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Strategic Alliances: A Business Strategy For The 1990's

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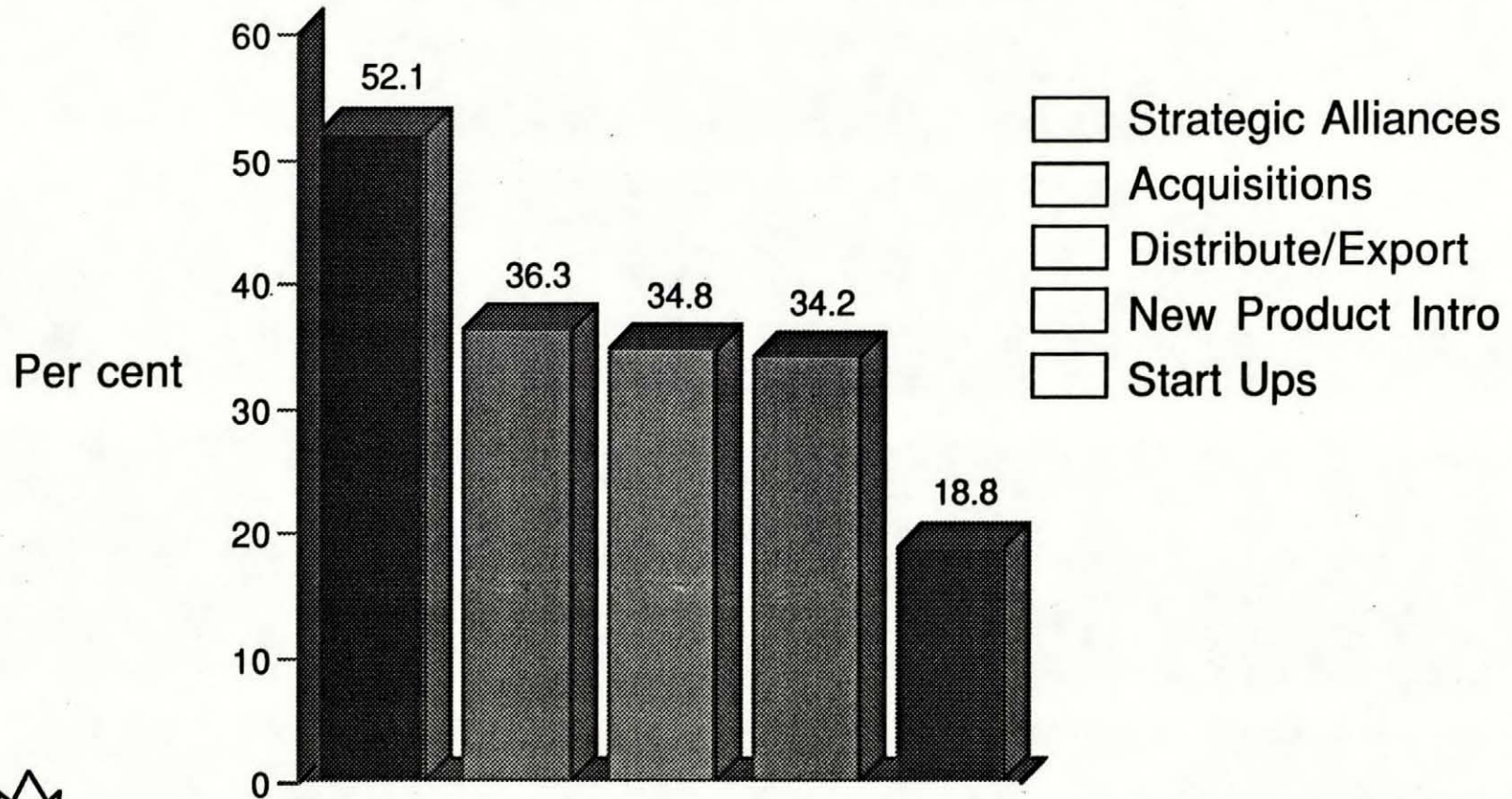
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CORPORATE RATIONALIZATION/RESTRUCTURING

