Chantrey Vellacott DFK | telos partners | pitmans | HSBC

Cog:ent

The Cognisant Entrepreneurs' Group

Chantrey Vellacott DFK in conjunction with Telos Partners and HSBC Bank host a series of practical, thought leadership workshops on how ambitious business owners build a successful and sustainable business against the background of a difficult economic climate.

DELIVERING GROWTH THROUGH STRATEGIC ALLIANCES

Strategic alliances …

A strategic alliance involves at least two partner firms that:

- remain legally independent after the alliance is formed;
- share benefits and managerial control over the performance of assigned tasks;
- and make continuing contributions in one or more strategic areas, such as technology or products (Yoshino and Rangan 1995:5)

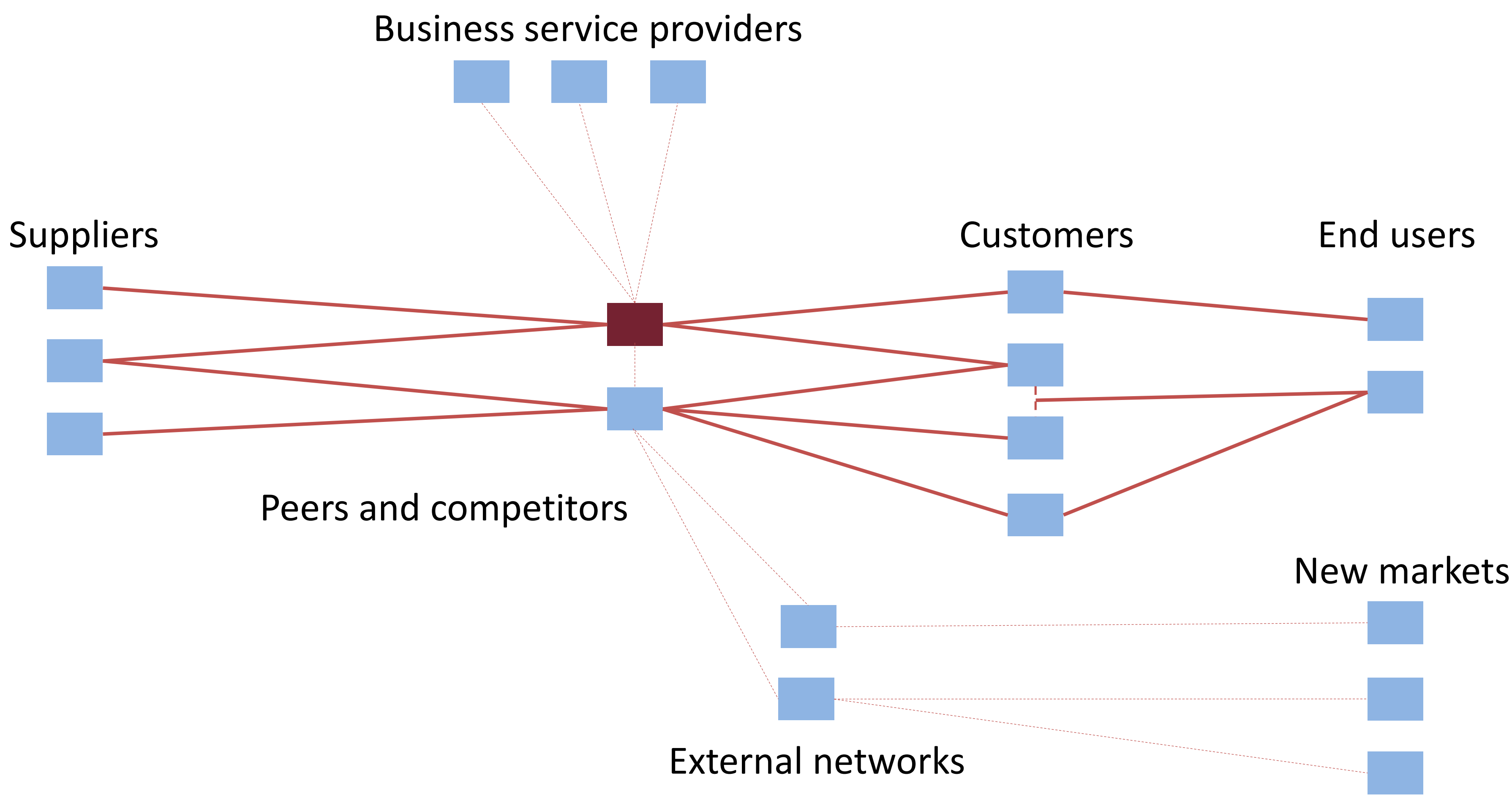
… a plethora of reasons …

Table 2. Motives to Enter a Strategic Alliance

Market seeking
Acquiring means of distribution
Gaining access to new technology, and converging technology
Learning & internalization of tacit, collective and embedded skills
Obtaining economies of scale
Achieving vertical integration, recreating and extending supply links in order to adjust to environmental changes
Diversifying into new businesses
Restructuring, improving performance
Cost sharing, pooling of resources
Developing products, technologies, resources
Risk reduction & risk diversification
Developing technical standards
Achieving competitive advantage
Cooperation of potential rivals, or pre-emptying competitors
Complementarity of goods and services to markets
Co-specialization
Overcoming legal / regulatory barriers
Legitimation, bandwagon effect, following industry trends

Note: *Elaborated from Agarwal and Ramaswami 1992; Auster 1994; Doz and Hamel 1999; Doz, Olk and Ring 2000; Harrigan 1988a; Hennart 1991; Lorange and Roos 1993; Zajac 1990*

… with a range of people …



… in a variety of forms …

Table 1. Varieties of Inter-organizational Relations

HIERARCHICAL RELATIONS	Through acquisition or merger, one firm takes full control of another's assets and coordinates actions by the ownership rights mechanism
JOINT VENTURES	Two or more firms create a jointly owned legal organization that serves a limited purpose for its parents, such as R&D or marketing
EQUITY INVESTMENTS	A majority or minority equity holding by one firm through a direct stock purchase of shares in another firm
COOPERATIVES	A coalition of small enterprises that combine, coordinate, and manage their collective resources
R&D CONSORTIA	Inter-firm agreements for research and development collaboration, typically formed in fast-changing technological fields
STRATEGIC COOPERATIVE AGREEMENTS	Contractual business networks based on joint multi-party strategic control, with the partners collaborating over key strategic decisions and sharing responsibilities for performance outcomes
