



Asymmetric partnerships as growth driver in dynamic market environments

Nowadays large enterprises are facing the challenge of increasingly dynamic markets and high frequency innovation rates, which constantly challenges their business models and threatens future success. Partnerships with small, innovative companies have become increasingly important to react to disruptive trends and complement the enterprise's know-how & technology. A rigorous selection process for the right partner is a pre-requisite to ensure the right cornerstone is set for a future successful partnership.

Situation

In recent years, partnerships – from simple co-operations to joint ventures to acquisitions – have become an integrated part of the corporate strategy of large enterprises and is increasingly important to secure and grow their business. The explanation for this trend lies in increasingly dynamic market environments and where customer value propositions or required core competencies shift quickly.

These trends can be illustrated through two market case studies:

1) The automotive sector: In the second half of the 20th century the required know-how and technologies to be mastered by OEMs was static as no major disruptive technologies and changes in

customer demands unsettled the market. Nowadays the established OEMs are facing rapid shifts in customer demand and market determining technologies & innovations. For example, the pure internal combustion engine is losing market share to new technologies (electric, hybrid and hydrogen) and with it the necessary know-how shifts from the classic combustion process to battery technologies. Additional innovative trends, such as autonomous driving and m2m communication (internet of things), further drive the required core competencies and market dynamics in the automotive sector.

2) The energy sector: The energy sector has been very dynamic in recent years, especially in Germany. This trend was mainly driven by disruptive changes in the legal framework through the German governments "Energiewende" project and the decision in 2011 to cut off all nuclear power plants from the grid by 2022.¹ The large German energy suppliers now face the challenge of shifting their production capacities & knowledge from conventional fossil energy sources to renewables even faster than expected. Major German players like E.ON have already reacted by setting up the legal structure to disconnect the old technologies from renewables. At the same time, these enterprises are now facing the new challenge of dealing with new technology markets such as for solar, wind and tidal power, which are still dominated by many small & medium sized enterprises, the so called German "Mittelstand".

In these dynamic and disruptive markets, the search for asymmetric partners with complementary offering (APCO) can be critical for the future of large enterprises. These partnerships allow enterprises to partner with specialized, innovative niche companies to quickly establish access to



complementary know-how or technologies and react to disruptive market trends.

The smaller partner, on the other hand, can benefit from synergies with the larger enterprise. In most cases, the main benefits are a sales push through the enterprise's network to end customers and sales partners and access to additional funds or resources.

Crucial for the successful co-operation of the two partners is the right fit of the partnership and a well-executed integration of the smaller partner into the enterprise's operations. Consequently the selection of the right partner and the design of the co-operation structure is of vital importance.

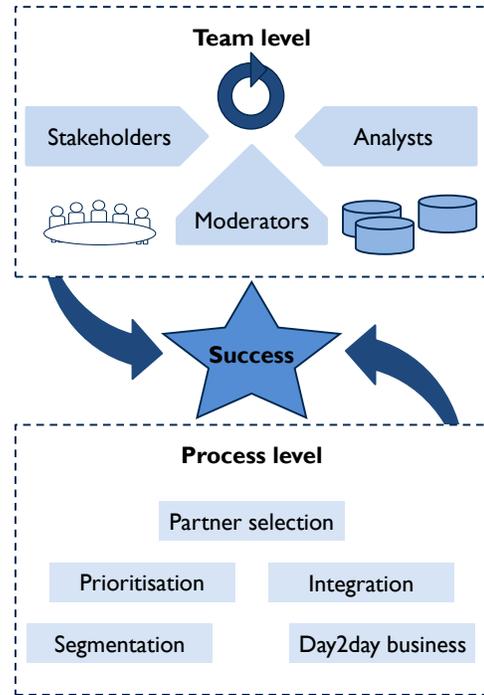
The selection process

Lansdowne has developed a proven approach for successfully selecting & establishing asymmetric partnerships.

In the course of the selection process of the right APCO, the co-operation of three groups of people in the enterprise is necessary: Stakeholders, analysts and moderators (see illustration 1).

Stakeholders contribute their knowledge of the company's corporate strategy, future plans and internal culture to the process. Through their internal network, they are responsible for the internal communication of the selection process and the gathering of feedback from other stakeholders in the enterprise.

Analysts bring in a solid baseline to the process by collecting & cultivating figures and data. They develop scenarios and evaluate action alternatives on a measurable basis, contributing a quantitative element to the selection process.



Source: Lansdowne Consulting

Illustration 1: Key success factors in the selection process

The third party involved are moderators, who serve as a motor in the process by contributing their methodological competencies. They are responsible for the goal-oriented hosting of the meetings and prepare the output in a form ready to be communicated to the enterprise's management. The moderators need to have extensive knowledge about the idiosyncratic decision processes within the larger enterprise as well as experience from earlier selection processes.