- Drive to Maximize the Benefits of Global Strategies and Local Knowledge to Achieve Both Scale Economies and Targeted Marketing
- Organizational Experimentation to Establish New International Management Structures e.g. Global Product, Matrix, etc.
- Reduction of the Autonomy of National Organization to Ensure Clear Worldwide Manufacturing and Marketing Strategies
- Spinning Off Peripheral Activities into JVs or Selling Them
- Acquisitions to Establish or Increase Market Position
- Strategic Linkages to Penetrate Markets, Access Technology, Reduce Risks etc.



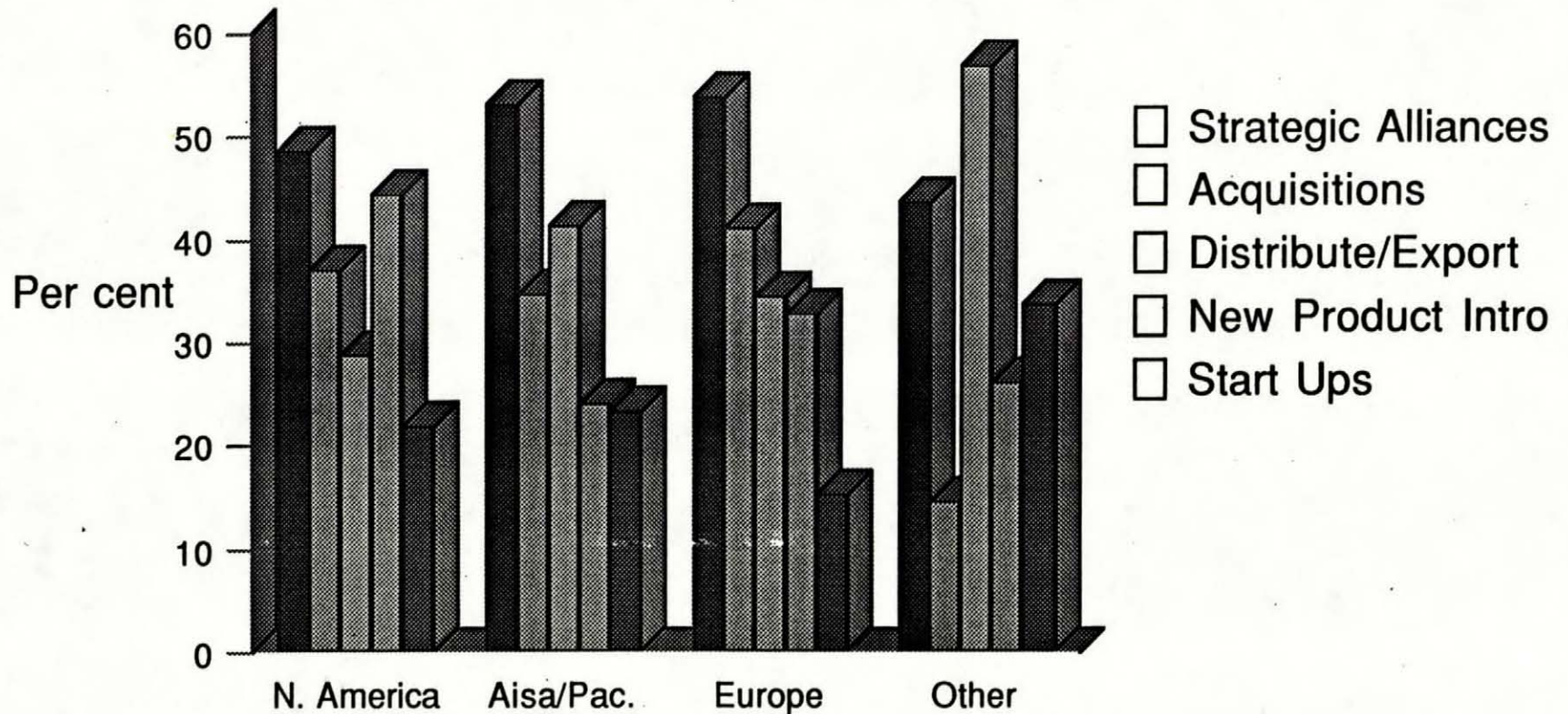
