STRATEGIC ALLIANCES

THE RIGHT WAY TO COMPETE IN THE 21ST CENTURY

BY MARIA GONZALEZ

Regardless of the industry or type of business, strategic alliances are the best way for a company to compete and succeed in today's networked economy. But building a strategic alliance and making it work are not easy. Partnering well is a key core competence, and it is one that needs to be developed.

The principles for developing that competence apply to any type of alliance. I will describe some of those principles in this article, as well as some of the risks that a company will face and the benefits it will derive from entering into a strategic alliance.

STRATEGIC ALLIANCES TODAY

Strategic alliances are critical to organizations for a number of key reasons:

1. Organic growth alone is insufficient for meeting most organizations' required rate of growth.
2. Speed to market is of the essence, and partnerships greatly improve speed to market.
3. Complexity is increasing, and no one organization has the required total expertise to best serve the customer.
4. Partnerships can defray rising research and development costs.
5. Alliances facilitate access to global markets.

In recent years, there has been an explosion of alliances around the world and across industries. For example:

1. In an effort to establish itself as a force in European and Japanese markets, the Nasdaq formed a joint venture with SSI Technologies of India to develop an Internet-based trading and market system to launch Nasdaq Europe and Nasdaq Japan.
2. In February 2001, The Coca-Cola Company and Procter & Gamble announced a $4.2-billion (all currency in U.S. dollars) joint venture to use Coca-Cola's huge distribution system to increase reach and reduce time to market for the P&G products Pringles and Sunny Delight.
3. EPOST was the world's first national, secure electronic mail-delivery system, an alliance between Bank of Montreal and Canada Post Corp. This partnership connects billers and users in an efficient and secure environment.
4. Star Alliance is the largest partnership in the airline industry; its reach extends to 130 countries and more than 815 destinations, with collective revenue for the partnership at more than $63 billion.
5. Hewlett-Packard and NTT DoCoMo created a partnership to conduct joint research on technology for fourth-generation mobile phones, bringing together HP's network infrastructure and computer servers with DoCoMo's wireless broadband technology.

"Mitigating the risk of failure in any partnership is a critical requirement for success"

HUGE OPPORTUNITY, HUGE RISK

Much has been written about the power of strategic alliances. However, a balanced perspective is critical. An article by Geoff Baum in the April 3, 2000, issue of Forbes ASAP gave a strong vote of confidence to alliances: "Our statistical analysis shows that companies with more joint ventures, marketing and manufacturing alliances, and other forms of partnerships, have substantially higher market values [than companies that do not form such partnerships]." The article concluded that, "In the connected economy, connections matter. Alliances are incredibly, even decisively, important." Studies by others — including the Corporate Executive Board in Washington; Peter Drucker; Booz, Allen & Hamilton; and Andersen Consulting — also highlight similar opportunities and associated risks.

According to a 1999 survey on global alliances by Accenture Consulting:

- Eighty-two percent of executives surveyed believe alliances will be a prime vehicle for future growth.
- Alliances account for an average of 26 percent of Fortune 500 companies' revenues, up from 11 percent five years ago.
- Alliances account for six to 15 percent of the market value of the average company
- U.S. banks expect to hold a portfolio of more than 50 alliances within three years, accounting for as much as 50 percent of revenue.
- Within five years, alliances are projected to account for 16 to 25 percent of the average company's market value.
- Senior management at 25 percent of firms surveyed expects alliances to contribute more than 40 percent of their company's market value within five years.

It is clear that the importance of alliances is already being felt. Yet despite the opportunity, there are enormous risks:

- As many as 70 percent of alliances fail.
- Studies have found that although the 15 most successful alliances increased shareholder value by $72 billion, the 15 least successful alliances decreased market capitalization by $43 billion.

MITIGATING THE RISK OF FAILURE

Mitigating the risk of failure in any partnership is a critical requirement for success in a global economy. To ensure the greatest likelihood of success, organizations contemplating forming an alliance need to develop a disciplined, structured and systematic Strategic Alliance Process.

The Strategic Alliance Process described in this article has been successfully applied to partnerships in Canada, the U.S., Europe, Asia and Mexico.

In our research, we consistently found that the major causes of alliance failure were a lack of strategic alignment and cultural incompatibility. We also found that using a process that addresses these issues greatly reduces the risk of failure.

THE STRATEGIC ALLIANCE PROCESS

The Strategic Alliance Process involves planning, implementation and evaluation. An alliance has a five-stage "life cycle," and a structured methodology is applied to preparation and negotiations at each stage.

1. Setting alliance strategy

The first step in creating a successful alliance is to develop a well-thought-out alliance strategy. This is a critical step. We have found that too many organizations "find" a potential partner and then either develop their strategy or "fall into it." It is worth remembering that if you do not follow your strategy in a partnership, you will follow someone else's. The result will be catastrophic.

