



Successful product development through strategic partnerships



To successfully develop products & services in a fast-developing technological environment, automotive OEM's are gaining new competencies through strategic partnerships.

The technological development is rapidly advancing within the automotive industry, driven by electromobility, connected solutions and autonomous drive. These areas have large potential of reshaping the automotive industry but there are uncertainties in how OEM's should transform their business to grasp opportunities and stay competitive.

OEM's traditional product development processes are not designed to manage the uncertainties that exists within the technological ecosystem of new actors. Establishing strategic partnerships with key actors is an enabler for OEM's to build new capabilities and competencies required in the new business environment.

Partnerships involves both opportunities and challenges. Establishing a strategic partnership requires a strategy that is executed through a disciplined and iterative process all the way from selection of partner until the business relationship is operational.

THE AUTOMOTIVE INDUSTRY IS UNDER rapid transformation

To stay ahead of competition, companies are striving for developing technologically advanced innovations at a high pace. It is getting increasingly more difficult since the following trends are reshaping the automotive industry.



Electromobility

The automotive industry has during recent years witnessed market changing developments that are accelerating powertrain electrification. It is mainly driven by a radically transformed legislative landscape, developments in battery technology and battery price, and an increase in customer demand. Combined, the developments are accelerating the speed towards electric with the early years of this transition phase being driven mainly by legislative forces such as CO2 emission targets. As battery cost decreases and thereby total cost of ownership, it is expected that customer demand will increase dramatically, and drive sales of vehicles powered by electricity.



Connected solutions

Connected solutions both enables and out pressure on automotive OEMs to expand their service offering and to transform from being product-centric to become service centric. Through connected solutions, new opportunities arise for OEM's to develop services to improve the customer experience, making profit through new business models and revenue streams. As result of connectivity, the vehicle itself is becoming more commoditized, and OEM's need to gain access to new competences and capabilities to adapt their offering to the new business environment. An enabler for success is to be able to navigate and collaborate within a complex ecosystem with new types of actors.



Autonomous drive

Autonomous drive is regarded as the future of the automotive industry. The technology is still in the early phases and several challenges remains to be solved. Autonomous drive has the potential to reduce and eventually remove the cost of driver, which is a significant part of the cost for transport companies. It also has the potential to increase safety by removing the human factor from driving. The transformation into autonomous drive will change the competitive landscape since the vehicle itself will not be the value adding part in the business model. This will require new strategies for automotive OEMs and the collaboration with partners and suppliers will be increasingly important.

Actors are racing to be the first to bring new products, services and business models to the market. Companies are at the same time increasingly more reliant on their suppliers and value network to develop new processes and products, improve quality, discover new ideas that could lead to innovation and to reduce costs. In addition to those aspects, companies also must make sure that they do it before their competitors do.

The transformation of the automotive industry will further increase the complexity of the technology. And the rapid technology development, the uncertainty and unknowns in early project phases are increasing. It also requires scalability and mutual benefits.

DEVELOPING TECHNICALLY COMPLEX PRODUCTS REQUIRES

new approaches to purchasing (supplier management/product development)

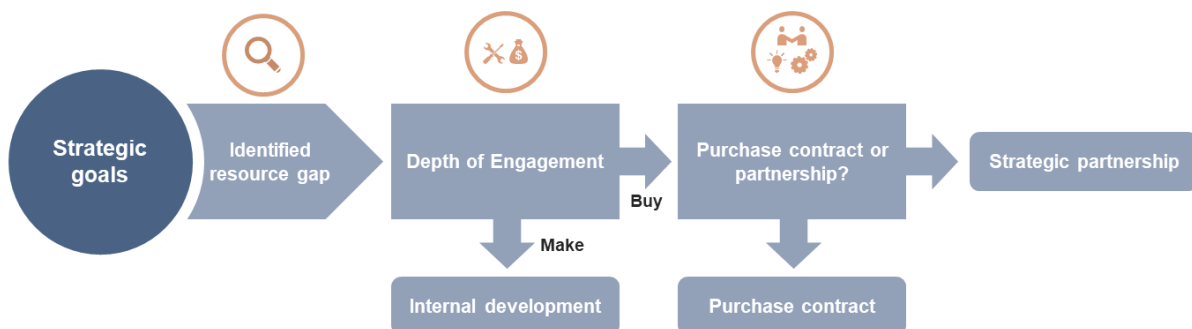
Developing technically complex products requires combination of competences and resources spread among a large set of actors. Collaboration and integration between parties in today's scattered technical ecosystem is a necessary means for companies to grasp future opportunities. Traditional automotive product/service development processes and supplier relations are not designed to manage the uncertainties related to trends within electromobility, connectivity and autonomous drive.

In the rapid transformation of the automotive industry, companies are more frequently finding themselves in a situation where internal product development is not an option, and there is no supplier available with a technical solution. How requirements are defined has key impact on success of product development, but in early phases of the uncertainty is high and it is difficult for companies to specify what they need.

Companies applying a traditional product development approach might risk initiating a program they cannot manage with the available internal resources and competence. The high uncertainty regarding product/service requirements, financing and intellectual property rights can quickly evolve into a complex and unmanageable situation for both parties. In addition, internal conflicts might arise between sales, product development and purchasing. In the end, it risks resulting in a product/service with lower profitability compared to competitors.

Entering a partnership is a way to explore and build competence within a new area in which the internal knowledge is lacking, by sharing competence, cost and risk in a collaborative way with an external party.

