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You've Got To Have Friends: Partnerships, Alliances and the IT Market

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Despite the tendency to romanticize the efforts and exploits of individual geniuses, few lone entrepreneurs spring fully formed into the world of commerce. Backyard inventors often profit from their relationships with formally schooled engineers. The lights of many product developers would stay hidden under baskets without savvy marketers. Gifted salespeople have put and kept scores of companies on the road to success. Beyond the early partnerships that drive virtually every company to market are the alliances that arise between mature companies. Why these relationships spring to life in the IT sector, what they offer their partners and how they reflect movements and forces within the market are of particular interest to us and provide the focus of this report.

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By the early 1930s, Galvin Manufacturing had arrived. Organized in 1928 by Paul V. Galvin, a veteran of the storage battery industry, the company initially focused its energies on producing DC storage batteries for home radios. Galvin developed the "A-Eliminator" device, which transformed a home's AC current into DC, automatically charging the battery while operating the radio. In 1929, Galvin began producing automobile radios, and improved the company's products with an in-car broadcast receiver invented by William Lear and a vibrator-type power supply developed by Galvin engineer Ray Yoder. The company's competitively priced "Motorola" automobile radios soon dominated the market and rivals including the General Motors Radio Corporation.

Galvin was not the sort to rest on his laurels. Beginning in 1931, he directed the company's engineers to investigate mobile wireless communications, which Galvin believed would eventually become critically important. Despite strides forward, the company's efforts were hindered by existing frequency modulation (FM) technology. In 1940, Galvin invited Daniel Nobel, the creator of a successful FM mobile radio system, to join the company. One of Nobel's first assignments was to work with Galvin engineer Don Mitchell on the development of the "Handie-Talkie," a two-way mobile communications device later renamed the "Walkie-Talkie," which was used extensively during World War II.

Nobel became Galvin Manufacturing's director of research, steering the company from consumer entertainment products toward nascent electronics markets. In 1947, the company changed its name to Motorola, to reflect its growing position in wireless communications. Shortly thereafter, Nobel persuaded Galvin to establish a research facility in Arizona to develop solid-state technologies. By the time of Galvin's death in 1959, Motorola was a leading manufacturer of commercial, military and space communications products, and had opened its first semi-conductor production facility.

What Drives Alliances?

Any history of business is essentially a catalog of partnerships. Despite the tendency to romanticize the efforts and exploits of individual geniuses, few lone entrepreneurs spring fully formed into the world of commerce. Backyard inventors often profit from their relationships with formally schooled engineers. The lights of many product developers would stay hidden under baskets without savvy marketers. Gifted salespeople have put and kept scores of companies on the road to success. Beyond the early partnerships that drive virtually every company to market are the alliances that arise between mature companies. Why these relationships spring to life in the IT sector, what they offer their partners and how they reflect movements and forces within the market are of particular interest to us and provide the focus of this report.

The first thing that we note is that IT alliances come in all shapes and sizes. The second is that forming or declaring an alliance is no guarantee of success. News archives are littered with announcements of long gone partnerships, and examining past press releases reveals a litany of forgotten promises and lost opportunities. Why alliances fail is a fertile enough subject for a stand-alone report, but is often more complex than the simple collapse of the partners' original intentions. Many alliances are terminated due to their failure to deliver expected benefits. Some fall prey to basic systemic differences in corporate culture. Others succumb to what might be termed "morning after" syndrome, where after the enthusiasm of the moment overrides common sense and business sensibility, the bright light of the next market day exposes differences between the partners' respective plans or goals, leaving them wondering just what the heck they had been thinking.

Three Alliances

At the same time, many alliances succeed and endure. Following are three examples of IT vendor alliances that we believe are notable.