An alliance strategy stems from the business strategy. An alliance is not the answer for all businesses, but once a business does decide that a partnership is desirable, it must develop an alliance strategy. This is best accomplished through a structured, disciplined process in an Alliance Strategy Session.

An alliance strategy is most effectively developed jointly by the business team and an objective third party, whether the latter is an external consultant or part of the organization. The business team includes an executive sponsor, who is the head of that business, or, in a corporate alliance, the president and CEO. If senior executives do not support the initiative, the alliance will die. The team also includes key content experts and decision makers for that business.

An Alliance Strategy Session needs to address the vision and strategy for the partnership, and include a market analysis and a competitive assessment. Also required is an honest self-assessment that articulates the organizational strengths and weaknesses, as well as the organizational culture. The outcome of such a session includes an alliance game plan, partner selection criteria, a cultural self-assessment and a negotiating strategy.

2. Selecting a partner

This is based on the criteria identified in the strategy session. Once the partner is selected, the key is to determine if both organizations are strategically aligned and culturally compatible. A Joint Strategy Session where both (or multiple) organizations articulate their vision and strategy will determine if the organizations are strategically aligned. It will also become clear whether all parties have like ambitions and are culturally compatible. This also becomes the ideal opportunity to identify any strategic gaps and previously unanticipated opportunities. Any deal-breakers for either party are articulated at this stage.

Alliance governance is another aspect that is important to discuss at the very early stages. If it is a joint venture, thought needs to be given to the structures for management and the board.

Note that at this stage, due diligence has not yet occurred. The strategic alignment must first be ensured before due diligence is begun. At the outset, it is extremely important to determine if the partners are strategically aligned and culturally compatible. No positive results on due diligence or a "great" financial deal will overcome the lack of strategic alignment. Without this assurance, the alliance is guaranteed to fail.

3. Structuring the alliance

This is the step that has traditionally received the greatest amount of attention; it is during this stage that the deal is financially and legally structured, and negotiated. While important, the stage is not worth entering into unless the first two stages involving the strategy have been completed.

It is important to keep an open mind regarding the structure of the deal until the alliance strategy has been developed. A joint venture is not always the best route, nor is majority ownership. Preconceived notions about the deal structure can bias the strategy, including conversations with the potential partner. Ideally, the strategy dictates the optimal structure.

Negotiation is also an aspect that requires significant attention. Some best-practice companies rehearse their negotiations before meeting the partner. It is critical to be clear about your deal-breakers, and the "floor" and "ceiling" of your negotiating points. A negotiating strategy is critical, and developing one must begin at the alliance-strategy stage. A key point to remember is that negotiations with a potential partner begin long before you first sit down at the table. It begins the first time you meet the partner. Every interaction reveals information that is consciously and subconsciously stored for future reference.

Every alliance agreement should include an exit strategy. This does not imply a pessimistic view of the relationship, but rather recognizes that all alliances have a natural life. The average lifespan of an alliance is seven years. It may be necessary to recognize that an alliance is impermanent in order to maximize its useful life.

Finally, at this point, a solid view of, and agreement on, alliance governance is important. This work is begun at the alliance strategy stage and needs to be negotiated before signing the definitive agreement.

4. Managing the alliance

Once the ink is dry, the hard work begins. Making the relationship work on an ongoing basis is a challenge. In a well-structured alliance, an implementation plan is developed before the deal is signed. A full launch strategy needs to have been jointly developed before the deal is announced. To hit the ground running, an implementation plan with specific action plans, and the resources assigned to the alliance, must be known. Ideally, some members of the alliance team would have been involved from the very first stage.

Conflict in any alliance is inevitable. It is not the fact that it occurs that is a problem, but rather how it is dealt with and resolved. A conflict-management process is an important element of alliance management.

This is another stage where the alliance can be derailed. As previously noted, the lack of strategic alignment is a key cause of failure. This is not only the case at the outset but throughout the life of the alliance. Periodic checks are critical. If a shift in a partner's strategic direction is taking place, there is a risk that the alliance may no longer be a strategic priority In the case where an alliance partner has sold its interest to another organization, it will be necessary to ensure that the new partner has the same strategic vision and interest in the alliance. Periodic strategy sessions become a valuable means of ensuring strategic alignment, as well as a vehicle for revisiting the strategy's market relevance. As with conflict management, these sessions are best managed with the support of an objective third party

5. Re-evaluating the alliance

Measuring the results of an alliance is critical. You must regularly determine if the alliance is achieving its objectives. The metrics need to be tailored to the alliance and include both qualitative and quantitative criteria. In the earlier stages, qualitative criteria, which are the hardest to measure, are most meaningful. Some examples are the level of trust, and the ability and willingness for cross-organizational co-operation and collaboration. These are all leading indicators of future performance. The qualitative metrics need to be clear and specific, in line with the way each organization sets its performance standards.

