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Alliance Management:
The Journey Towards Partnerships

by Robert E. Spekman(*)

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Schwab: Life at the Center of an Alliance Network Making the Connection: Multimedia's Equity Alliances

I. Understanding the Value Chain and the Role of Alliances - One View of the World

A. Alliances have been used to reduce costs by shedding non-core businesses because they:

1. Lack expertise;

2. Have no scale or other source of relative advantage;

3. Desire to focus attention and/or resources elsewhere;

4. Enhance revenue by getting greater returns from existing networks of customers, products, channels and partnerships with companies that have complementary competencies;

5. Create new products/services by combining complementary skills of partner "borrow" rather than "make or buy."

B. Additional Advantages of Alliances:

1. Improve ability to respond to changing business conditions;

2. Reduce cost, speed time to market, and improve profits (value);

3. Improve quality and decrease delays;

4. Effective utilization of resources;

5. Improve conflict resolution and better leverage partners' capability;

6. Increase opportunity for value engineering and innovation.

C. The Misery of Failure: Despite the popularity of alliances and the documented growth, failures mount as well. This translates into squandered resources, wasted time, and serious opportunity costs.

D. Alliance wake up call

1. Alliances achieve ROIs > base business by 50%.

2. With experience, companies perform better and have higher success rates in alliance activity.

3. Success results in higher growth, sometimes > 35% from alliances; ROE is 70 % greater for alliance intensive firms.

II. Facts

A. Failure rates less than mergers and acquisitions:

1. One alliance formed every 90 seconds.

2. Over 60 % fail but compare to NPD.

3. Alliances account for 26% of Fortune 500 revenue up from 11% five years ago.

4. Global companies get more than 20 % of revenues from alliances (will grow to 35 % by 2004).

III. Definition of Alliances

A. Alliances are close, collaborative relationships between two or more firms with the intent of accomplishing mutually compatible goals that would be difficult for each to achieve alone.

1. Common traits: Collaborative, mutually compatible, and difficult to achieve alone.

2. Implied by the above: An open ended contract, between separate firms, with shared control.

IV. Telecom Executives Rank Options to Fill Objectives

A. Reasons for:

1. It is important to protect one's assets going into the relationship.

2. Set value while partners are not at risk and are still committed to the alliance.

3. The alliance will end, set expectations for dissolution early. It removes the element of surprise.

4. It is just good planning.

5. Our lawyers want us to do it!

6. It minimizes the downside risk of the alliance.

7. It avoids costly litigation later.

B. Reasons against:

1. It sends the wrong signal.

2. It gives partners a way out before they engage in the hard work of alliance building.

3. It shows distrust & emphasizes the worst case scenario.

4. In a subtle way it takes responsibility away from business people and gives power to attorneys.

5. It could sour the relationship at a stage when it is fragile.

6. One cannot calculate future value & worth in a changing, highly turbulent world.

7. Attempts to control risk affects commitment.

V. Gains from Being Alliance Competent.

A. An alliance competent firm:

1. Is and is perceived by others as a good partner.

2. Is able to better leverage the capabilities of its partners and harness their skills for the mutual gain of the alliance.

3. Is more likely to select a better partner, is less likely to experience conflict, and is more likely to have a more successful alliance.

4. Is a better learner and is more effective at disseminating these skills throughout the firm.

VI. Evolving an Alliance Capability: The Importance of Institutionalizing an Approach to Alliances.

A. Determine the alliance strategy:

1. Will the alliance meet goals and objectives?

2. Will these goals be met quicker and more economically?

3. What will the company gain or lose?

4. What will the partner contribute?

5. Can he deliver what is expected?

6. Do our values and culture support alliance-like behavior?

B. Identify potential partners:

1. Does the partner meet both quantitative and qualitative requirements?

2. Do the sought-after synergies exist?

C. Screening potential partners:

1. Is there alignment in values, culture and style?

2. Do we share a common vision?

3. What is their reputation, brand equity, technology?

4. Is there strategic fit?

5. Can they execute?

6. Is there a foundation for trust?

D. Negotiating the agreement:

1. What is the governance structure?

2. How will the alliance be managed?

3. Measures of performance?

4. Have adequate resources been committed by the partners?

5. Level of senior management commitment?

6. Are our business models compatible?

7. Are there mechanisms to handle Intellectual Property?

E. Managing the alliance:

1. Frequent communication is key.

2. Need to demonstrate commitment.

3. Manage expectations and have clear role responsibility.

4. Is alliance management viewed as prestigious?

5. Senior management involvement/visibility.

6. Be prepared to reassess the alliance - assumptions change.

7. Mechanism for *no-blame reviews ©*.

F. Benefits:

1. Creates a common view and a common language.

2. Improves awareness and communication regarding the range of alliance activity.

3. Improves understanding of alliance complexity.

4. Facilitates sharing best practices and lessons learned.

5. Leverages past experiences, reduces costly errors.

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