CARTELS	Large corporations collude to constrain competition by cooperatively controlling production and/or prices within a specific industry
FRANCHISING	A franchiser grants a franchisee the use of a brand-name identity within a geographic area, but retains control over pricing, marketing, and standardized service norms
LICENSING	One company grants another the right to use patented technologies or production processes in return for royalties and fees
SUBCONTRACTOR NETWORKS	Inter-linked firms where a subcontractor negotiates its suppliers' long-term prices, production runs, and delivery schedules
INDUSTRY STANDARDS GROUPS	Committees that seek the member organizations' agreements on the adoption of technical standards for manufacturing and trade
ACTION SETS	Short-lived organizational coalitions whose members coordinate their lobbying efforts to influence public policy making
MARKET RELATIONS	Arm's-length transactions between organizations coordinated only through the price mechanism

Source: Strategic alliances and models of collaboration: Todeva and Knoke 2005

… and with variable results

Evidence suggests that:

- when successful they deliver growth for the alliance ***(but for the partners?)***
- more than 50% of them fail ***(but how is failure defined?)***
- SMEs less likely to use them than corporates
- one study showed that 80% of those that succeed end up in some form of acquisition, usually by the stronger partner

Key (and critical) success factors

Source: Success factors in alliances in SMEs, Hoffmann and Roman Schlosser 2001

Key (and critical) success factors

Strategic decision → Search → Design → Implement → Terminate

1. Collaborating in situations with high need for strategic flexibility and limited need for control
2. Contributing specific strengths and looking for complementary (or similar) resources
3. **Deriving alliance objectives from business strategy**
4. Awareness of time requirements for alliance development

Source: Success factors in alliances in SMEs, Hoffmann and Roman Schlosser 2001

Key (and critical) success factors

1. Building on established trust-based relationships
2. Partner is excellent in field of co-operation
3. **<u>Complementary contributions</u>**
4. Agreement of fundamental values and convictions

Source: Success factors in alliances in SMEs, Hoffmann and Roman Schlosser 2001

Key (and critical) success factors

Strategic decision → Search → **Design** → Implement → Terminate

1. **<u>Precise definition of rights and duties</u>**
2. Equal contributions from all partners
3. Emphasising the potential for joint value creation
4. Keeping and protecting core competencies
5. Building trust by unilateral commitments and avoiding opportunistic behaviour
6. Agreement on clear and realistic objectives
7. Implementing plan with fixed milestones