The discussion about performance standards must have taken place as early as stage one. The relationship will no succeed if both parties do not have the same expectation for success. If one party is expecting results within the first 12 months, and the other has a three-year horizon, conflict is inevitable. The key is to agree on standards and metrics jointly, before the final agreement has been signed.

In the re-evaluation stage, it is also necessary to take stock of the alliance and determine the next steps. As previously stated, alliances are impermanent; this should be taken into account when planning an alliance. This does not mean that the relationship should end when the alliance itself ends. In fact, towards the end of the life of the alliance it is worth revisiting the alliance strategy. Here one wants to determine to what extent the original goals have been achieved, and whether the partnership can be reconfigured to serve other market needs. The goal is to make a decision as to whether the alliance should be terminated as the exit strategy has prescribed, or whether it still has life and new opportunities to partner.

Maintaining a good relationship will usually mean that there will be opportunities to continue to work together. It is much easier to manage multiple or reconfigured relationships with an existing and known partner than it is to manage multiple relationships with different partners. Therefore where possible, deep relationships are always more desirable. For example, by reconfiguring and reinventing their relationship, Fuji and Xerox have remained partners for close to 40 years, well above the seven-year average.

It is absolutely necessary to evaluate and further develop the alliance at each stage of the life cycle. The strategy sessions create a structured, disciplined forum for recapturing "the lost art of conversation." It is essentially through this conversation that gaps are identified and opportunities discovered. In our hurry to achieve, we at times forget to assess whether we are pursuing something that is worthwhile.

10 RULES FOR FORMING AN ALLIANCE

1. Create a strategic foundation for all alliances, where you address the strategic gaps in your business.
2. Do not create an alliance unless you are strategically aligned with your partner.
3. Develop a clear understanding of your own organizational culture and your potential partner's (s), ensuring that you are compatible.
4. Create a win-win attitude in all partnerships.
5. Focus on creating greater opportunity than previously expected from forming an alliance; focus on creating "a bigger pie".
6. Develop your negotiating strategy at the very outset, before the actual formal negotiation begins.
7. Allocate outstanding resources to the alliance throughout the life cycle, and request that your partner do the same.
8. Work to cultivate the relationship with your partner throughout the life cycle, as a legal agreement is never a substitute for a good relationship.
9. Develop an implementation plan before you sign the deal so that you can hit the ground running — and make it tougher for the competition to catch up.
10. Never lose sight of the reason for creating the alliance in the first place. If you are not following your strategy, you are following someone else's.

ALLIANCE PITFALLS

There are seven common pitfalls in the alliance cycle.

Stage 1: Too many organizations do not have an alliance strategy that addresses the gaps in their business strategy. Consequently, and unnecessarily, they underperform.

Stage 2: Many organizations do not develop an explicit joint strategy with their partners. Consequently, the organization with the strong direction leads the alliance, while the other partner does not realize the full benefit, or worse still, follows someone else's strategy.

Stage 3: Too often, a disproportionate amount of attention is paid to the financial aspects of the deal, at the expense of — and sometimes neglect of — the strategy and the focus on implementation. Consequently, the ability to compete successfully is compromised.

Stage 4: Lack of ongoing commitment to the alliance by either party will derail it. Examples include not putting the best people in the partnership or pulling key resources from the alliance.

Stage 5: Lack of realistic or meaningful metrics is a common pitfall. In an attempt to quantify all results from the outset, employing meaningful qualitative metrics is often overlooked. Some of the most meaningful metrics which are predictors of success include things such as the level of trust between the parties.

Stage 6: Another common pitfall for large organizations is losing track of multiple relationships with a partner. This occurs when various alliances with this partner exist in different parts of the organization. At times, a partner is also a supplier, and this complicates the relationship. Having a good handle on the extent of the relationship is critical.

Stage 7: Finally, partnering with competitors requires particular attention. One of the common pitfalls occurs when insufficient boundaries are set around an alliance with a competitor. The risk is that their newly acquired knowledge of your organization makes them a more formidable competitor.

Organizations will increasingly need to partner or risk perishing. In the global economy, all boundaries are artificial and limitations self-imposed. Yet partnering carries with it huge risks.

These risks can be mitigated by creating an organizational competence in strategic alliances. To make alliances work, organizations must develop a systematic, structured and disciplined process that involves planning, implementation and evaluation. There are no shortcuts. It is both an art and a science. And one thing is clear: In order to succeed, there must be a solid alliance strategy in place. And throughout, there must be a keen awareness of the reasons for having undertaken the alliance in the first place. ■

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