APPROACHES TO WORLDWIDE EXPANSION



419 Respondents
Source: Business International

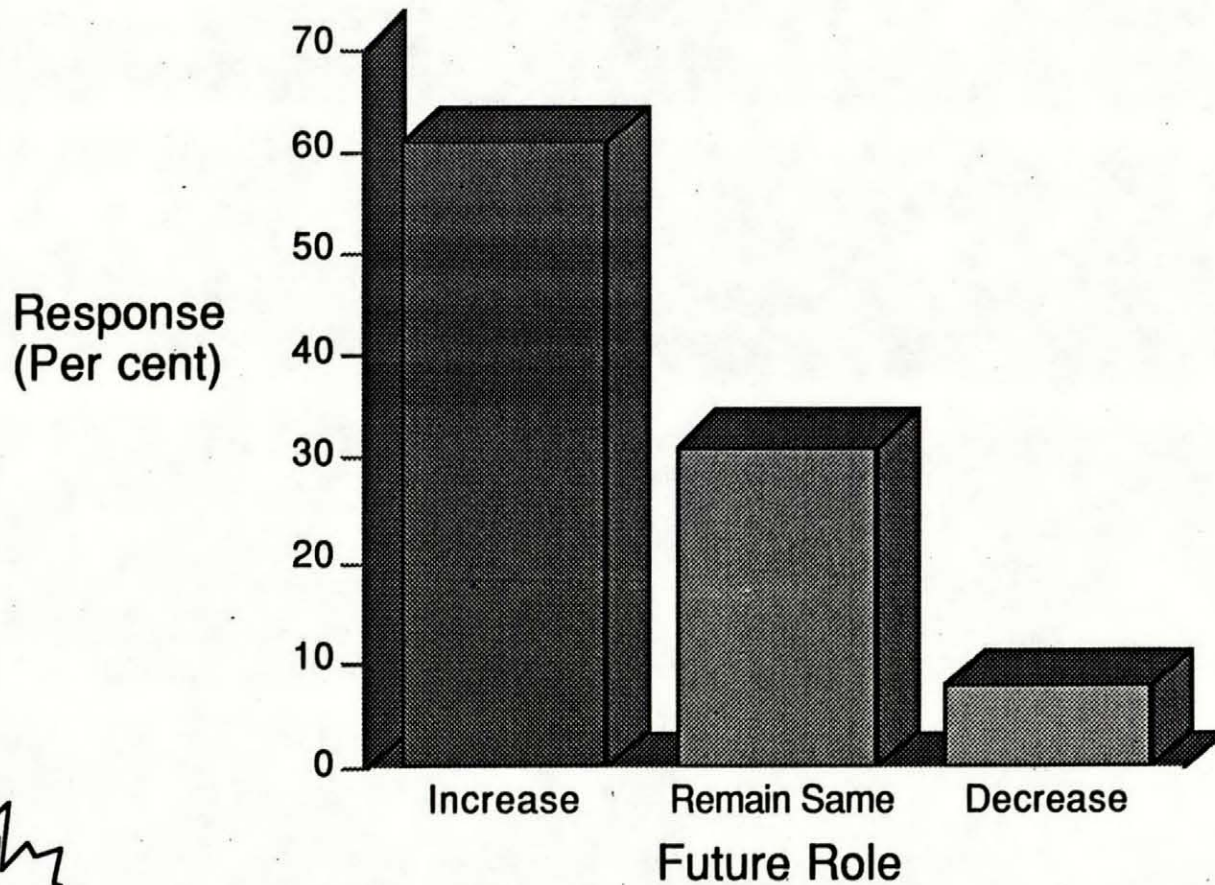


APPROACHES TO WORLDWIDE EXPANSION



419 Respondents
Source: Business International

EXPECTATIONS ABOUT THE FUTURE ROLE OF STRATEGIC ALLIANCES



Source: SRI International



PERCENTAGE OF U.S. ELECTRONICS COMPANIES WITH ALLIANCES

COMPANY SIZE

Developing	69%
Small	79%
Mid-Size	78%
Large	83%
Top Tier	89%
All Companies	73%

MARKET SEGMENT

Computers & Peripherals	76%
Software	88%
Voice/Data Communications	83%
Semiconductors & Components	66%
Aerospace/Defence	74%
Industrial Electronics	71%



