STRATEGIC ALLIANCE QUARTERLY REPRINT

Us and Them: The Perils and Promise of Coopetition

We invite you to read this complimentary article authored by Jonathan Hughes and Jessica Wadd during their tenure with Vantage Partners. This article explores benefits in forming alliances with the competition. Now with BDO USA, Jonathan and Jessica are leaders in our management consulting practice which includes strategy and innovation consulting services.

THE ARTICLE ORIGINALLY APPEARED IN STRATEGIC ALLIANCE QUARTERLY

JONATHAN HUGHES
National Managing Principal and Global Practice Leader
Management Consulting
512-391-3539 / jonathan.hughes@bdo.com

Jonathan has worked with clients globally across a range of industries with a focus on growth strategies, initiating and responding to disruptive competition, external innovation, and supply chain transformation.

JESSICA WADD
Principal, Strategy & Innovation Segment Leader
Management Consulting
216-716-6903 / jwadd@bdo.com

Jessica specializes in helping companies develop and execute their go-to-market strategies. She also has considerable experience analyzing organizational capability for execution, and helping clients determine how to restructure, expand, and/or change the operating models of their teams to ensure they are able to implement their vision.

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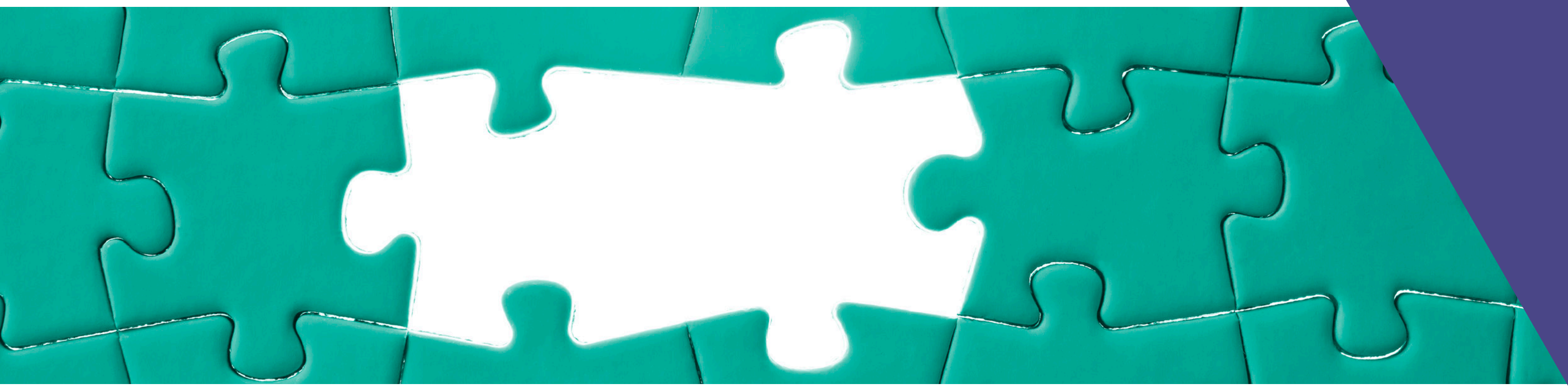

"*We can't possibly do* that *with* them!"

Some variant of this statement, unfortunately, marks the end of many strategic discussions. The "that" in question might be joint development of a new technology with another company, increasing our revenues by enabling them to be a reseller, or reselling one or more of their solutions. The "them" is a company that is also a competitor — at least in some geographic or vertical market segments.

But this "us and them" mentality can be both shortsighted and highly detrimental to business growth and success . We believe the presence of competition with another company — or the potential that it will arise in the future — should not foreclose exploration of opportunities to collaborate, but should rather be considered as part of a balanced risk-benefit analysis.

This article is based on data from more than 155 companies, collected during late 2019 and early 2020 by Vantage Partners in partnership with the Association of Strategic Alliance Professionals (ASAP), the Institute for Supply Management (ISM), and the Strategic Account Management Association (SAMA). Financial analysis also included a review of revenue and stock price performance of participating public companies between 2014 and 2018 (capturing the four full fiscal years prior to the research).

Key themes that emerged from this research — which we explore further below — include:

- Partnerships between competitors are quite common.
- Despite the risks of partnering with competitors, doing so seems, on net, to produce better outcomes than a heavy reliance on internal assets and capabilities.
- Neither the risks nor the returns on coopetition are fixed.
- Results vary significantly across companies, depending on practices employed for managing simultaneous collaboration and competition with other companies.