- IBM and Siebel Systems: In November 1999, IBM announced a Strategic Alliance Program that would couple the company's hardware, software, services and financing capabilities with eBusiness products from select software developers and ISVs, and cited Siebel Systems as the Program's first participant. The companies' agreement included the integration of Siebel's multi-channel CRM software applications with IBM's DB2 Universal Database, as well as optimization of Siebel's applications across IBM's server product lines, and support for IBM's middleware and component-based technologies including WebSphere. The two companies said they would also partner in worldwide joint marketing efforts, collaborative selling, extensive joint development and software integration.
- EMC and Dell Computer: The relationship between EMC and Dell began in October 1999, when EMC completed its acquisition of Data General, which had agreements in place with Dell that EMC agreed to honor and continue. In October 2001, EMC and Dell announced a five-year strategic alliance to accelerate the growth of both companies' storage systems business. Under the agreement, EMC and Dell will co-brand EMC's CLARiiON line of enterprise storage systems and Dell will become the leading CLARiiON reseller, making it the standard offering for SANs and high-end NAS installations. The companies agreed to work together when Dell's enterprise customers would benefit from EMC's Symmetrix storage products. Additionally, Dell will augment its Premiere Enterprise Services with tools, practices, methodologies and training programs from EMC, and EMC's global services organization will train Dell service personnel on the technical support and installation of EMC products.
- Intel and Oracle: The partnership between Intel and Oracle began in June 1997, when the two companies announced plans to optimize Oracle8 on Intel's IA-64-based products and to collaborate on developing advanced, standards-based clustering solutions. The partnership was reiterated in December 2001 at Oracle Open World, where a team of developers demonstrated an Intel-based InfiniBand architecture running Oracle 9i Real Application Clusters (RAC), which allows Oracle 9i to run as a single image across a cluster of smaller Intel-based servers. The following day, Intel President and CEO Craig Barrett delivered a keynote speech discussing the company's dedication to "macroprocessing" computing design principles such as Oracle's RAC that allow companies to customize and scale computing solutions to match their specific data center needs.

Looking Closer

In examining three alliances more closely, we believe it is worth exploring the general strategic intents of the partners involved:

IBM/Siebel

We can best elucidate IBM's apparent market view by paraphrasing Yogi Berra: "Good hardware beats good software, and vice versa." In other words, the IT business is a balancing act where hardware gives value to software, and software to hardware. Neither is worth much without the other, but developing and producing successful products in one area requires special understanding of and expertise in the other.

IBM's announcement of its Strategic Alliance Program indicated a conscious decision by the company to step away from eBusiness application development. Why was this the case? Creating enterprise-class business applications is

an expensive, time-consuming process that never ends. By essentially outsourcing business application development to hand-picked partners, IBM left most of the costs, headaches and responsibilities of software behind, and redirected its resources toward the hardware, platform and middleware products the company knows best.

Additionally, the deal provided IBM a strategic balance point from which it could leverage WebSphere across a host of new applications, a move that also benefited the company's continuing promotion of its service offerings. But the deal did not flow one way. Though Siebel Systems was a pioneer in the CRM space, its success had made it a target for virtually every major enterprise application player, including stalwarts such as SAP and Oracle. In joining hands with IBM, Siebel gained a large, deep-pocketed and generous buddy whose 20,000+ global sales force was ready and raring to add Siebel's CRM solutions to their enterprise client menu.

EMC/Dell

In essence, the alliance between EMC and Dell is about cultivating Greenfield market development. Dell, a company with a strong presence on the desktop, is transforming itself into an enterprise server vendor. EMC, which is a well-known enterprise storage vendor, is looking to establish a stronger presence in new markets, especially among SMBs. The relationship should bolster Dell's rep among enterprise customers, and aid EMC's strategy to increase its profile and sales among Windows users. All to the good. But why does either company need such a deal?

Over the past year, a weakening economy has devastated IT sales of every sort, but has been particularly injurious to desktop vendors. Even as Dell's success vaulted it to the head of the desktop pack, the company saw its overall revenues plummet. Additionally, storage vendors, who appeared at one time to be largely recession-proof, finally began succumbing to market realities. At the same time, aggressive storage product pricing by IT vendors including IBM began to exert pressure on storage specialists such as EMC and HDS. The simple fact is that in difficult times, vendors with wide and deep product portfolios have more leverage and flexibility to work with than specialists do. In essence, the EMC/Dell alliance should allow both companies to drive sales across new markets and clients, leverage their considerable mutual service expertise and provide them many or most of the benefits enjoyed by vendors with more comprehensive solution offerings.

Intel/Oracle

The alliance between Intel and Oracle can be looked upon as an interesting and utterly necessary roll of the dice. Both companies go into the deal carrying reputations that may not be entirely warranted. Despite marked improvements in performance, Windows is still not considered stable enough to depend on for the business-critical processes enterprises typically entrust to UNIX-based servers and mainframes. Even though enterprise use of Intel-based servers has been bolstered by the increasing popularity of Linux, Intel continues to face many enterprise customers' negative preconceptions of Windows. Oracle has engaged in ongoing efforts to extend its products into the markets served by Intel-based servers, but the company is still largely considered a premium priced database vendor best suited to big iron installations. This comes at the same time that the company's enterprise products are coming under increasing attack from IBM and others.

