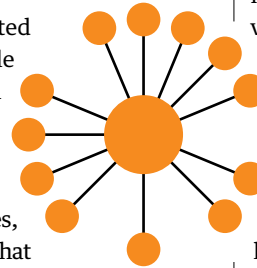
- Integrated networks can be particularly beneficial for companies whose small size leaves them vulnerable to shocks.

- With either type of network, a company must ensure that information about partners flows freely so that an executive managing a relationship with one partner knows what others are learning from different partners.

Our analysis suggests that Sony—large, diversified, and in a fast-changing industry—would be better off with a hub-and-spoke network like Samsung's. The difference in network structures is one reason Samsung has outpaced Sony in creating innovative products in recent years.

Many companies fail to look beyond their own partner relationships to consider whether their partners are interacting with one another. This prevents them from gaining the greatest possible competitive advantage from their alliances. ♥

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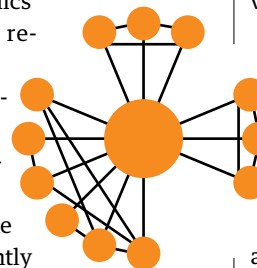


HUB AND SPOKE

(LIKE SAMSUNG)

RADICAL IDEAS?
YES

HELP IN A CRISIS?
PROBABLY NOT




INTEGRATED

(LIKE SONY)

RADICAL IDEAS?
NO

HELP IN A CRISIS?
LIKELY

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