Vivo Group

Strategic Consulting

More Than Milestones:

Capturing Additional Value in Alliances

by Gwen Acton, PhD and Tim Andrews

Introduction

Milestones and deliverables are an integral, and necessary, component of most alliance agreements. They are designed to help ensure success of the relationship by establishing specific, measurable goals by which the alliance can be tracked and monitored. They provide a "scoreboard" for what is happening in the relationship, and payments from one company to the other are typically tied to satisfactorily meeting these quantifiable goals.

We recently encountered several interesting cases in which alliances failed despite the parties successfully meeting all the milestones and deliverables in the agreement. Since more than half of alliances fail to meet the expectations of one or both partners, it is informative to understand the limitations of traditional milestones for monitoring and capturing value in partnerships. An analysis of these cases reveals some ways that milestones and deliverables can be inadequate to track critical aspects of alliances. The following is a composite case study that illustrates the situation:

Case Study

A large pharmaceutical company and a medium-sized biotechnology company establish a three-year co-development research alliance with an option to renew for an additional two years. The parties are enthusiastic and want to ensure success, so the agreement includes clearly defined milestones and quantifiable deliverables that are determined on an annual basis.

The biotechnology company performs research projects collaboratively with the pharmaceutical company, as well as transferring cutting-edge technology to it. In return, the pharmaceutical company provides quarterly payments to the biotechnology company.

The biotechnology company faithfully accomplishes all of the jointly determined milestones and deliverables for the first three years.

However, the pharmaceutical company grows increasingly dissatisfied during this time period, and ultimately deems the relationship a failure after three years, choosing not to continue it.

The question is: How is it possible that all of the milestones outlined in the agreement were met, yet the agreement was terminated by one party? An evaluation of the alliance revealed that important factors that originally influenced the decision to form the partnership were not included in the agreement, nor tracked by the milestones and deliverables. Therefore, individuals participating in the alliance failed to capture the additional value that was central to the original motivation for the partnership:

The pharmaceutical company established the partnership with a variety of goals in addition to the ones included in the agreement. For example, the pharmaceutical company executives who signed the agreement wanted to infuse some of the innovative approaches from the biotechnology company into their own research organization. However, these senior managers soon left the company, and this value was not tracked by the milestones and deliverables, hence it was not captured by the pharmaceutical company. This resulted in the pharmaceutical company feeling it had "wasted its money", and withdrawing from the alliance.

Scoreboards

Milestones are similar to scoreboards in athletic competitions: They are necessary to monitor ongoing competition, but are not designed to assess the health of the play on the field. This is because scoreboards, like milestones, only track what has already happened in the game. They reflect what has taken place on the field so far, but do not monitor the on-going play of the game. For example, one team may be leading the game 3-0, but if its star players were injured during the first half, it is unlikely to ultimately win. The spectators and sports commentators quickly spot the problem since they are watching the play itself, yet this information would be missed if only monitoring the score.

Quarterly milestone evaluations are analogous to scoreboard events, when the official tally is recorded and made visible. They provide no means of understanding intermediate progress, and are inadequate tools for assessing causes if the goals are not met. For example, if friction is occurring between the partners due to cultural issues, it is typically not revealed formally until after deliverables are missed – usually long after the optimal time to rectify the situation.

The following are three ways major breakdowns can occur when milestones are the primary tracking mechanism:

1) Milestones can be met, but the alliance can still be in trouble, as demonstrated by the case study. For example, a key internal "champion" may have left a company, endangering the success of the relationship. The consequences of this type of issue are typically not detected by the organization and future deliverables are missed.

2) Forces outside the alliance can change the nature of the game, requiring substantial rethinking of the outcomes now desired based on the new value equations. It is not uncommon for life science collaborations to last between 3 to 5 years, in which time new technology, competitors, or regulations frequently emerge with significant consequences on the alliance goals.

3) Milestones and deliverables often track only a subset of the more quantifiable goals. They can miss benefits that potentially have even greater value than those being measured. For example, less easily quantifiable items or intangibles are frequently considered strategically important to the organization, but are not tracked through milestones. Examples include access to know-how, intellectual property creation, brand association, and competitive information. Consequently their value is often not captured by the company.

