IET Knowledge Network

Know who your friends are

Published on 5 May 2009

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One of the best ways to reach new markets, plug skills gaps and create commercial opportunities is by creating alliances. But be careful how you do it say the authors of a new book, reviewed here by *E&T*.

"These boys are on to something here," says the director general, Joint Supply Chain, Ministry of Defence, commending 'Strategic Alliances and Marketing Partnerships', a new book by Richard Gibbs and Andrew Humphries. He's joined by the president of the North American Channel Group in a foreword praising the authors as "old hands at dealing with the realities of managing major partnerships".

They've certainly done a sterling job – thorough, practical and scholarly, reflecting their own experience and credentials. Forming strategic alliances is not the easiest way to grow, but it has become one of the most favoured and realistic, notwithstanding countless risks and a high failure rate. But many businesses, large and small, have surmounted the problems and made the relationship grow and often prosper. Increasingly it is a case, as Xerox found, of 'partner or perish'.

Outsourcing has become the latest and possibly fastest growing form of alliance, but the authors do well to caution that where firms have a unique capacity or capability it makes sense to continue to keep this in-house. It's one thing to outsource back office or admin tasks, because it can cost a lot less, but it's often a mistake to encourage customer contact with companies in distant parts of the world.

Cost is not, of course, the only reason for considering alliances or partnering. Building critical mass is another. For example, liberalisation of the European telecommunications market in the late l990s encouraged the German and French telecom leaders into a collaborative alliance with the resources to compete against the American giant AT&T. More frequent reasons for partnering include reaching new markets, building new competences, plugging skills gaps and creating new opportunities, for example combining the electronic skills of Philips in Holland with the coffee expertise of Douwe Egberts to produce Senseo Cream coffee machines.

Another less well-known example of partnering can be seen in Toyota's networking hub organisation, with 180 primary or first-tier firms supplying component parts and undertaking research for Toyota to enable it to concentrate on the design and manufacture of cars. Supply chain partnering is, of course, well established in retail distribution when leading supermarket chains link up with similar overseas companies to develop jointly.

The authors quote the Boston Consulting Group's four types of alliances, namely:

- expertise alliances where firms share expertise and capabilities;
- new business alliances such as partnerships of non-competing firms to exploit a new market;
- co-operative alliances, such as purchasing groups (and mixed export groups);
- merger alliances, an alliance that is a substitute for a merger.

Alliances hitting the market

The two most common types of alliance appear to be technological and marketing alliances. In R&D, engineering, information systems and manufacturing, typically two or more firms pool resources, share costs, risks and product development in order to achieve increased speed to market.

As the authors explain: "A company with a distribution system can be attracted to another trying to increase sales of a product or service by pooling their complementary skills, leading to producing a product faster and cheaper than individual firms can do it alone." As the great Jack Welch, CEO of General Electric, warned: "If you think you can go alone in today's global economy, you are highly mistaken."

Another familiar type of alliance can be seen in AMEC's and Halcrow's strategic get-together to work on such major projects as the M62 motorway and the London Docklands Light Railway, which spanned seven years, each firm committing major resources towards a strategic or otherwise vital objective.

Dell's partnering policy, rather like Toyota's, is based on its relationship with suppliers. A fundamental plank of Michael Dell's original strategy was the belief that it was better to partner with suppliers of PC parts and components rather than to integrate backward and get into parts and components manufacturing in its own right. Dell can identify several benefits it gained through its approach.

It adopted a limited supplier strategy, working only with firms that could demonstrate leadership in technology. Dell made a commitment to each supplier that it would purchase a specified percentage of its requirements from each so, in a turbulent market place, Dell was practically guaranteed to get the components it needed, when and where it needed them.

Dell invited its suppliers into its product development process to have them on-hand during critical launch phases, and it provided suppliers with a 'window' into the manufacturing or assembly process, sharing critical information with suppliers on a real-time basis.

Partnership value

Two critical factors in any type of collaboration cannot be over-emphasised. One is to agree clear objectives and targets from the very start while agreeing on co-ordination, contracting and controlling – and taking into account management costs. Managing partnership value clearly depends on tangible and intangible costs and benefits and the bottom line.

