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What Makes Innovation Partnerships Succeed

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Summary. Increasingly, companies today are aggressively pursuing breakthrough innovations. But to succeed in a significant, cost-efficient, and timely way they need to partner with other companies who have their own special interests and concerns, which turns out to be... **more**

Breakthrough innovation introduces novel paradigms and platforms, and it creates new product families and economic opportunities. But it's never a solo act. Even the largest companies need partners.

Innovation partnerships offer many advantages. They offset R&D costs, add expertise and flexibility, and help create new markets. They can also accelerate innovation and commercialization timelines — a vitally important function, given that achieving and commercializing breakthroughs can otherwise take decades. That's why 94% of tech industry executives consider innovation partnerships a necessary strategy.

The problem is, the majority of these collaborations fail, especially when it comes to actually making breakthroughs.

Why? There are all sorts of reasons. Companies choose partners who aren't a good fit. They set misguided goals. They fail to communicate effectively or fail to deliver per product requirements. They resist sharing vital confidential information for fear of leaking IP. They are change-resistant or can't navigate unanticipated circumstances. The fact is, innovation is complex and risky, and collaboration can make it riskier.

That's certainly true for the companies that are working to create the AR/VR/metaverse experience. To achieve their goals, these companies need to make critical breakthroughs in optics, hardware, and material technologies — breakthroughs that without collaborative innovation could well take decades. The stakes are high, and to succeed these companies are going to have to get their collaborations right.

Recognizing that the metaverse can only be built through partnerships, Meta Platforms — where two of us (Andy and Taha) work, and for whom one of us (Paola) has consulted — not long ago reached out to over a dozen technology companies and proposed new kinds of collaborative relationships. These companies were not new to partnerships with Meta, but for reasons that included feasibility, financial risk, and IP allocation, most of them were declining to partner for new technology breakthroughs. Based on AR/VR applications alone, they felt the technical and business risks did not justify the investment. For

example, a leading material supplier for a critical AR/VR component could not justify investing in development of new materials based on AR/VR consumer volumes. Reshaping the collaboration terms and model allowed the partner to access the broader market outside of Meta's applications, justifying their investment.

To develop these relationships, which were designed to encourage rapid breakthrough innovations, Meta and the companies involved have had to devise new ways of fostering trust and openness, managing risk, and communicating opportunity. More specifically, they've have had to 1) establish complex rules for assigning ownership of IP and the right to commercialize or benefit from the results of their collaborations, 2) devise fair and effective dispute resolution systems, and 3) figure out how to allocate risk and financial burden.

This work felt difficult and risky as it was being done, but now it's paying off: Ninety-three percent of the companies that Meta approached have now engaged in innovation partnerships; these new collaborations have led to R&D savings for Meta (as of now) of roughly $100 million and have accelerated the development and time-to-market of new materials by more than three years; and partner companies have been able to commercialize multiple products based on the same platform technology at greater speed and with lower risk.

We've learned a lot in this process about what makes innovation partnerships succeed. In this article we'll present some useful guiding principles that have emerged from our work.

Rules of Engagement

Successful innovation partnerships start with trust. To sustain vendor buy-in and prevent mistrust or distraction from killing the partnership, you'll need to design transparent, winning experiences for the vendor.

Consider what happened in the partnership that Meta established with a Fortune 500 company to develop a new material. Initially, the company was skeptical about the potential to develop the material, and Meta was reluctant to disclose significant details about the use case for it, fearing IP leakage. But it became clear that only by disclosing those details would the company feel able to engage fully as a partner. So Meta disclosed them, and the two companies were able to discuss how the hoped-for innovation would benefit both companies. Trust, openness, and transparency replaced skepticism — and before long we were on our way together to a breakthrough.

It's important to build trust with partners not only before but also during collaborations. This helps foster long-term connections. There are many ways to do this: Engage partners across innovation processes. Make efforts to maintain your relationships with them even past the delivery of the innovation you teamed up to achieve. Share background IP, so that your partner can develop specific innovations that enable them to sell to others. Be transparent about this: It's important to formalize how IP and commercialization benefits will be allocated.

