

Maximizing Relationship ROI



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In my previous article, I discussed how managing external relationships as corporate assets provides a new career opportunity for ITAM professionals. As you explore this opportunity with your management, some of their early questions will center on the payback from this new initiative. This article discusses the ROI gained by applying the discipline of Strategic Relationship Optimization™ (SRO) to inter-organizational relationships.

To compete effectively in today's fast paced markets, businesses build relationships with other companies to increase the pace of innovation, enter new markets, or take advantage of each other's strengths in existing markets. Unfortunately, as the need for synergistic business relationships

continues to grow, the ROI of business relationships is at best non-optimized, and at worst, it is a negative percentage of the total investment. The ROI of strategic relationships suffers because companies:

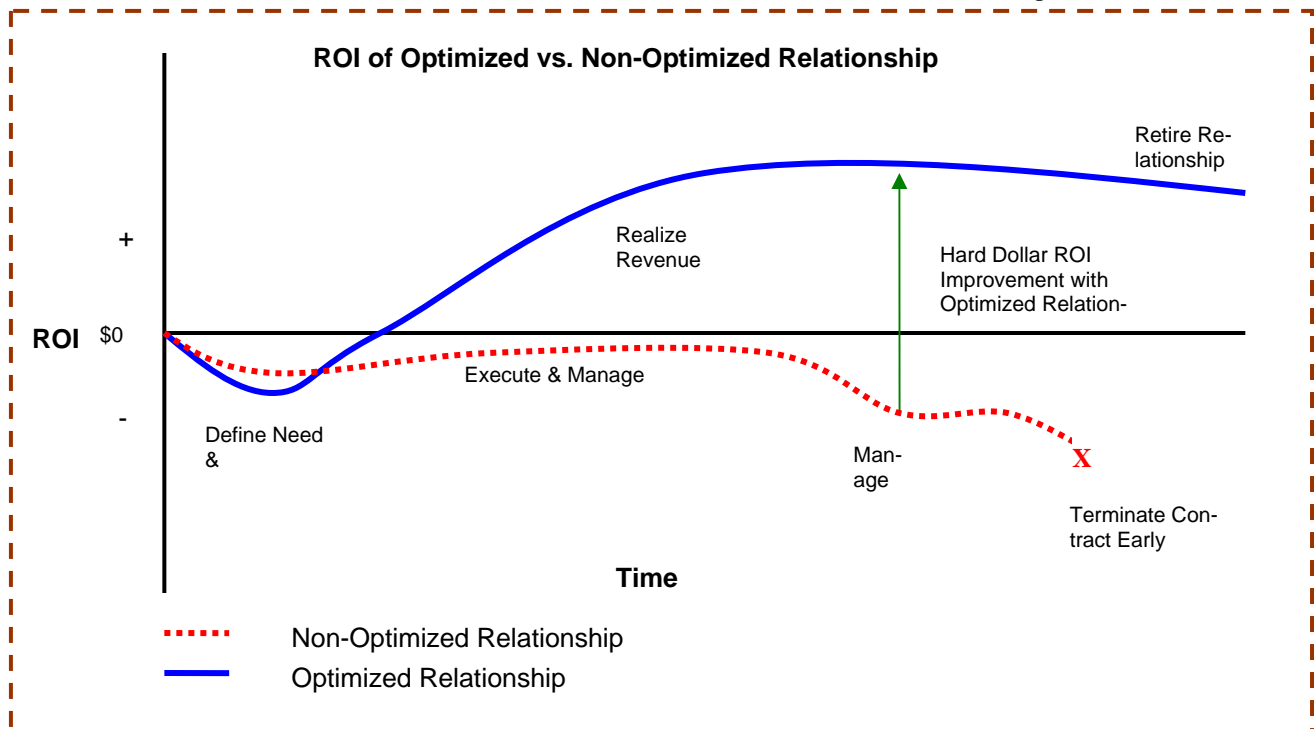
1. Waste money on forming relationships that have a low chance of success.
2. Allow poor execution and management of relationships to prevent anticipated returns from the relationship from being fully realized.
3. Throw large amounts of money at problem relationships in a futile attempt to save them.

Implementing a program of Strategic Relationship Optimization™ can

maximize the ROI of a business' relationships. Because relationships are treated as business-critical corporate assets, more effort is expended to:

- Collect all of the data critical to determining whether a relationship has a high probability of success before investing heavily in it.
- Make legal contracts with the relationship partner as concrete as possible to avoid unnecessary legal costs involved in resolving conflicts late in the relationship lifecycle.
- Set milestones for the relationship so that the success of the relationship can be evaluated.
- Manage and proactively monitor the metrics and milestones for the relationship so that problems can be identified early enough to take corrective action.
- Recognize when the relationship should be retired, then retire it with minimal legal expense and exposure.
- Monitor the post-termination phase of the relationship to make sure that residual money either owed by or owed to the company doesn't get lost.