Source: Ernst & Young, Electronics 90. The New Competitive Priorities

PERCENTAGE OF U.S. ELECTRONICS COMPANIES BELIEVING THE USE OF STRATEGIC ALLIANCES ARE AN IMPORTANT PART OF STRATEGY OVER NEXT 5 YEARS

COMPANY SIZE

Developing	88%
Small	82%
Mid-Size	84%
Large	94%
Top Tier	88%
All Companies	86%

MARKET SEGMENT

Computers & Peripherals	92%
Software	91%
Voice/Data Communications	90%
Semiconductors & Components	79%
Aerospace/Defence	84%
Industrial Electronics	80%



Source: Ernst & Young, Electronics 90. The New Competitive Priorities

STRATEGIC ALLIANCES ARE BECOMING A KEY OPTION FOR CANADIAN COMPANIES

The Rapid Growth of Strategic Alliances Around the World is Being Driven By:

- The Globalization of the Market Place - Information, Finance, Manufacturing and Technology
- The Rapidly Escalating Costs of R&D, Product Development, Manufacturing Facilities and Equipment
- The Acceleration of Technology Innovation and the Shortening of Product Lead Times and Life Cycles
- The Convergence of Key Technologies
- The Creation of Vast New Markets as a Result of Market Liberalization and Deregulation



"There is no such Thing as Sustainable
Competitive Advantage. The Challenge is to
Create Tomorrow's Advantage Faster than
Competitors Mimic Today's"

Prof. Gary Hammel
London Business School



"In a World of Imperfect Options Strategic
Alliances are the Fastest, Least Risky and
Potentially the Most Profitable way to go Global
and to Deal with the Hyper Competitive
International Market Place Driven by
Technology."

James Miller
President & CEO
Quadra Logic Technologies
Inc.