The Prevalence of Coopetition

Coopetition appears to be a common practice. Three quarters of respondents report that their company competes with its partners "some" (39 percent) or "a great deal" (36 percent). Further, our data indicate that many companies expect partnerships with competitors to be a significant driver of growth. On average, our respondents expect 25 percent of their future growth to come from partnerships involving coopetition, with the remainder coming from internal assets (48 percent) and from partnerships without any competitive overlap (28 percent).

Interestingly, one third of respondents who report competing with partners "a great deal" or "some" also indicated that their partnerships with competitors are not the result of actively seeking to partner with competitors. These companies have found themselves in partnerships with significant competitive tension either because a) they felt they had no alternatives (i.e., they partnered with a competitor as a last resort, and would have chosen otherwise if they could have); or b) competition with a partner arose over time (because of some combination of changes in one or both companies' strategy, along with changes in market conditions, technology, and/or the regulatory environment).

On the other hand, more than half our respondents report that their company actively explores partnerships with competitors as a way to preempt or respond to competitive threats, and 21 percent do so to "a great extent." The idea of collaborating with a competitor specifically to counter a competitive threat might seem counterintuitive. But our data reveals that such a strategy is often effective. Companies that reported the most extensive use of partnerships with competitors to address competitive threats saw the value of their stock increase by 24 percent during the prior four years (more than twice the average of all companies in our study).

Partnerships formed with competitors to counter a competitive threat take one of three forms. First, a company might enter into a partnership with a competitor because both face a greater competitive threat from a common rival. Such partnerships often occur when the zone of competition between partners is limited (perhaps to a single industry vertical or geographic market segment), and both face broader competition from a larger or more dominant rival.

Second, one or more traditional rivals might join forces to respond to a disruptive competitive threat. Under such scenarios, companies that have historically viewed each other as direct competitors find that the competitive landscape is shifting (or has already shifted) beneath their feet. Their technology or business models are increasingly being outflanked or rendered obsolete. Unlike the constant ebb and flow of normal competition, the stakes in such circumstances are often existential, and the only effective response might be to combine expertise, assets, and efforts with historical competitors.

Third, a company facing a competitive threat might identify ways to work with that very same competitor, rather than engaging in head-to-head competition. Such a response involves, in effect, coopting a competitor. To be viable, such collaboration must deliver additional value to customers, perhaps by enabling interoperability, or integrating competing products or technologies to create a more comprehensive and effective solution. Such partnerships must also hold the potential to create enough additional value that the competitor see benefits beyond what they would expect to realize from unalloyed, zero-sum competition. (Of course, such an approach must steer well clear of any form of collusion or prohibited anticompetitive practices.)

The Value of Coopetition

The data above do not prove that the benefits of partnerships with competitors consistently outweigh the risks. A practice can be both common and ultimately disadvantageous. However, when we inspected the financial performance of the companies in our research data set, we found evidence that partnerships between competitors can deliver both revenue growth and better stock price performance (a measure of expected future performance and value).

We also found that companies that depend heavily on internal assets and capabilities underperform. Respondents who indicated that more than 50 percent of their future success would come exclusively from the use of internal resources delivered 10 percent lower stock appreciation and 9 percent lower revenue growth compared to the average. We interpreted this data (combined with interviews and case study analysis) not as a dispassionate forecast of the future, but rather as indicative of an existing organizational bias in favor of relying on internal assets and capabilities, and a reluctance to engage in partnerships and alliances.

By contrast, top performing companies in our study (measured by revenue growth) reported expecting 25 percent less of their future success to come from internal assets and capabilities (Figure 1) compared to the average. These companies realized