Source: Success factors in alliances in SMEs, Hoffmann and Roman Schlosser 2001

Key (and critical) success factors

1. Establishing an information and co-ordination system
2. **<u>Establishing required resources</u>**
3. Top management support
4. Avoiding unwanted transfer of knowledge
5. Capacity to learn from partners
6. **<u>Speedy implementation of measures and fast results</u>**
7. Continual review of alliance performance

Source: Success factors in alliances in SMEs, Hoffmann and Roman Schlosser 2001

Key (and critical) success factors

1. Termination only upon approval by all partners
2. Preparing for termination already in the design phase

Source: Success factors in alliances in SMEs, Hoffmann and Roman Schlosser 2001

… and where knowledge is involved?

Chances of success of knowledge transfer are inversely proportional to the ambiguity of that knowledge

Ambiguity is affected by:

- how tacit and complex the knowledge is
  (can it be de-codified and taught?)
- partner experience in collaboration knowledge transfer
  (you learn to learn!)
- cultural and organisational distance between partners
  (is there enough difference and enough similarity?)

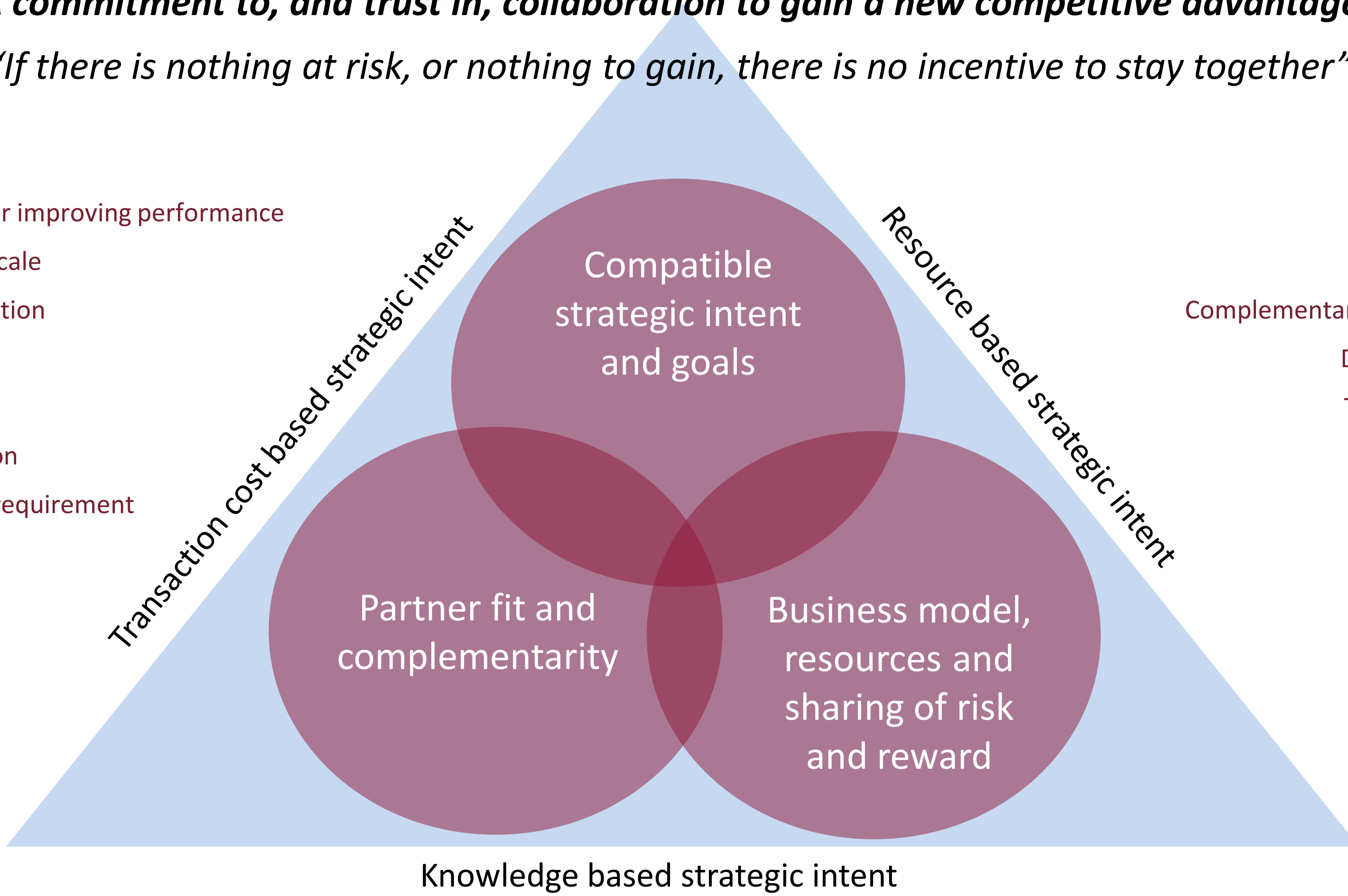
Source: Ambiguity And The Process Of Knowledge Transfer In Strategic Alliances: Bernard L. Simonin 1999