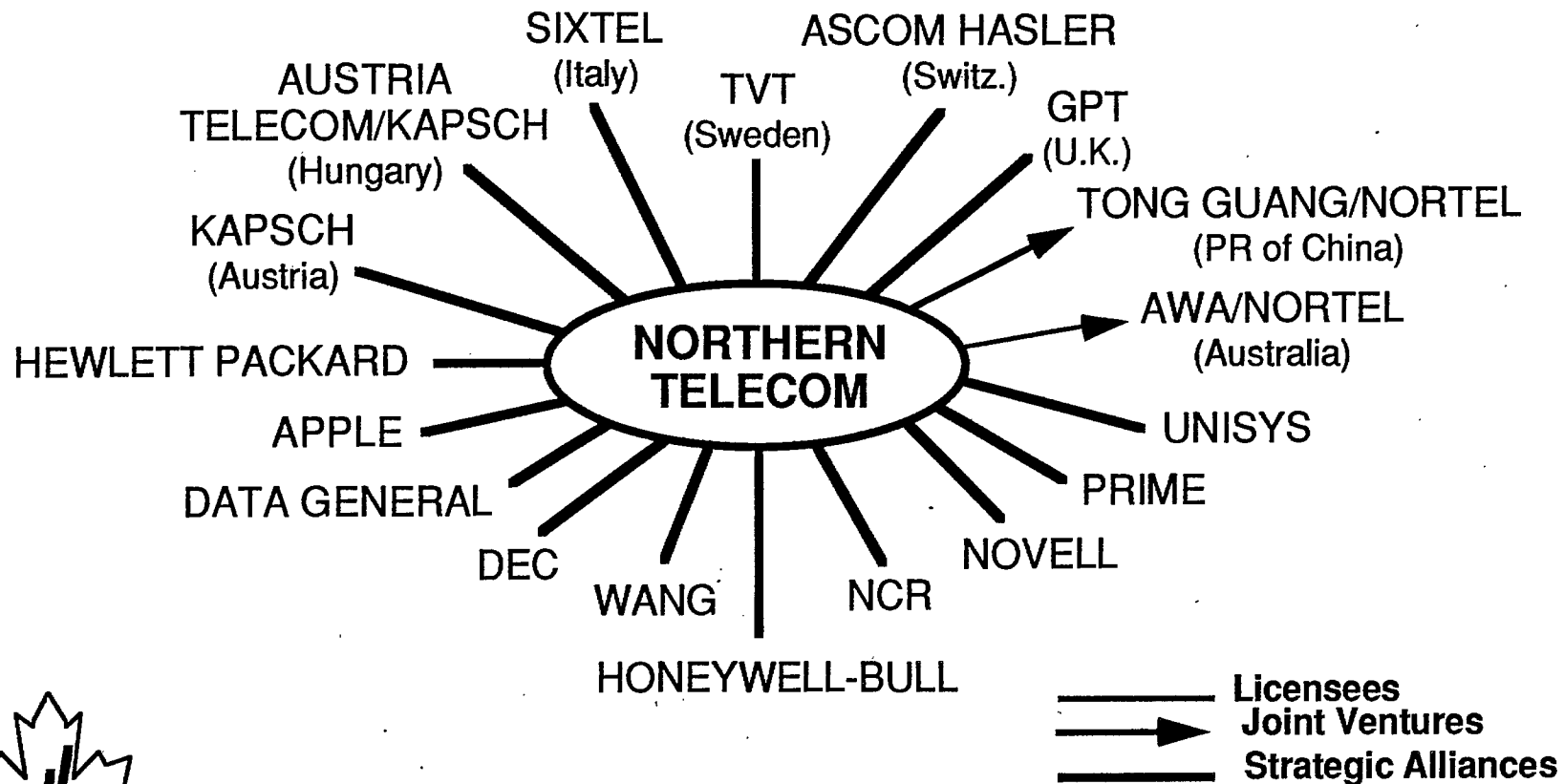


"Today, We are Coming Close to Regarding Our
Business as the Business of Alliances."

