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ALLIANCES AND PARTNERSHIPS

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Abstract. *Once a company settles on which of the few generic strategies to employ, attention turns to what other strategic actions it can take to complement its choice of a basic competitive strategy.*
This paper contains section disusing the pros and cons of each of the above complementary strategic options. The main point in this paper is how the strategic alliances begin. The next-to-last section in the paper discussed the need for strategic choices in each functional area of a company's business (R&D), production, sales and marketing, finance, and so on) to support its basic competitive approach and complementary strategic moves.

Key Words: *Company, global, marketing, strategic alliances, differences.*

INTRODUCTION

Companies in all types of industries and in all parts of the world have elected to form strategic and partnerships to complement their own strategic initiatives and strengthen their competitiveness in domestic and international markets. This is an about-face from times past, when the vast majority of companies were content to go it alone, confident that they already had or could independently develop whatever resources and know-how needed to be successful in their markets. But globalization of the world economy; revolutionary advances in technology across a broad front; and untapped opportunities in Asia, Latin America, and Europe – whose national markets are opening up, deregulating, and/or undergoing privatization – have made strategic partnerships of one kind or another integral to competing on a broad geographic scale.

Many companies now find themselves thrust into two very demanding competitive races: (1) *the global race to build a market presence in many different national markets* and join the ranks of companies recognized as global market leaders, and (2) *the race to seize opportunities on the frontiers of advancing technology* and build the resource strengths and business capabilities to compete successfully in the industries and product

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markets of the future [1, pp. XIII-XIV]. Even the largest and most financially sound companies have concluded that simultaneously running the races for global market leadership and for a stake in the industries of the future requires more diverse and expansive skills, resources, technological expertise, and competitive capabilities than they can assemble and manage alone. Such companies, along with others that are missing the resources and competitive capabilities needed to pursue promising opportunities, have determined that the fastest way to fill the gap is often to form alliances with enterprises having the desired strengths. Consequently, these companies form strategic alliances or collaborative partnerships in which two or more companies jointly work to achieve mutually beneficial strategic outcomes. Thus, a **strategic alliance** is a formal agreement between two or more separate companies in which there is strategically relevant collaboration of some sort, joint contribution of resources, shared risk, shared control, and mutual dependence.

Strategic alliances are collaborative arrangements where two or more companies join forces to achieve mutually beneficial strategic outcomes.

Often, alliances involve joint marketing, joint sales or distribution, joint production, design collaboration, joint research, or projects to jointly develop new technologies or products. The relationship between the partners may be contractual or merely collaborative; the arrangement commonly stops short of formal ownership ties between the partners (although there are a few strategic alliance members). Five factors make an alliance strategic, as opposed to just a convenient business arrangement [2, pp. 1-4]:

1. It is critical to the company's achievement of an important objective.
2. It helps build, sustain, or enhance a core competence or competitive advantage.
3. It helps block a competitive threat.
4. It helps open up important new market opportunities.
5. It mitigates a significant risk to a company' business.

Strategic cooperation is a much-favored, indeed necessary, approach in industries where technological developments are occurring at a furious pace along many different paths and where advances in one technology spill over to affect others (often blurring industry boundaries). Whenever industries are experiencing high-velocity technological advances in many areas simultaneously, firms find it virtually essential to have cooperative relationships with other enterprises to stay on the leading edge of technology and product performance even in their own area of specialization.

Companies in many different industries all across the world have made strategies alliances a core part of their overall strategy; US companies alone announced nearly 68.000 alliances from 1996 through 2003 [3, p. 109].

COMPANY USE OF ALLIANCES IS QUITE WIDESPREAD

In the personal computer (PC) industry, alliances are pervasive because the different components of PCs and the software to run them are supplied by so many different companies – one set of companies provides microprocessors, another group makes motherboards, another monitors, another disk drives, another memory chips, and so on. Moreover, their facilities are scattered across the United States, Japan, Taiwan, Singapore, Malaysia, and parts of Europe. Strategic alliances among companies in the various parts of the PC industry facilitate the close cross-company collaboration required for next-generation product development, logistics, production, and the timing of new product releases.