A summary of the research and experience in strategic alliances

A commitment to, and trust in, collaboration to gain a new competitive advantage

"If there is nothing at risk, or nothing to gain, there is no incentive to stay together"

Restructuring or improving performance
Economies of scale
Vertical integration
Cost sharing
Risk mitigation
Co-specialisation
Legal/political requirement

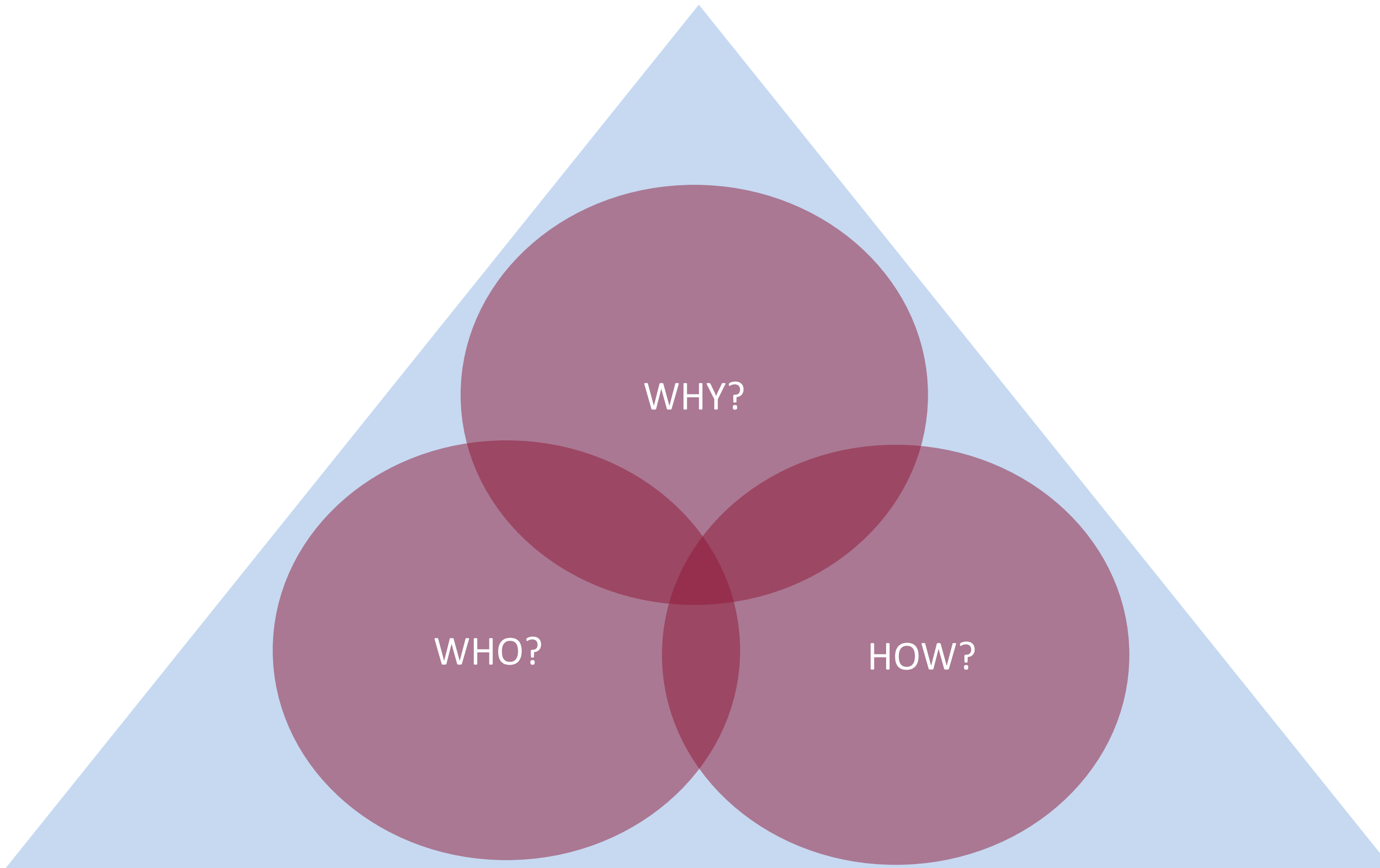


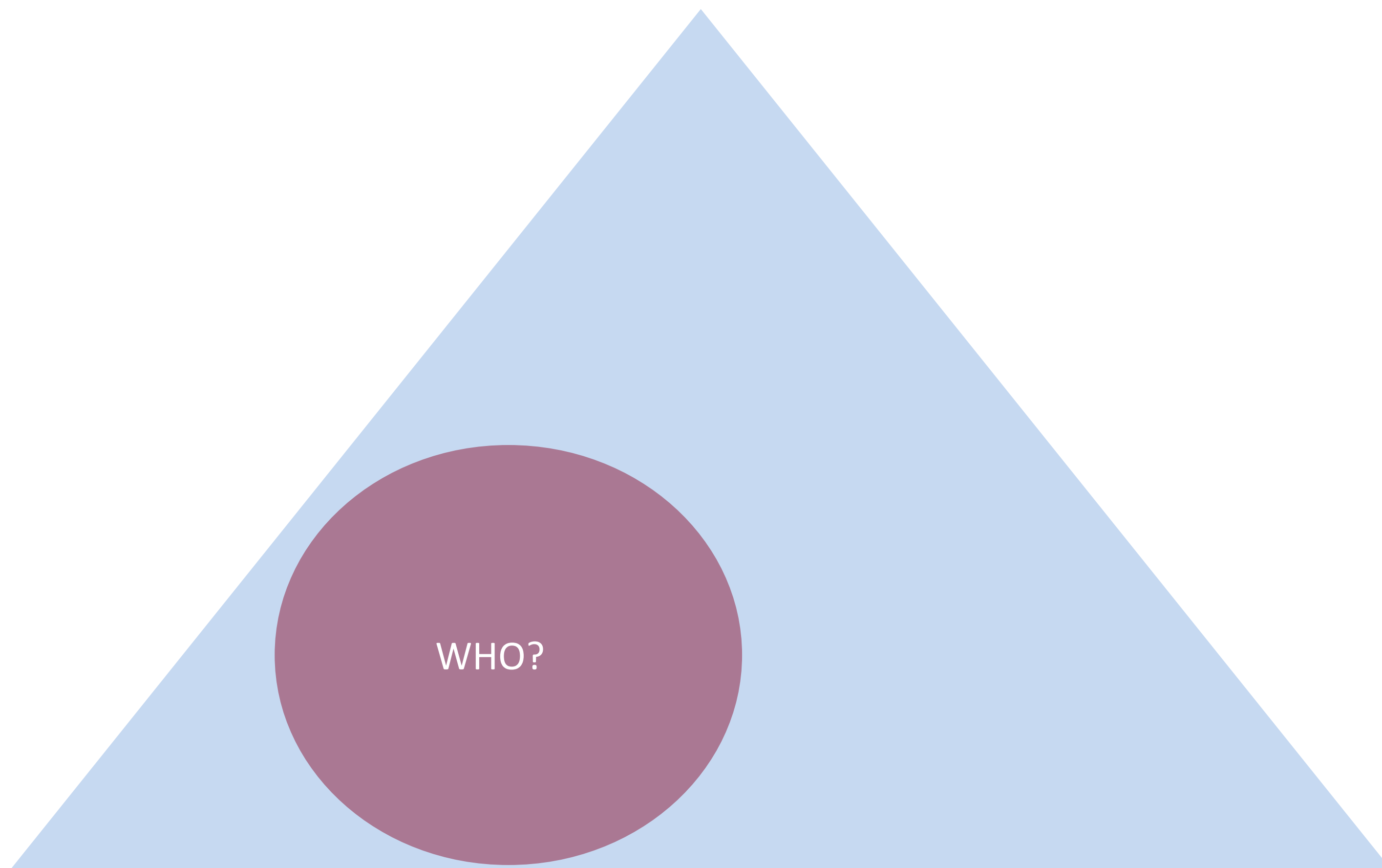
Diversification
Market seeking
Complementary product/service
Distribution access
Technology access
Anti-competitive