The following diagram illustrates the potential difference between the ROI of a non-optimized versus an optimized relationship over the life of the relationship:



In this diagram, the curve for the non-optimized relationship includes the following characteristics:

- Not enough investment is made initially in laying the foundation for success. Because the primary driver for many non-optimized relationships is a magic Public Relations date, tradeshow, or a shareholder’s meeting, companies do not invest enough effort to operationalize the relationship, generate buy-in, and gather enough data to make informed go/no-go decisions.
- The non-optimized relationship almost never generates positive ROI during the execution phase.
- The ROI takes a steep negative dive when the company realizes that the relationship is not performing up to expectations. Substantial executive management and legal council time is often invested at this stage to understand the ramifications of the crisis and attempt to remedy it.
- The ROI rarely improves as a result of the crisis intervention because the effort occurs too late to make a difference.
- The ROI declines further if legal fees are invested to terminate the contract early or to determine who is to blame for the crisis. In addition, the company may need to invest time and money for PR and/or shareholder damage control.

In this same diagram, the curve for an optimized relationship includes the following characteristics:

- More money is invested initially in an optimized relationship than in a non-optimized relationship because optimized relationships are treated as critical corporate assets. When relationships are treated as key assets, effort is invested in:

1. Generating buy-in and operationalizing the relationship.
2. Collecting enough data to make an informed decision

about whether the relationship should move forward.

3. Writing better contracts to minimize legal expenses during the retirement phase.

- The actual returns from the relationship are optimized during the execution phase of the relationship, resulting in a positive ROI.
- If any corrective action is necessary during the course of the relationship, minimal investment in legal fees and executive management time should be necessary because the performance of the relationship has been monitored proactively. Therefore, ROI should continue to be positive.
- A slight decrease in ROI occurs toward the end of the relationship to retire it with minimal legal cost and executive involvement.

Undergoing an SRO program will require more investment up-front than a non-optimized relationship. However, the overall ROI of an optimized relationship may be vastly improved over a non-optimized relationship because:

- Relationships with a poor chance of success may be killed before they progress to the contract stage, saving huge amounts of investment.
- The actual revenue realized from the relationship will be increased with better execution and monitoring.
- Because relationship milestones are monitored proactively, companies avoid crises that require large investments of executive and legal time. Companies also avoid the legal expenses required to terminate a contract early or to interpret loosely-worded contracts.

Invest Only in Relationships with a High Chance of Success

One reason companies waste money investing in relationships with a low chance of success is because they do not

treat them as mission-critical corporate assets. In the case of a major corporate asset such as a critical enterprise software system, careful analysis typically precedes a major purchase to ensure that there is a legitimate business need for a proposed purchase, that it is the best solution to the problem, and that operational plans are in place to use the asset effectively.

This level of ROI analysis and operational planning doesn’t typically occur in preparation for forming a strategic relationship. Relationships are often initiated when one company courts another, and someone sees a good public relations opportunity. There is a rush to negotiate the relationship contract to meet a specific publicity date, such as a shareholder’s meeting or trade show date. As a result, the company does not take the time to proactively define the goals of the relationship and ensure that it has found the best partner to meet those goals. The company does not think through the set realistic expectations for its ROI, understand the potential impact on internal operations, or generate the operational buy-in necessary to execute the relationship successfully.

Other factors that would serve as early warning signals, such as the partners giving unequal priority to the relationship, major cultural differences between the companies, and incompatible goals between the partners, go undetected or ignored in the early days of PR euphoria. As a result, significant money and public relations efforts are poured into relationships that are doomed to failure.

Implementing an SRO methodology can maximize the ROI of a business’ relationships. Because relationships are treated as business-critical corporate assets, more effort is expended to:

- Identify the business need for the relationship.
- Calculate the anticipated ROI from the relationship.
- Determine whether the relationship can be operationalized. As part of this process, the company



determines who needs to be involved, what activities need to be engaged in, what resources need to be invested, and what milestones will be used to measure the success of the relationship.