Toyota has formed a long-term strategic partnership with many of its suppliers of automotive parts and components, both to achieve lower costs and to improve the quality and reliability of its vehicles. Microsoft collaborates very closely with independent software developers to ensure that their programs run on the next-generation versions of Windows. Genentech, a leader in biotechnology and human genetics, has a partnering strategy to increase its access to novel biotherapeutics products and technologies and his formed alliances with over 30 companies to strengthen its research and development (R&D) pipeline. During the 1998-2004 period, Samsung Electronics, a South Korean corporation with $54 billion in sales, entered into over 50 major strategic alliances involving such companies as Sony, Yahoo, Hewlett-Packard, Nokia, Motorola, Intel, Microsoft, Dell, Mitsubishi, Disney, IBM, Maytag, and Rockwell Automation; the alliances involved joint investment, technology transfer arrangements, joint R&D project, and agreements to supply parts and components – all of which facilitated Samsung's strategic efforts to transform itself into a global enterprise and establish itself as a leader in the worldwide electronics industry.

Studies indicate that large corporations are commonly involved in 30 to 50 alliances and that some have hundreds of alliances. One recent study estimated that about 35 percent of corporate revenues in 2003 came from activities involving strategic alliances, up from 15 percent in 1995 [4, p. 42]. Another study reported that the typical large corporation relied on alliances for 15 to 20 percent of its revenues, assets, or income [5, p. 133]. Companies that have formed a host of alliances have a need to manage their alliances like a portfolio – terminating those that no longer serve a useful purpose or that have produced meager results, forming promising new alliances, and restructuring certain existing alliances to correct performance problems and/or redirect the collaborative effort [5, pp. 133-134].

WHY AND HOW STRATEGIC ALLIANCES ARE ADVANTAGEOUS

The most common reasons why companies enter into strategic alliances are to expedite the development of promising new technologies or products, to overcome deficits in their own technical and manufacturing expertise, to bring together the personnel and expertise needed to create desirable new skill sets and capabilities, to improve simply chain efficiency, to gain economics of scale in production and/or marketing, and to acquire or improve market access through joint marketing agreements [6, p. 66], [7, pp. 38-42]; [4, pp. 41-47]; [5, pp. 133-141]. In bringing together firms with different skills and knowledge bases, alliances open up learning opportunities that help partner firms better leverage their own resources strengths [8, pp. 223-229]. In industries where technology is advancing rapidly, alliances are all about fast cycles of learning, staying abreast of the latest developments, and gaining quick access to the latest round of technological know-how and capability.

The best alliances are highly selective, focusing on particular value chain activities and on obtaining a particular competitive benefit. They tend to enable a firm to build on its strengths and to learn.

There are several other instances in which companies find strategic alliances particularly valuable. A company that is racing for *global market leadership* needs alliances to:

- Get into critical country markets quickly and accelerate the process of building a potent global market presence.
- *Gain onside knowledge about unfamiliar markets and cultures* through alliances with local partners. For example, US European and Japanese companies wanting to build market footholds in the fast-growing Chinese market have pursued partnership arrangements with Chinese companies to help in getting products through the tedious and typically corrupt customs process, to help guide them through the maze of government regulations, to supply knowledge of local markets, to provide guidance on adapting their products to better match capabilities, and to assist in distribution, marketing, and promotional activities. The Chinese government has long required foreign companies operating in China to have a state-owned Chinese company as a minority or maybe even 50 percent partner-only recently has it backed of this requirement for foreign companies operating in selected parts of the Chinese economy.
- *Access valuable skills and competencies* that are concentrated in particular geographic locations (such as software design competencies in the United States, fashion design skills in Italy, and efficient manufacturing skills in Japan and China).

A company that is racing to *stake out a strong position in an industry of the future* needs alliances to:

- *Establish a stronger beachhead* for participating in the target industry.
- *Master new technologies and build new expertise and competencies* faster than would be possible through internal efforts.
- *Open up broader opportunities* in the target industry by melding the firm's own capabilities with the expertise and resources of partners.