Ways to Capture More Alliance Value

Alliances fail at an alarming rate, estimated to be between 50-70%. The most frequently cited causes of breakdowns in partnerships are not technological factors, but result from culture, communication, leadership, or strategy issues. These elements are therefore critical to the success of alliances, and tracking them is analogous to following the 'play on the field' of a game.

By definition, alliances require interactions between the participants. For example, in life science research collaborations, the partnership is driven by the dynamic flow of information among the scientists and managers directly involved in the alliance. The interactions drive the 'production' process that directly leads to the achievement of milestones. These aspects of alliances typically are not tracked because they are difficult to measure, and are not included in the milestones.

New methods and techniques are now available for understanding these dynamics and how they relate to milestones, and ultimately, economic value for the company. The new approaches can apply systematic techniques to identify the intangible dynamics that drive alliance performance, and create indicators that provide mechanisms for continuous monitoring and management of the relationship.

It is essential to first identify potential benefits or "value drivers" in an existing or pending partnership. Value drivers should include both the easily measured, tangible outcomes typically captured in milestones and deliverables, but also the intangible drivers of the relationship. Value Driver Models can then be constructed. They map causal links between interactions, milestones, and value production for both parties involved in an alliance. Since the focus is on the "play in the field," these models are developed from a "bottom-up" approach that rests on understanding actual work in practice of those directly involved in creating and implementing the alliance.

Applications of Value Driver Models

Value Driver Models provide methods and metrics to monitor and assess on-going collaborations, to diagnose and provide recommendations for faltering alliances, and to better design and structure alliances for greater value. Examples of how Value Driver Models can accomplish these goals include the following:

- Problems and issues can be detected in an alliance before milestones are missed, or before relations between the partners deteriorate significantly. Value Driver Models provide tools for tracking the relationship on an on-going basis, and sensing issues in a more visible and objective manner. For example in the case study described earlier, a Value Driver Model approach could reveal that while scheduled meetings between scientists were taking place, many were unproductive because there was confusion by participants about what types of information could be shared due to concerns over intellectual property issues. Frustration between the partners resulted, leading to relationship problems that contributed to the failure of the alliance. A Value Driver Model would enable this situation to be caught early, and the problem might be easily solved through additional information provided to the participants before the frustration causes significant damage to the partners' relationships.

- Alliance partners can identify intangible goals at the initiation of a collaboration, and use Value Driver Models to link them to tangible value for the partners. The intangible goals can be tracked and captured whether or not the initial executives remain involved. This better insulates a company from personnel changes, and increases the probability of the company capturing the full value from the alliance. For example in the case study described earlier, the pharmaceutical company could have better accomplished its original goal of infusing more innovation into its internal research programs by explicitly identifying the tangible value produced through the creation of a Value Driver Model for the relationship. It could then be tracked throughout the relationship, and evaluated appropriately in relation to achievement of more explicit milestone goals.

- Alliances that have encountered problems can be assessed using Value Driver Models. As noted above, more than half of all alliances will run into trouble. These can result from shifts in the external environment (such as competitive or technical issues), or due to issues resulting from interactions between the partners themselves. Value Driver Models can better detect how shifts in the external environment are linked to performance in the alliance. When "game changing" external events occur (such as new technology, competitors, or government regulations), the resulting direct and indirect effects are made visible through the Value Driver Model. This enables a reevaluation of the alliance to determine what changes, if any, must be made in order to continue to create value in the new environment. For example in the case study described earlier, new methods appeared that significantly lowered the value of the technology offered by the biotechnology company. If the partners had been monitoring the alliance using Value Driver Models, the dramatic reduction in value produced would have been visible immediately, enabling more effective evaluation of whether the alliance should continue, and if so, how the alliance would need to be restructured to produce acceptable value to the partners.

Conclusion

Milestones and deliverables represent a critical part of any alliance arrangement. Like the score in a game, they track success in a partnership. However, by themselves, they are insufficient to adequately monitor and manage operational performance -- the "play on the field" -- that is required. New techniques are now available, including the Value Driver approach, that focus on interactions in alliances in order to model, measure, and manage the on-going performance of the alliance. The result is better understanding at all levels of the firm of how value is produced from the alliance, and earlier and more effective interventions when alliances encounter events that will impact milestone achievement and value production. The end result is achieving the ultimate goal: improved productivity of alliances.

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