- Based on the analysis of anticipated ROI and the company’s ability to operationalize the relationship, decide whether the relationship should be pursued. Possible warning signs that a relationship should not be pursued include:
 - ◇ Incompatible goals or priorities between the companies for the relationship.
 - ◇ Not enough value is achievable through the relationship.
 - ◇ The relationship cannot be operationalized successfully. For example, adequate staff may not be available to execute the relationship, or internal roadblocks might prevent the companies from either producing or receiving the deliverables for the relationship.
 - ◇ Severe cultural differences

exist between the companies that are entering into the relationship.

By applying an SRO™ methodology before a relationship is formalized, companies take the time to gather enough data to make an informed decision about whether the relationship should move forward. Therefore, ROI can be improved greatly by pursuing only those relationships that have a high chance of succeeding.

Maximize Revenue by Executing and Monitoring Relationships Effectively

A poorly executed relationship results in a lost opportunity to maximize revenue. A typical problem with the execution of relationships is that companies do not spend time up front identifying and addressing internal roadblocks to success. Because employees often view the start of a relationship as additional work for themselves when they are already busy, they don’t typically welcome the operational changes necessary to successfully execute the relationship.

For example, suppose a company is entering a new market space and wants

to enter a relationship with someone else in that market space to generate sales leads. Some form of analysis must take place to determine how those leads will come in and who will receive them. Will the company give the partner company access to its CRM system to transfer leads? If so, who will assign IDs and passwords? Are leads going to come in via email? If so, who will check for the emails? What will that person do with them so they can be acted upon? Who is going to make sure that the expected number of leads is actually being generated, and what plan is in place in case you don’t get all of the leads you expect? Who is going to track the effectiveness of the leads you to make sure you are getting the value you expect from the relationship? Are these employees going to welcome the changes in workload, process, and responsibility that will come from implementing the relationship? If these types of operational issues are not addressed early, not only is the company not going to achieve all of the revenue it expects in the form of high-quality new leads, but its employees may have bad taste in their mouths for future relationships.

Revenue may also be reduced when the relationship is not managed proactively. If a company has analyzed the relationship thoroughly from the beginning, metrics should be in place to serve as milestones which tell you whether the relationship is performing up to expectations. Examples of milestones include a certain number leads qualified generated, a certain amount of revenue, or a product released by a particular date. To effectively manage the relationship, someone needs to be looking at the metrics periodically to determine whether the relationship is executing as designed.

Implementing an SRO methodology helps you maximize revenue by eliminating operational roadblocks to success, establishing metrics for measuring success, and eliminating the costs associated with poorly monitored relationships. Following an SRO methodology will help the company know when the usefulness of the relationship is waning and retire it gracefully, with minimal legal expense. It will also prevent post-termination receivables or deliverables, such as residual royalties, from getting lost.

Avoid Huge Costs When Attempting to Save Problem Relationships

Because relationships last over a

period of years, some adjustment to the relationship model and the underlying contract may need to occur to account for changes in the marketplace, internal changes of responsibility, and changes in priorities. However, this type of reality check rarely occurs because no one is keeping track of the data that could be used to evaluate the success of the relationship. When a relationship is not monitored and adjusted periodically, some sort of crisis inevitably occurs that requires legal council and executive time to resolve. For example, executives may realize that they have to go to a shareholders' meeting and explain why the relationship is not producing its anticipated revenue.

Fuzziness in the relationship contract is another cause of bloated legal costs at the end of the relationship lifecycle. Many contracts do not concretely state how the relationship should end, often because negotiators don't want to talk about how the relationship will end before it even begins. Fuzziness in the contract is a recipe for spending large amounts of money late in the lifecycle of the relationship for lawyers to argue about how the partnership can be ended early and to assign blame for its failure. At best, both parties mutually agree to terminate the agreement when it stops being profitable. At worst, one company sues another for breach of contract and the sued company generates

ill PR will, which may affect future relationships it attempts to form.

Implementing an SRO methodology helps avoid costly crisis intervention and early termination costs. In an optimized relationship, the deliverables and receivables of the relationship are monitored closely, thereby avoiding nasty surprises. Better contracts are written up front to avoid any fuzziness that might result in costly legal interpretation down the road.

 Larry Shoup is the Founder and CEO of Silver Tree Solutions, an organization focused on providing business processes and software tools to manage inter-organizational relationships as corporate assets. Prior to founding Silver Tree, Larry was CEO and Founder of Janus Technologies where he led the development of Argis – a leading ITAM repository.

Larry will continue exploring this topic along with others dealing with ITAM careers and vendor relationships in a regular monthly column. He welcomes any feedback, questions, and suggestions for future topics. He can be reached at larry.shoup@silvertreesolutions.com.