Allies can learn much from one another in performing joint research, sharing technological know-how, and collaborating on complementary new technologies and products – sometimes enough to enable them to pursue other new opportunities on their own [9, pp. 146-151]. Manufacturers frequently pursue alliances with parts and components suppliers to gain the efficiencies of better supply chain management and to speed new products to market.

The competitive attraction of alliances is in allowing companies to bundle competencies and resources that are more valuable in a joint effort than when kept separate.

By joining forces in components production and/or final assembly, companies may be able to realize cost savings not achievable with their own small volumes – German automakers Volkswagen, Audi, and Porsche formed a strategic alliance to spur mutual development of a gasoline-electric hybrid engine and transmission system that they could each then incorporate into their motor vehicle model: BMW, General Motors, and Daimler Chrysler formed a similar partnership. Both alliances were aimed at closing the gap on Toyota, generally said to be the world leaders in fuel-efficient hybrid engines. Information systems consultant Accenture has developed strategic alliances with such leading technology providers as SAP, Oracle, Siebel, Microsoft, BEA, and Hewlett-Packard to give it greater capabilities in designing and integrating information systems for its corporate clients. Johnson&Johnson and Merck entered into an alliance to market Percid AC; Merck developed the stomach distress remedy, and Johnson&Johnson functioned as marketer – the alliance made Pepcid products the best-selling remedies for acid indigestion and heartburn. United Airlines, American Airlines, Continental, Delta, and Northwest created an alliance to form Orbitz, an Internet travel site to compete head-head against Expeditia and Travelocity, thereby strengthening their access to travelers and vacationers shopping online for airfares, rental cars, lodging, cruises, and vacation packages.

CAPTURING THE BENEFITS OF STRATEGIC ALLIANCES

The extent to which companies benefit from entering into alliances and collaborative partnerships seems to be a function of six factors [1, ch. 4-8], [10, pp. 18-23], [11, pp. 96-108], [12, pp. 127-135], [13, pp. 133-139]:

1. *Picking a good partner* – A good partner not only has the desired expertise and capabilities but also shares the company's vision about the purpose of the alliance. Experience indicates that it is generally wise to avoid a partnership in which there is strong potential of direct competition because of overlapping product lines or other conflicting interests – agreements to jointly market each other's products hold much potential for conflict unless the products are complements rather than substitutes and unless there is good chemistry among key personnel. Experience also indicates that alliances between strong and weak companies rarely work because the alliance is unlikely to provide the strong partner with useful resources or skills and because there's a greater chance of the alliance producing mediocre results.
2. *Being sensitive to cultural differences* – Unless the outsider exhibit respect for the local culture and local business practices, productive working relationships are unlikely to emerge.
3. *Recognizing that the alliance must benefit both sides* – Information must be shared as well as gained, and the relationship must remain forthright and trustful. Many Alliances fail because one or both partners grow unhappy with what they are learning. Also, if either partner plays games with information or tries to take advantage of the other, the resulting friction can quickly erode the value of further collaboration.
4. *Ensuring that both parties live up to their commitment* –Both parties have to deliver on their commitments for the alliance to produce the intended benefits. The division of work has to be perceived as fairly apportioned, and the caliber of the benefits received on both sides has to be perceived as adequate.
5. *Structuring the decision - making process so that action can be taken swiftly when needed* – In many instances, the fast pace of technological and competitive changes dictates an equally fast decision-making process. If the parties get bogged down in discussion or in gaining internal approval from higher –ups, the alliance can turn into an anchor of delay and inaction.
6. *Managing the learning process and then adjusting the alliance agreement over time to fit new circumstances* – One of the keys to long – lasting success is adopting the nature and structure of the alliance to be responsive to shifting market conditions, emerging technologies, and changing customer requirements. Wise allies are quick to recognize the merit of an evolving collaborative arrangement, where adjustments are made to accommodate changing market conditions and to overcome whatever problems arise in establishing an effective working relationship. Most alliances encounter troubles of some kind within a couple of years – those that are flexible enough to evolve are better able to recover.