Learning new knowledge or skills

Developing new products, technologies services

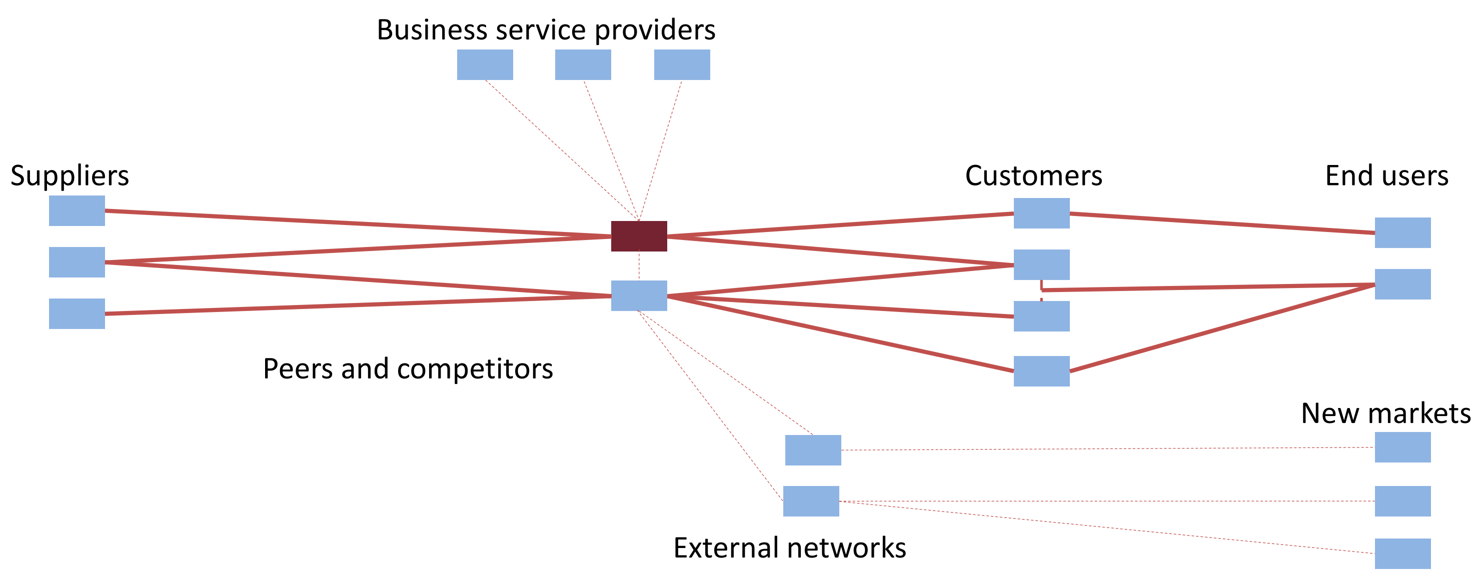
That means today we will look at?




WHO?

Who with?