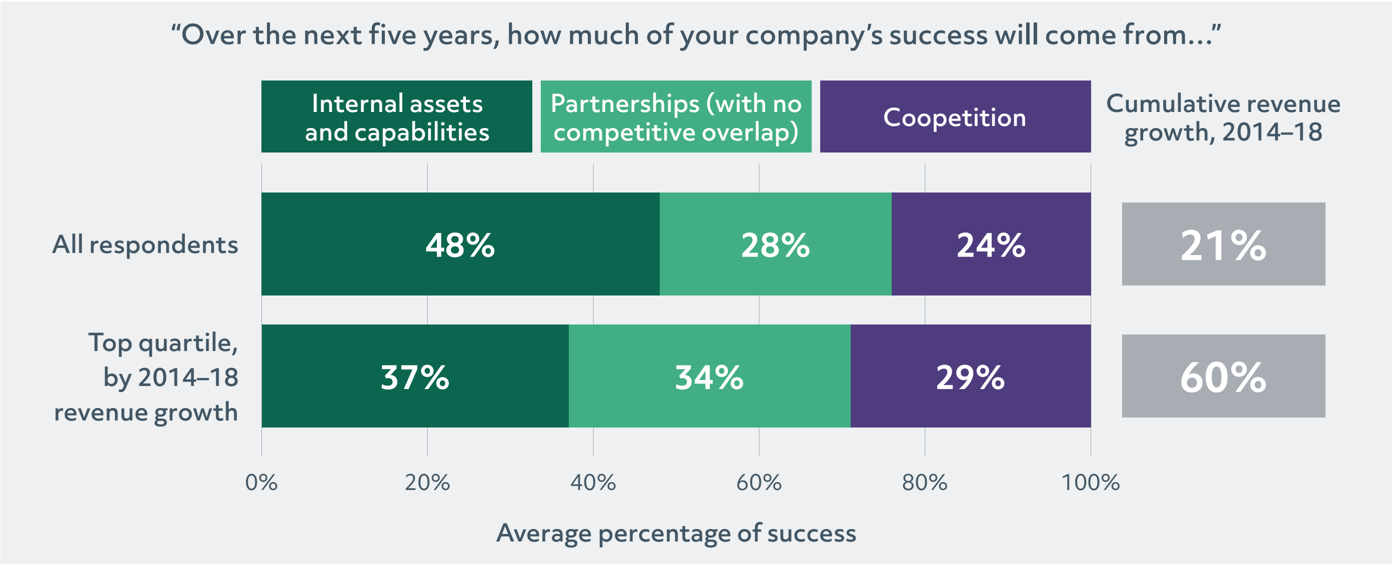

Figure 1

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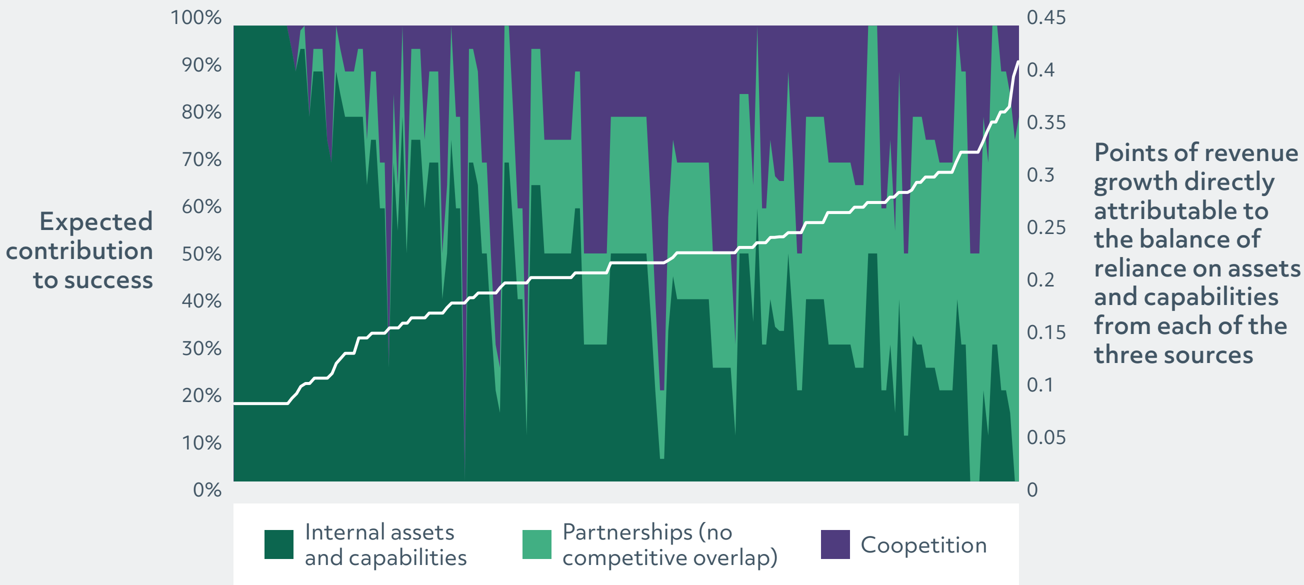
Coopetition contributes less to growth than partnerships with no competitive overlap — but still more than reliance on internal assets



The line shows the Impact of expectation of success from each of the three categories of assets and capabilities on historic revenue growth rate (holding all other factors constant). These results were derived using an OLS regression analysis with robust estimators of variance, constant = 0.08, coefficient for all partnerships = 0.004, coefficient for coopetition = -0.003. Significant at the 90% level.