Most alliances that aim at technology sharing or providing market access turn out to be temporary, fulfilling their purpose after a few years because the benefits of mutual learning have occurred and because the business of both partners have developed to the point where they are ready to go their own ways. In such cases, it is important for each partner to learn thoroughly and rapidly about the other partner's technology, business practices, and organizational capabilities and than promptly transfer valuable ideas and practice into its own operations. Although long-term alliances sometimes prove mutually beneficial, most partners don't hesitate to terminate the alliance and go it alone when the payoffs run out.

Alliances are more likely to be long-lasting when (1) they involve collaboration with suppliers or distribution allies and each party's contribution involves activities in different portions of the industry value chain, or (2) both parties conclude that continued collaboration is in their mutual interest, perhaps because new opportunities for learning are emerging or perhaps because further collaboration will allow each partner to extend its market reach beyond what it could accomplish on its own.

WHY MANY ALLIANCES ARE UNSTABLE OR BREAK APART

The stability of an alliance depends on how well the partners work together, their success in responding and adapting to changing internal and external conditions, and their willingness to renegotiate the bargain of circumstances so warrant. A successful alliance requires real in-the-trenches collaboration, not merely an arm's-length exchange of ideas. Unless partners place a high value on the skills, resources, and contributions each brings to the alliance and the cooperative arrangement results in valuable win-win outcomes, it is doomed. A surprisingly large number of alliances never live up to expectations. A 1999 study by Accenture, a global business consulting organization, revealed that 61 percent of alliances were either outright failures or "limping along". In 2004, McKinsey&Company estimated that the overall success rate of alliances was around 50 percent, based on whether the alliance achieved the stated objectives [5, p. 133]. Many alliances are dissolved after a few years. The high "divorce rate" among strategic together (an alliance between Disney and Pixar came apart because of the clashes between high-level executives – in 2005, after one of the feuding executives retired, Disney acquired Pixar), changing conditions that render the purpose of the alliance obsolete, the emergence of more attractive technological paths, and marketplace rivalry between one or more allies [1, pp. 16-18]. Experience indicates that *alliances stand a responsible change of helping a company reduce competitive disadvantage, but very rarely have they proved a strategic option for gaining a durable competitive edge over rivals.*

THE STRATEGIC DANGERS OF RELYING HEAVILY ON ALLIANCES AND COLLABORATIVE PARTNERSHIPS

The Achilles heel of alliances and collaborative partnerships is dependence on another company for *essential* expertise and capabilities. To be a market leader (and perhaps even a serious market contender), a company must ultimately develop its own capabilities in areas where internal strategic control is pivotal to protecting its competitiveness and building competitive advantage. Moreover, some alliances hold only limited potential because the partner guards its most valuable skills and expertise; in such instance, acquiring or merging with a company possessing the desired know-how and resources is a better solution.

CONCLUSION

Once a company has selected which of the five basic competitive strategies to employ in its quest for competitive advantage, then it must decide whether to supplement its choice of a basic competitive strategy approach.

Many companies are using strategic alliances and collaborative partnerships to help them in the race to build a global market presence or be a leader in the industries of the future. Strategic alliances are an attractive, flexible, and often cost-effective means by which companies can gain access to missing technology, expertise, and business capabilities.

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ALIJANSE I PARTNERSTVA

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Jednom kada se kompanija nađe u dilemi koju od generičkih strategija da koristi, ona pažnju usmerava prema drugim strateškim akcijama koje može da preduzme kako bi upotpunila izbor svoje konkurentske strategije.

U ovom radu se analiziraju razlozi za prihvatanje ili neprihvatanja svake od prethodno implementiranih strategijskih opcija. Glavna stvar u ovom radu je kako strategijske alijanse počinju. Predposlednji deo rada govori o potrebi strateških izbora u svakom funkcionalnom području poslovanja kompanije (istraživanju i razvoju, proizvodnji, prodaji, marketingu, finansijama itd.), da bi se podržao njen bazni konkurentski prilaz i komplementarna strategijska kretanja.

Ključne reči: *kompanija, globalan, marketing, strategijske alijanse, razlike.*