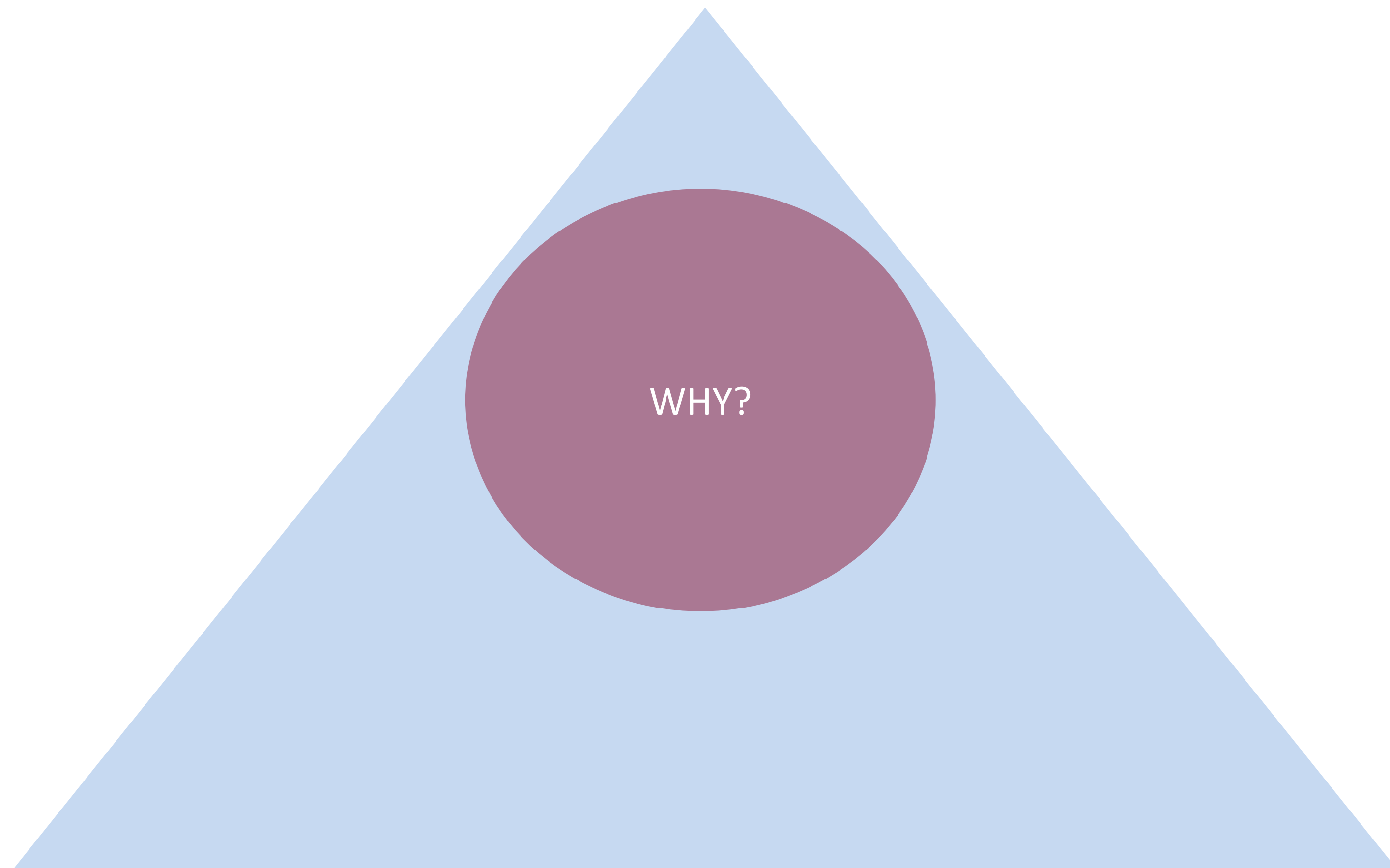
1. Draw your eco-system and map:
   - where do you already have strategic alliances?
   - where might a strategic opportunity exist?
   - where are the gaps?