President
Honeywell Europe



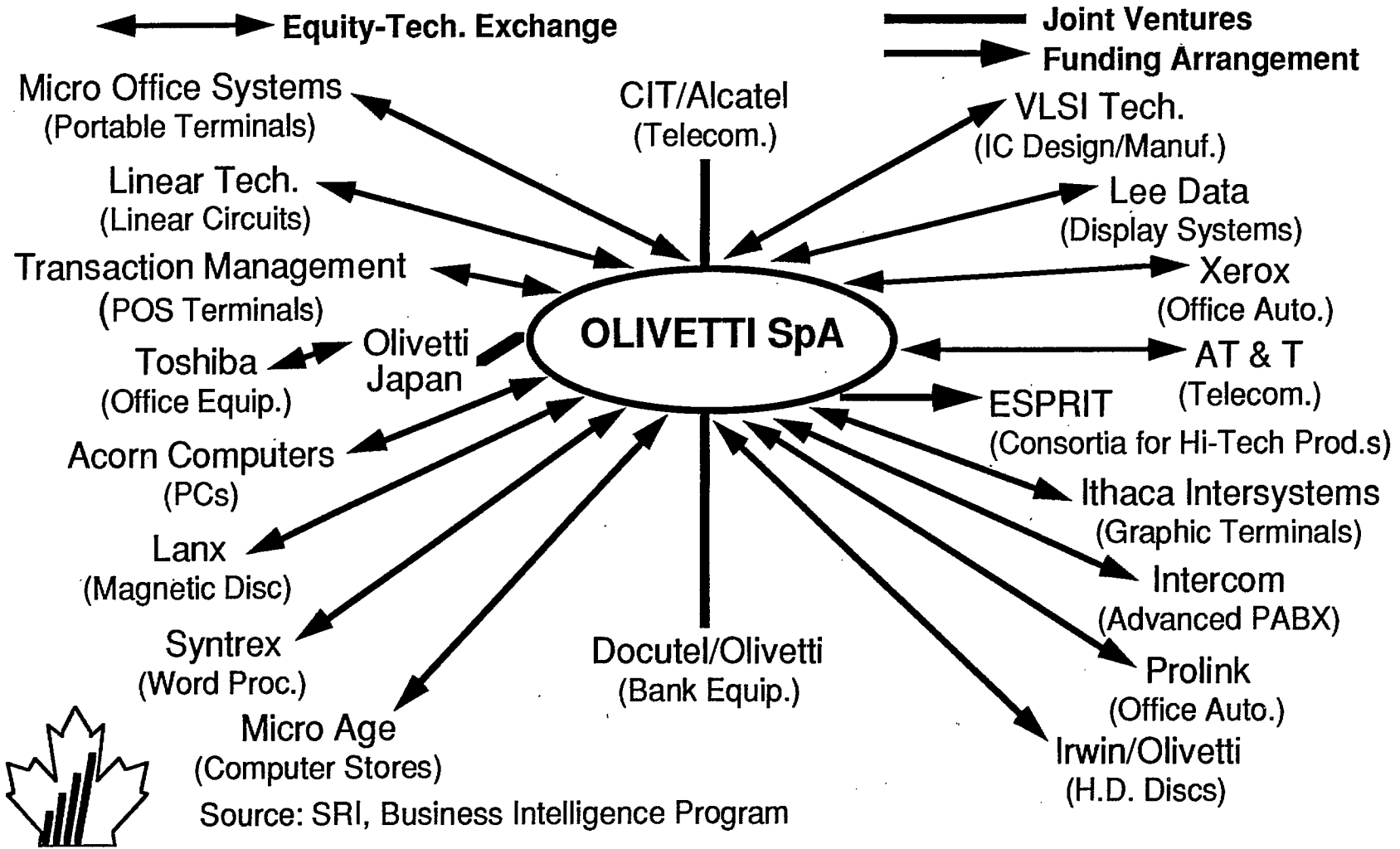
ASPECTS OF GLOBALIZATION: AN ILLUSTRATION OF INTERNATIONAL NETWORKING & OTHER FORMS OF STRATEGIC ALLIANCES