Often, the default position in innovation partnerships is that each party owns its respective background IP and owns foreground IP that its inventors develop during the collaboration. That approach may seem reasonable, with each party benefiting from its own creativity, but it discourages the sharing of ideas and gives parties a reason to focus on sole inventorship, without regard to the needs of the eventual product.

A more practical, open, and equitable approach is to let each party's core business function determine foreground IP ownership, independent of the background IP contribution that each party makes to the technology development. For domains where interests overlap, the party that gets to own the IP usually is the one that takes responsibility for commercializing the technology with the help of the supply chain, and the other party

gets a broad and non-exclusive royalty-free license. Granting technology-specific background-IP licenses to partners is a good idea too, because it gives partners a head start that boosts their ability to innovate, reduces technical and schedule risk, and lets them and their customers address a broader market with the technologies they develop. In one of our partnerships, a material supplier was granted ownership of the IP of components that used their innovative material, and in exchange they agreed to vertically integrate and take responsibility for the supply chain for the component.

Resolving Disputes

This sort of reciprocal altruism will never eliminate all conflict, of course. So in setting the terms of their joint venture, partners should acknowledge formally that disagreements and disputes are likely to arise — and that representatives from both sides will need to resolve them together. They'll need to design a system of dispute resolution that assumes a long-term relationship between the parties and treats both fairly. It should mandate that partners meet regularly to determine whether business objectives are being met. In the case of disputes, the resolution process should be designed and implemented in a way that won't interfere with ongoing innovation. Its goal should be to resolve disputes at the level at which they occur, which is possible with most conflicts. Only when conflict-resolution efforts fail at that level — as occasionally happens when unexpected innovations emerge that don't fit the IP-allocation model — should cases escalated up the resolution system. If even that doesn't work, and resolution can't be achieved at *any* level, then traditional mediators and arbitrators can be engaged.

Allocating Risk

Then there's the matter of costs, which tend to be very high when technologies are developed and customized exclusively for one product or application. This is especially true with first-generation products or applications, where volumes are low and

partners are eager to recoup their R&D investments. A collaborative, multi-use platform devoted to the development and marketing of materials, components, and devices can make them more commercially viable from their first day of production, at a scale that is likely to reduce manufacturing costs.

The default approach to allocating risk in collaborative partnerships is to make each party responsible for its own costs from the start of the engagement through production. But this approach may not provide the needed incentives for partners to commit high-caliber resources to their collaboration at a level required to tackle highly challenging technical problems.

A better approach, which Meta has adopted with its partners, is to allow all participants to take risks proportional to the potential benefits being offered to them. External partners, it turns out, are more inclined to take on technically risky development tasks if they're given permission to use the underlying technology to meet a variety of their own needs along the way. Meta adopted this approach to the development of a tiny new optoelectronics component — a high-voltage boost converter. Instead of solely focusing on the specific boost voltage requirement for our application, the vendor was encouraged to design this component as a platform that could be configured for any boost voltage within a range with minimum changes to the design, which would make the platform suitable for multiple applications with different voltage needs.

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This platform approach has many advantages. It reduces risk for the vendor. It doesn't limit product development to one customer's use. It prevents time-limited market advantage in the customer's original field-of-use. It amortizes the costs of the new-technology development over multiple applications and product generations, creating conditions in which partners can undertake assignments that might otherwise be considered too risky.

In the end, it all comes down to trust. If you want to efficiently develop and commercialize breakthrough innovations, you need to collaborate with partners who will come to the table with their own interests, expectations, and concerns. To establish trust and develop a productive collaboration in this situation, you'll need to establish clear, win-win rules of engagement and figure out how to allocate risk fairly. If you can manage that, you'll be able to navigate the conflicts and concerns that will inevitably arise, and you'll be able not only to sustain but also accelerate your innovation.

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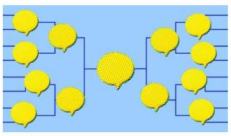

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