Figure 2

285 percent greater growth. As above, we supplemented this data with interviews and case study analysis, which supported a conclusion that these companies are, as a matter of organizational strategy, characterized by greater-than-average openness to partnering with other companies, including competitors.

Not surprisingly, our data accords with the intuition that partnerships with competitors deliver less net benefit than partnerships between firms with no competitive overlap. Such relationships entail greater risk, and even in best-case scenarios, coopetition-based partnerships require more effort to manage. Nevertheless, regression analysis reveals a significant positive relationship between collaboration with competitors and revenue growth (Figure 2). According to our research, companies are often better off working with a competitor than relying purely on internal assets and capabilities to drive growth.

What Have We Learned? The Elusive Secrets of Success

Interestingly, our analysis found no statistical relationship between the extent to which respondents report that their company engages in collaboration with competitors and the likelihood that they would rate their company as effective in managing coopetition. In other words, we can find no discernible learning effect based on experience.

Only 28 percent of respondents rated their company as highly effective at managing coopetition. Even among those that expect collaboration to drive more than 75 percent of their future growth, 69 percent of respondents still rated their company as only somewhat effective or not effective. Not only is experience an inadequate teacher when it comes to managing coopetition, but even the expectation of heavy reliance on coopetition, and presumably a significant motivation to figure out how to do it well, is not sufficient.

And yet some companies do report being highly effective, and their financial performance indicates they are onto something. Companies that are very effective at managing coopetition generated twice the revenue growth of those that are not effective. These companies employ different models and practices for managing coopetition-based partnerships, but they are united by a similar organizational mindset — one that differs significantly from the approach taken by companies that struggle with coopetition. To a large extent, the difference comes down to those companies that partner with competitors as an absolute last resort, and those that view coopetition as a pervasive feature of business relationships — a challenge to be managed, but not an existential threat to be avoided at all costs.

Contrasting Coopetition Mindsets	
Companies that are *not* effective at managing coopetition	**Companies that are *highly* effective at managing coopetition**
View partnerships with competitors as a last resort, and embark on them with one foot out the door	Regularly consider coopetition as a strategic option, and commit themselves to success when they enter into partnerships with competitors
Expect partners to act counter to their own self-interest	Expect that any partner will, and should, act to maximize their own success
Do not fully explore how competitive overlaps will be managed, and fail to align around clear rules of engagement with partners	Define clear rules of engagement to prevent competitive interactions from undermining collaboration
Attribute problems to partner actions, and competitive overlap with partners	Attribute problems to the inherent difficulty of partnerships in general, and to marketplace challenges
Evaluate the results of partnerships with competitors against unrealistic, and often vague, expectations	Evaluate the results of coopetition-based partnerships against clearly defined goals and realistic alternatives
Assume that an increase in competition with a partner indicates failure	Assume that the scope and intensity of competition with a partner is likely to change over time, and might well increase

Figure 3

Getting Comfortable with Coopetition

Our data indicate that the "coopetition-comfortable" companies consistently achieve better results from partnerships with competitors than do "coopetition-averse" companies. In part this is due to a form of selection bias, but an ironically self-fulfilling one. At companies where coopetition is viewed as highly risky and undesirable, partnerships with competitors are entered into under precisely the conditions where they are least likely to succeed. Extreme pressures have made the near-unthinkable unavoidable. Companies that feel themselves forced into such arrangements are almost always in a severely weakened condition relative not only to the marketplace, but to their (competitive) partner as well.

By contrast, coopetition-comfortable companies regularly enter into coopetition-based partnerships not out of desperation, or from a position of weakness, but from a position of strength. The marketplace and structural factors surrounding many of these partnerships are more conducive to success from the outset.

In the accompanying table (Figure 3) we summarize attitudes about, and approaches to, coopetition that arise from two very different organizational mindsets.

Against the Wind: Deriving Mutual Benefit from Coopetition

Competition between companies is too often viewed as zero-sum. If we assume that anything that benefits a competitor will harm us, and allow fear or frustration to shape our thinking, we blind ourselves to a wide array of scenarios where collaboration with competitors can deliver mutual benefit. Alternatively, if we embrace the constant and ever-shifting winds and currents of competition as a catalyst to improve and innovate, we expand our strategic options, and improve our ability to tack and jibe our way to greater success.