Source: Northern Telecom



OLIVETTI: STRATEGIC POSITIONING IN KEY MARKETS THROUGH A NETWORK OF INTER-CORPORATE ALLIANCES



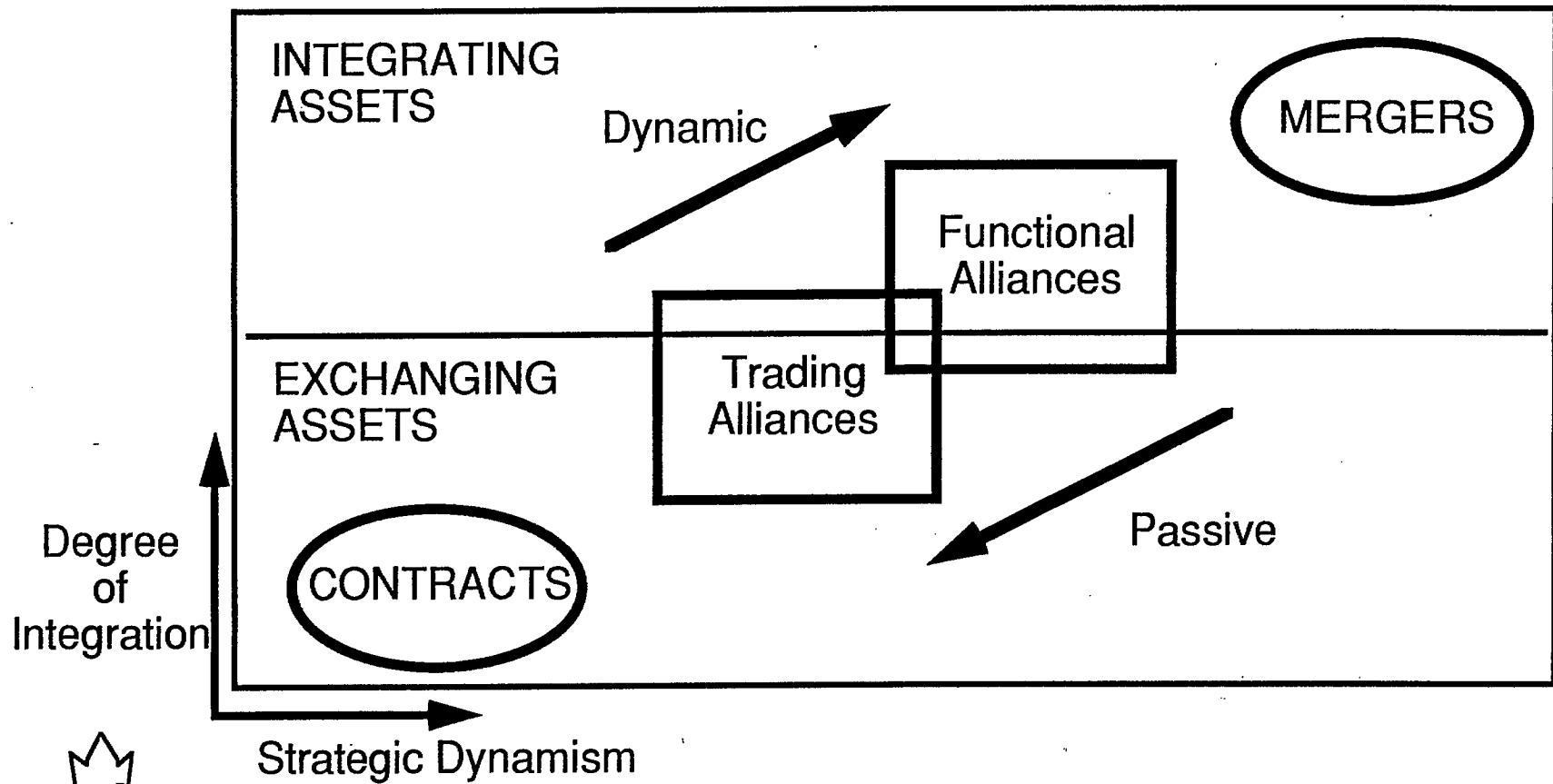
STRATEGIC ALLIANCE

A Strategic Alliance is a Formal and Mutually Agreed Commercial Collaboration Between Companies. The Partners Pool, Exchange, and Integrate Specific Business Resources for Mutual Gain. Yet the Partners Remain Separate Businesses.

Mutual Need, Shared Risk
and a Common Objective



THE HIERARCHY OF ALLIANCES



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Strategic Alliances Are Used to:

- Add Product Value
- Improve Market and Resource Access
- Strengthen Operations
- Add Technological Strength
- Enhance Strategic Growth
- Reinforce Organization
- Build Financial Strength



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Product Value

- Superior Timing
- New Performance
- Lower Cost and Risks
- More in Value Use for Customers
- Stronger Product Line
- Increased Compatibility
- Enhance Product Image



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Market and Resource Access

- Better Market Coverage
- Improve Marketing Efficiency
- Improve Advertising
- Open New Channels
- More Channel Control
- Improve Supply



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Operations

- Increase Capacity
- New Processes
- Improve Efficiency
- New Practices



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Technology Strength

- Add to Know How
- Increase R&D Creativity
- Perform Needed R&D
- Ease Technology Transitions
- Encourage R&D by Others



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Strategic Growth

- Overcome Entry Barriers
- Pave Growth Path
- Explore New Opportunities



COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Organization Reinforcement