In the course of the process a shortlist of potential partners is developed on the basis of the enterprise's aims and defined filter criteria (see illustration 2 on next page).

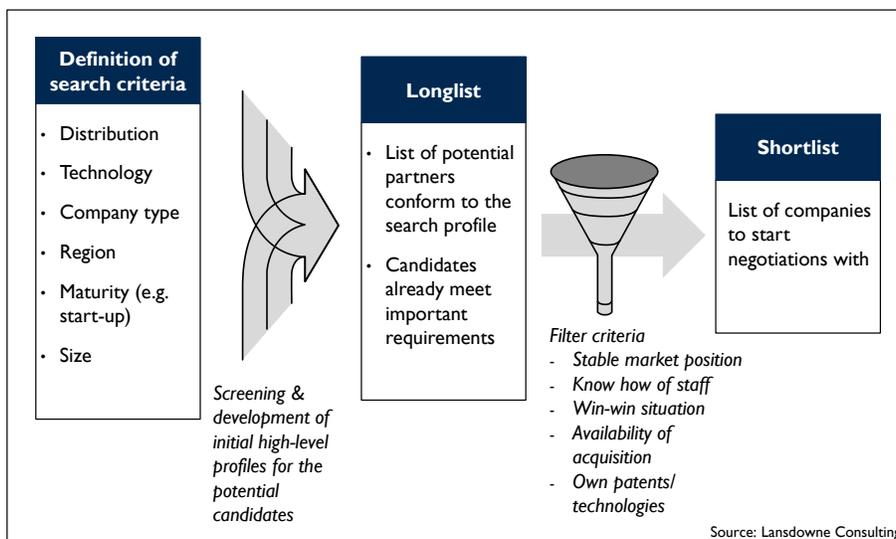


Illustration 2: Partner short-listing process

Challenges along the process

During the course of the selection & integration process of the right partner, many challenges exist.

In a first step, enterprises often fail to define the right aims & specifications for the partnership. The reason for this often can be found in a poorly structured and facilitated selection process and incomplete integration of all affected business units.

A further weak spot in the selection process is an incomplete scan of potential partners in the market. For example, international expansions are often based on random contacts rather than on a selection based on thorough market analysis. Therefore acquisitions and mergers are often driven by chance. This opportunistic approach reduces the portfolio of alternatives visible to the enterprise and, in consequence, key factors important for the fit of the two partners are often simply neglected.

The effects of an unprofessionally executed selection process come to the surface during the integration of the new partner, when the partners may realize that strategy & culture do not fit, or the integration may not be smooth since the necessary structures were not established and in the end the partnership

will not deliver the desired results. In conclusion, the development of a partnership entails enormous risks if not systematically initiated.

The process of finding the right partner and initiating the partnership can be significantly facilitated through external consultant support. As moderators, consultants can bring in methodology and structure to the process, contributing a neutral, unbiased view that supports the proper definition of the partnering strategy. This is especially important if many business units with potential different agendas are involved and prioritization of aims is required to keep focus on the process. Furthermore experienced advisors can contribute insights and deliver a market overview to complete the enterprise's picture of potential partners in the market. In consequence, advisory support may lead to a more comprehensive definition of internal aims, requirements and opportunities in the market and ensure a higher chance of a successful partnership.



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Sources

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2. Financial Yearbook (Date: 21/05/2015) [URL: <http://www.fyb.de/3-fragen-an/steigende-anforderungen-an-die-commercial-due-diligence-bei-transaktionen/>], 2015
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Recent News

I) Lansdowne Managing Partner Tobias Hofmann interviewed by Financial Yearbook on “Increasing Challenges for Commercial Due Diligences (CDD)”, which included the key success factors of a value adding CDD and a discussion on recent developments in the German Private Equity Market in FYB’s section “3 questions on...”²

Steigende Anforderungen an die Commercial Due Diligence

21. Mai 2015 - Transaktionsunterstützenden Teams haben Private Equity Klienten und strategischen Investoren geholfen, erfolgreich umfangreiche und grenzübergreifende Geschäfte abzuschließen. Welches Profil und Knowhow wird von ihnen erwartet? Welche Anforderungen werden an sie gestellt?



Dazu 3 Fragen an Tobias Hofmann

Partner und Geschäftsführer von Lansdowne Consulting Deutschland in München
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21. Mai 2015

II) As in previous years, Lansdowne has been acting as a member of the expert network for the “Science4Life Venture Cup”.



Since 1998 the initiative Science4Life supports young entrepreneurs and those with a desire to set up their own ventures with a nationwide business plan competition in the dynamic fields of life sciences and chemistry.

In order to support its aims, the initiative became a registered association in 2003 and offers a comprehensive information service consisting of downloads and (online) seminars and special workshops.

Lansdowne was pleased to attend once again this year to share our experience with aspiring entrepreneurs and to support the development of their ideas and transform their initiatives into successful enterprises.³



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