What this alliance could offer both players is a platform to demonstrate the legitimacy of "macroprocessing." If Oracle's RAC solutions (based on technologies licensed from Compaq) prove successful, they should provide a dramatic

means of comparing the performance and scalability of clustered Intel-based server arrays to UNIX servers. At the same time, RAC offers Oracle a platform to demonstrate that their products can be effectively scaled down to smaller server environments, creating a viable migration path for smaller companies that wish to employ Oracle database functionality.

What Does It All Mean?

How truly successful have these alliances been for their participants? Since most companies do not break out their revenues in enough detail to discern the success of individual deals, it is impossible to assign dollar amounts to specific alliances. Additionally, the newest permutations of both the EMC/Dell and Intel/Oracle partnerships are too recent to have exerted any sort of measurable effect. However, IBM has discussed the overall financial performance of its Strategic Alliance Program, as well as some details regarding its relationship with Siebel. In November 2001, IBM announced that it has signed 76 strategic alliances with software developers and ISVs and that those partnerships have delivered nearly $3 billion in total revenues, including $1 billion in Q3 FY01 revenues, up from $1 billion in the first half of FY01, and $750 million in the program's first year of operation. IBM also estimates that DB2 implementations now account for more than half of some Siebel CRM installations, making DB2 the preferred development platform for those solutions.

The financial benefits delivered by the IBM program are impressive by most any account, but does that indicate that it or any of the other alliances we have discussed is guaranteed future success? Hardly. Though all three alliances offer their members a host of potential benefits, they also carry a number of challenges. The solidity of the IBM/Siebel deal, while obviously valuable to both companies, could undermine IBM's efforts to expand its Strategic Alliance Program. Since the success of IBM's efforts will depend in large part on the company's ability to balance its own and its partners' needs, having a favored relationship with Siebel could disrupt similar deals with Siebel's competitors, such as SAP, which is also a member of the program. The EMC/Dell alliance apparently allows both companies to leverage sales within each others traditional markets without stepping on one another's toes, but the devil will be in the details of how well the companies and their respective sales forces interpret and deliver on the agreement. The Intel/Oracle deal may be the riskiest of all, since its success depends largely on how well the two companies deliver workable, effective solutions for a new model of computing that has little support in the current market.

That said, how do these three alliances compare with other past partnerships, such as the one between Paul Galvin and Daniel Nobel that transformed Galvin Manufacturing into Motorola? After some consideration, we have come to believe that successful business alliances share characteristics beyond the requisite trust and belief in common goals cited in virtually every partnership press release. Like the alliance between IBM and Siebel, a partnership should represent a definitive step forward in both parties' long-term business strategies. Like the alliance between EMC and Dell, the deal should offer both companies substantial new opportunities. Like the alliance between Intel and Oracle, the relationship should illuminate or reflect a dynamic shift in the marketplace. Additionally, we believe the partners in any successful alliance must possess a healthy fear of the Total Cost of Failure (TCF) that will inspire them to drive forward to make their endeavor succeed.

How the market will react to any of these alliances, even if they provide superior products and services, is essentially unpredictable and irrevocably

tied to individual implementation. In uncertain circumstances, alliances such as those we have discussed allow companies to explore new options and opportunities with relatively little risk, and to deliver the benefits they realize to customers and shareholders. The fact of the matter is that markets are seldom if ever static, and tough economic times tend to magnify difficulties of every kind. Over the past two years, we have witnessed the giddy rise and terrifying fall of IT fortunes, the consolidation of industries, companies and solution sets, and a growing understanding of the fact that beyond the terror and hype, technology continues to offer businesses of every stripe products that make work easier and workers more effective. Events have naturally led to an increasing awareness of TCF by virtually all IT players, in essence inspiring or driving them to investigate and engage in alliances that support their long term business strategies.

Whatever the specific risks involved, the potential upside for players involved in properly thought out and executed alliances is enhanced business and reduced TCF. These benefits are likely to outweigh any probable concerns, and from our perspective, history is on the side of companies that work with and for well-chosen partners.