The flow chart illustrates a high-level approach of to find your way to the resources that you need, having your strategic goals mind.



Companies tend to get stuck in the decision whether to purchase or enter a partnership

THE KEY TO SUCCESSFUL INNOVATION IS

strategic partnerships with key suppliers

A strategic partnership is an agreement between two parties to share resources, cost and risk to achieve mutual benefits, while they remain as individual companies. Compared with a supplier set-up, where there is a buyer-seller relation, a partnership is built upon a collaboration where both parties must contribute for the relationship to be successful.

To achieve mutual gains through sharing of resources, the companies involved need to build trust by living up to the agreed expectations and to have a continuous feedback dialogue. Effective and transparent communication is an enabler for partners to build a strong relationship where both can benefit from joint efforts.

Strategic partnerships involve challenges. Each partner needs to follow the defined level of contribution into the partnership in terms of investment, resources and knowledge sharing, otherwise there is a great risk that the partnership will fail.

Since the partners remain independent, they have their own set of internal goals and KPI's steering the business, which can cause misalignment and result in inefficient collaboration. The partnership should be based on shared goals and objectives operated through an effective governance and coordination structure, supported by top management to avoid solo thinking among partners.

When selecting a partner, companies are seeking to acquire capabilities and competencies to their existing business, however aspects such as culture and company values are important to evaluate to increase the chance of entering an effective partnership.

SUPPLIER VS. PARTNER

| | Supplier | Partnership |
|-------------------|---------------------------------|----------------------------|
| Relation | Transactional | Collaborative |
| Strategy | Separate | Joint |
| Business | Contract | Mutual trust & openness |
| Outcome | Tasks | Results |
| Reality | Trade-off cost/service | "Tradeups" |
| Approach | Doing what is best for yourself | Doing what is best for all |
| Governance | Oversight | Insight |

IT IS CRITICAL TO HAVE A CLEAR PARTNERSHIP STRATEGY IN PLACE BEFORE rushing into a partnership

The first question you should ask yourself is whether you should enter a supplier partnership or not. When doing so, the following three questions should guide your decision:

What is the outcome of your Depth of Engagement (DoE) study?

- A DoE study is a structured approach to determine which activities that are to be done internally within the organization or outsourced. The study considers evaluation of different parameters to indicate how competencies and resources should be acquired. The DoE study need to be performed prior to the decision regarding when to enter a supplier partnership and when not to.

What value will the partnership add to your company?

- To engage in a supplier partnership could potentially be both time consuming and expensive. In relation to that, it is important to consider the reason behind establishing supplier partnerships and also to remember that for certain cases, there are many benefits of working with suppliers in a traditional way.

When having decided to establish a supplier partnership, the next critical and crucial step is to understand **how you should set up the partnership and whom to partner with.**

- The very first step of setting up a partnership is to make sure that you have a partnership strategy that is aligned with the overall company strategy.
- Carefully evaluate what suppliers that would be of interest to enter a supplier partnership with, since this factor will have great impact on the outcome of the partnership.
- The next step, after deciding to go for a supplier partnership with a chosen supplier, is to take many small steps in that direction. The partnership must be built upon trust, which takes time to establish. An iterative process will lead to a successful partnership.



disciplined and iterative process

The achievement of a successful supplier partnership requires a thoughtful approach. Several factors need to be considered and the transformation should be performed in a structured way. Presented below is a high-level description of Fortos way to support clients to establish strategic partnerships.



1. **Define** whether a supplier partnership could be appropriate for the chosen business area. Evaluate the strategic importance of the capabilities and resources identified as missing and what would be the most beneficial from a cost perspective.



2. **Identify** potential partners that can help you achieve your strategic objectives. Search and screen widely for potential partners and consider both hard and soft dimensions. Company size, financial strength and how "unique" you are to the partner as well as business culture, values and previous experiences of partnerships.



3. **Synchronize** expectations as well as business fit with the chosen partner. Establish a coherent internal strategy for both parties. Design an effective partnership coordination and governance that is supported by top management. Align measurements and incentives with the partner to avoid silo thinking.



4. **Plan** for the partnership by creating a joint roadmap covering the establishment of the partnership and what is to be achieved together. A high-level overview of joint objectives and how to reach them together.



5. **Execute** the transformation by following the roadmap. Establish a strong foundation for the partnership by building trust through continuous communication and feedback internally and with the partner.

Support in the transformation

Acquiring new resources and capabilities through strategic partnerships is a way for OEM's to manage uncertainties, adapt and seize opportunities within the fast-developing technological business environment.

Establishing successful strategic partnerships requires a partnership strategy, a thorough screening and selection of partner and a disciplined and iterative transformation process.

Fortos has extensive experience from supporting automotive OEM's to establish strategic partnerships. We have experience from partnership transformation, technology strategy and depth of engagement, strategic partnership and negotiations, product roadmap, and strategic portfolio management.

WANT TO KNOW MORE?

Robert Dejanovic, Partner

Head of Product Development &
Operations Practice
Robert.dejanovic@fortos.se
+46(0)76-517 27 90

Rebecca Härkönen, Senior Consultant

Rebecca.harkonen@fortos.se
+46(0)72-250 72 53

Carl Berglund, Senior Consultant

Carl.berglund@fortos.se
+46(0) 73-962 04 81

Josefine Berggren, Consultant

Josefine.berggren@fortos.se
+46(0)70-221 28 25

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