The more difficult issue: how do you judge value and performance of a partnership? The authors' research points to three partnership success factors:

- collaborative innovation, or the extent to which the relationship is innovative in responding to opportunities;
- partnership quality, i.e. commitment and trust;
- value creation, or the efficiency of the partnership increasing and capturing the potential value that the partnership offers.

Of course, the relationship can go wrong. Situations where it may not be working are likely to include where:

- responsibilities are shirked;
- information is not shared effectively;
- there is intellectual snooping;
- focus on the product rather than on customer satisfaction;
- lack of pro-activity and strategic selling skills.

Obviously the ideal is a win-win situation which depends on mutual gains from the partnership. Even a willingness to invest more – money, time, information and effort – and the feeling by partners that they are happy and their future is bound to the success of the relationship, total commitment and both sides' concern that the venture succeeds. The emphasis should be on concentrating on service and product delivery, lowering joint costs and risks and building up trust, high performance by both partners, and resolving any disputes quickly and fairly.

Companies new to partnering should have done significant research before embarking on a relationship. It's not always as straightforward as it sounds if you are appointing agents/partners in overseas markets – even the best references can fail to predict expensive fall-outs and losses at some point.

The authors are to be congratulated on drawing attention to all the options and the loopholes to guard against in selecting collaborators. The dynamics of strategic alliances and marketing partnership could not be more important if manufacturing is once again to become one of Britain's key strengths.

Strategic Alliances and Marketing Partnerships: Gaining competitive advantage through collaboration and partnering by Richard Gibbs and Andrew Humphries is published by Kogan Page, £30. Visit www.koganpage.com.

Partnership profiles

How can you predict the outcome of a partnership and take steps to improve performance? Why are some partnerships more effective than others? The authors' solution is a set of relationship drivers – the 'Gibbs and Humphries Partnership Types' – that considers the key factors in how firms work together.

Managing evangelists

Evangelists thrive in stable environments where change or disruption is low. Introducing new initiatives into these partnerships is unlikely to succeed unless a detailed and factual assessment of the commercial realities has been carried out. This can lead to the realisation that there is a lack of commercial gain in the performance of the partnership that calls for change.

Managing stable pragmatists

Stable pragmatists are not performing as well as they could, probably due to lack of management and keeping up with change. This function should not be the secondary task of the commercial or sales department, nor diffused across departments, but subjected to a central perspective or strategic direction at board level.

Managing rebellious teenagers

These are worth nurturing and developing. In some cases they represent the best candidates for moving into the growth and development phase of an opportunity, as opposed to the initial or mature phase of a market. Rebellious teenagers can be sufficiently innovative and creative to realise new market opportunities. But be warned, rebellious teenagers will quite often say what you want to hear rather than their actual concern.

Managing evolving pessimists

Can be difficult in relationships, which can lead to bad feelings and low productivity. A significant new business opportunity could re-establish collaboration and optimism. Within evolving pessimists relationships trust between partners may be thin on the ground and unilateral action is needed to break the impasse.

Managing captive sharks

These sharks cannot be managed, but they can be understood and partially tamed. Captive shark relationships are discernible between raw material suppliers and power-generating companies; both parties are hostage to the relationship, which is a necessity for the success of their business. Captive sharks can be tamed by understanding the motivations of the partners in sustaining the relationship.

Managing cherry pickers

While cherry pickers can often represent a major opportunity, the ability to convert them into a more productive partner is not easy. Lack of commitment is driven mainly by the cherry picker seeing little differentiation or incremental value in the relationship compared to other relationships. This calls for examination of the rationale of the partnership and expansion to bring the cherry picker into the alliance.

Managing no can dos

These problems occur because of difficult operating conditions, uncertain markets, complex technical challenges and political or economic conditions which force relationships to turn inward. The build-up of dissatisfaction due to perceived injustices leads to worsening relationship behaviours. This can take a years to mature; the danger is that adversarial behaviour becomes embedded in the culture.

Managing deserters

The root cause of many situations where a valuable partnership displays deserter tendencies if the lack of expected operational performance. It is therefore critically important to understand the joint expectation levels and instill a sense of reality, then develop clearly defined actions to achieve a particular short-term objective that brings tangible benefits and demonstrates to the deserter advantages of continuing in the partnership.