Assessing partner fit

2. Chose one of your actual (or potential partners) and map their "fit" using the matrix below:

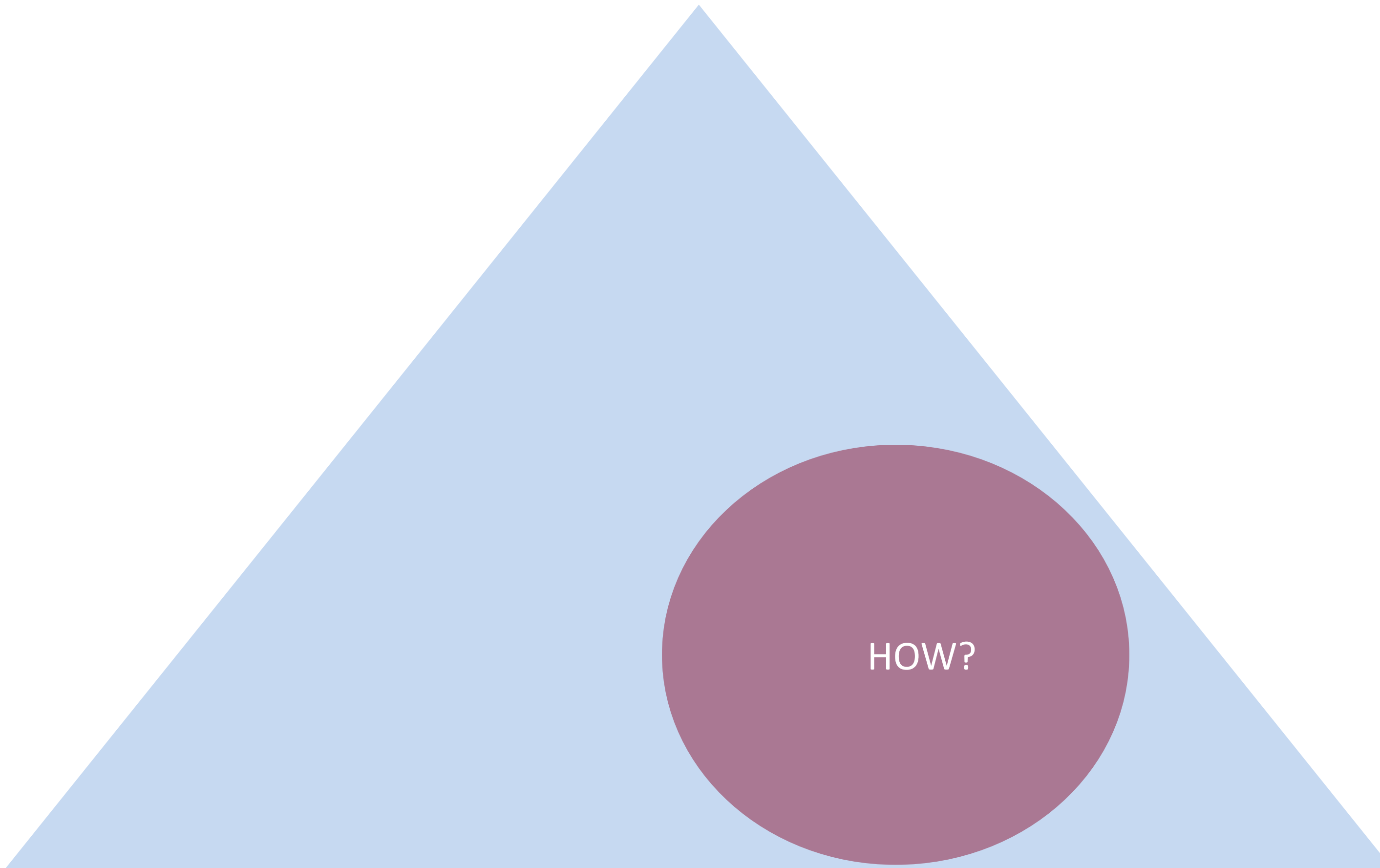
	Don't know	Weak	Ok	Good	Strong	Implication or action required
Shared strategic intent and common goals						
Complementary strengths and know-how						
Experience of collaboration						
Commitment to provide dedicated resource						
Shared values and approach						
Strength of and trust in relationship						
Have shown interest in exploring a fair risk and reward						


WHY?

Why do them?

Consider the following questions for yourself:

1. What are the strategic aims of your business?
2. How do you currently deliver competitive advantage?
3. How might an existing, or new, strategic alliance deliver your business goals and provide new competitive advantage?
4. What goals would you set for a strategic alliance?


HOW?

Does your agreement cover the bases?

Consider what you have just explored, in terms of 'why?' and 'who?'.

Now, using the following matrix, to reflect on the things that should need to be in place to increase the chances of success:

- are they agreed and confirmed (written down)?
- are there plans to discuss, agree and confirm (write them down)?
- what implications are there?
- what action do you need to take?

Does your agreement cover the bases?

Item	Not in place	Partially in place	In place	Implications
Spirit and purpose of the alliance				
Scope of Activity				
Key Objectives and Resources				
Method of decision making				
Resource commitment				
Assumptions of risk and division of rewards (business model)				
Rights and exclusions				
Targeted quick wins				
Measurement of success				

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Fit for purpose?

- the pros and cons of the various models
- consider the models that 'best fit' your alliance context
- begin to explore the implementation challenges you may have or may have

The programme is a series of quarterly thought leadership workshops designed to help ambitious business owners to:

- start working on the business not just in it
- explore and understand what makes businesses successful in the long-term
- gain practical insights from people who have been there and done it
- develop new business growth and improvement that can be implemented in their businesses immediately
- feel part of group of like minded ambitious business owners committed to growing their businesses

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Events:

Tuesday 12 February 2013	**Evening launch event**
Thursday 18 April 2013	**The characteristics of sustainable success**
Thursday 4 July 2013	**Leading and managing a successful business**
Thursday 10 October 2013	**Building a world class team**
Thursday 23 January 2014	**Delivering growth through strategic alliances**
Thursday 10 April 2014	**Standing out in your market place**
Thursday 10 July 2014	**Building an agile and resilient business**
Thursday 9 October 2014	**Financing growth the easy way**
Thursday 22 January 2015	**Planning for a successful exit**

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