

SoftCo and ComputerCo

Company backgrounds

SoftCo is a software company established in 1995 to commercialise novel server software. At the time of the case study, the company had six employees and had raised its seed funding from individual investors and was seeking its first round of institutional investment.

ComputerCo is a multinational technology solutions provider for individuals, businesses and institutions, with its traditional emphasis of activities being on hardware. At the time of the case study ComputerCo had over 100,000 employees employed throughout its international operations.

An additional important piece of contextual information is that the period of the case study is that of the peak of the Internet-fuelled speculative bubble.

Motivation for forming the alliance

For SoftCo: SoftCo had not been seeking a strategic alliance partner but had received a cold-call from ComputerCo inviting them to meet up to discuss options for working together. As SoftCo was a software provider whose main route to market was direct sales via the Internet, the opportunity to partner with a hardware company with international reach – particularly in business markets – who could bundle SoftCo's software into their hardware seemed very attractive.

For ComputerCo: The R&D managers at ComputerCo had identified a gap in the portfolio of technology solutions they were offering to their customers – and it was a gap that their main competitors had already filled. SoftCo had developed software that could be bundled with ComputerCo hardware to help fill that gap and keep ComputerCo competitive in that particular sector.

Type of alliance formed

Initial discussions had raised the possibility of ComputerCo purchasing SoftCo, but agreement could not be reached on a valuation for the majority of SoftCo shares. However, a contractual agreement was signed to form an alliance that provided SoftCo with guaranteed sales of UK£125,000 per quarter for three years in return for having their software bundled with ComputerCo's hardware, and for providing support to ComputerCo for this software.

Issues that emerged during the alliance

From technology to commercial focus:

Once the deal had been signed, management of the relationship moved from being an R&D activity to a commercial activity within ComputerCo. This presented challenges from the outset as the commercial team did not have deep understanding of SoftCo's novel technology and were therefore hard pushed to convince customers to choose this over existing ComputerCo solutions. ComputerCo urgently required detailed documentation to support SoftCo software. The ComputerCo sales force and consultants also needed to receive training to develop understanding of how SoftCo technology offered ComputerCo customers a new value proposition. The scale of the task facing SoftCo had been severely underestimated; with six staff in the company in total they were being asked to provide documentation in several languages that would pass ComputerCo global support quality standards (at a time when SoftCo did not have exhaustive documentation in English). In addition, they had to find a way

of rapidly training a global sales force for ComputerCo that numbered tens of thousands of people.

Managing the relationship:

For SoftCo, managing the relationship became a significant drain on the core management time. ComputerCo appointed a 'relationship manager' but from the perspective of the SoftCo management, this manager knew little of the strategic background to the deal and hence did not prove very helpful. An additional management issue soon emerged relating the orders of magnitude difference in the size of operations between SoftCo and ComputerCo. A comment from the founder of SoftCo sums this up clearly: "When we needed someone to help us at ComputerCo we looked in our address books and found over 500 names of possible contacts. We often didn't know where to start. We were like a fishing boat trying to dock with a supertanker". It also became clear during the alliance that ComputerCo had not managed an alliance with a company as small as SoftCo before.

Clockspeed issues:

Although operating in the same industry, the differences in operational 'clockspeed' between the two companies raised additional challenges. For SoftCo, their typical deal cycle had been around 2 months; for ComputerCo it was 18 months in this particular sector. Although SoftCo had guaranteed revenues as a result of the alliance, the difference in deal cycle time caused problems with the meshing of activities of the two firms.

Technology, product or solution:

It became clear as the two companies started working together that those that were implementing the alliance at ComputerCo were seeking to deliver solutions to customers and, as such, needed to have a ready-to-ship, fully supported product. At the starting point of the alliance negotiations, SoftCo believed that they were providing a technology to fill a gap in ComputerCo's portfolio; as the negotiations passed agreement and moved into implementation, it became clear that the resource implications of providing a fully supported product had not been given sufficient consideration from either party.

Outcome(s) of the alliance

The alliance was terminated after one year as it became clear that it was in neither party's interest to continue.

From one perspective, the alliance was a failure for SoftCo in that it was perceived as costing too much in terms of management time compared to the benefits received. Such were the demands on SoftCo management by ComputerCo that the CEO at the time believed that alliance almost forced SoftCo out of business.

Viewing the alliance from a different perspective, by forming the alliance (and regardless of the actual outcome), potential institutional investors were given confidence that the company would have credibility in the eyes of business customers, and this led directly to SoftCo closing its first round of institutional investment during the period of the alliance. Since the ending of the alliance, SoftCo and ComputerCo have continued to work together with a more loosely defined agreement in place and this has proved to be a successful working relationship.