- Learn From Others
- Focus with a Partial Spin-off



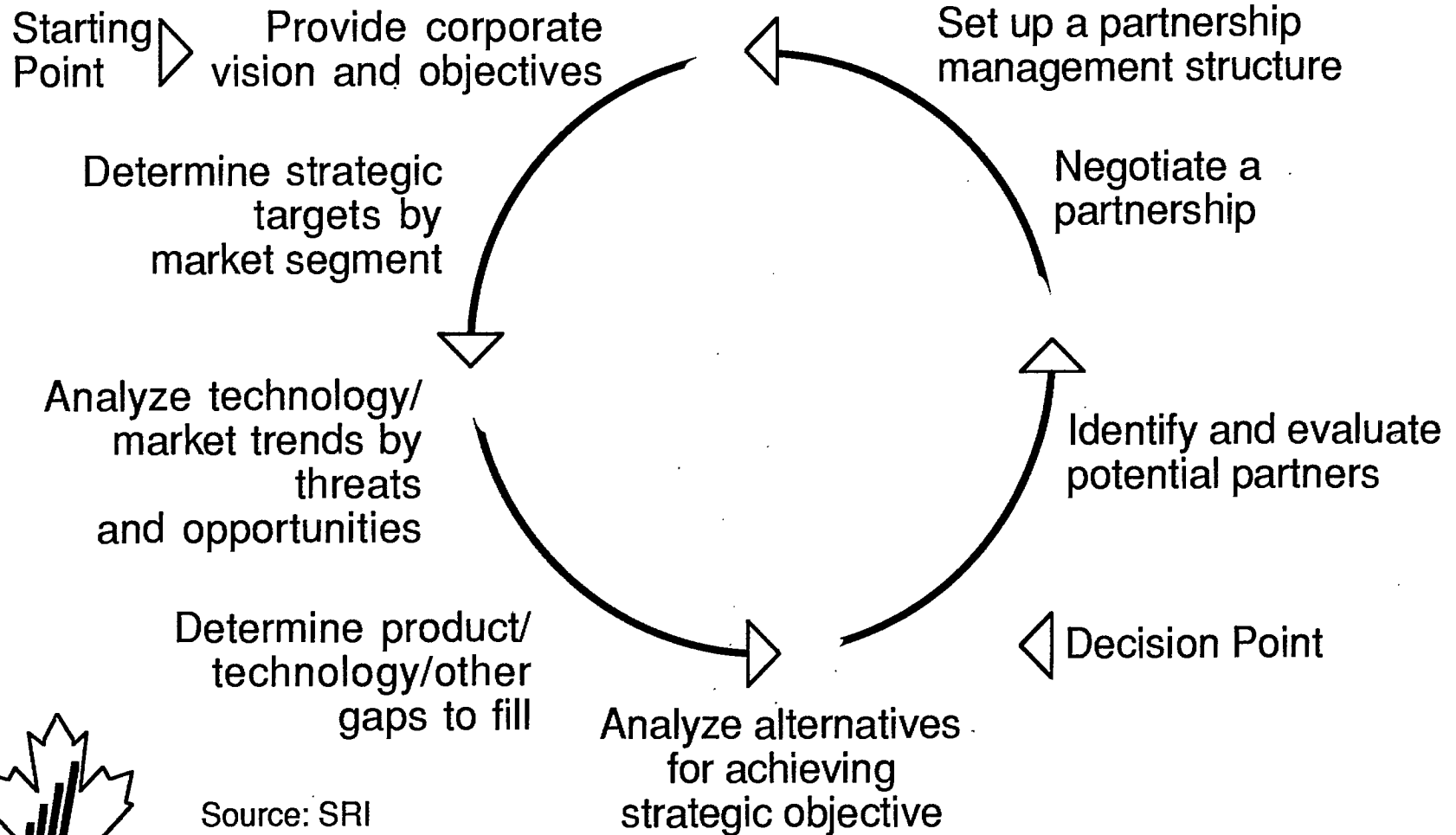
COMPETITIVE ADVANTAGE THROUGH ALLIANCES

Financial Strength

- Produce More Income
- Lower Costs and Risks



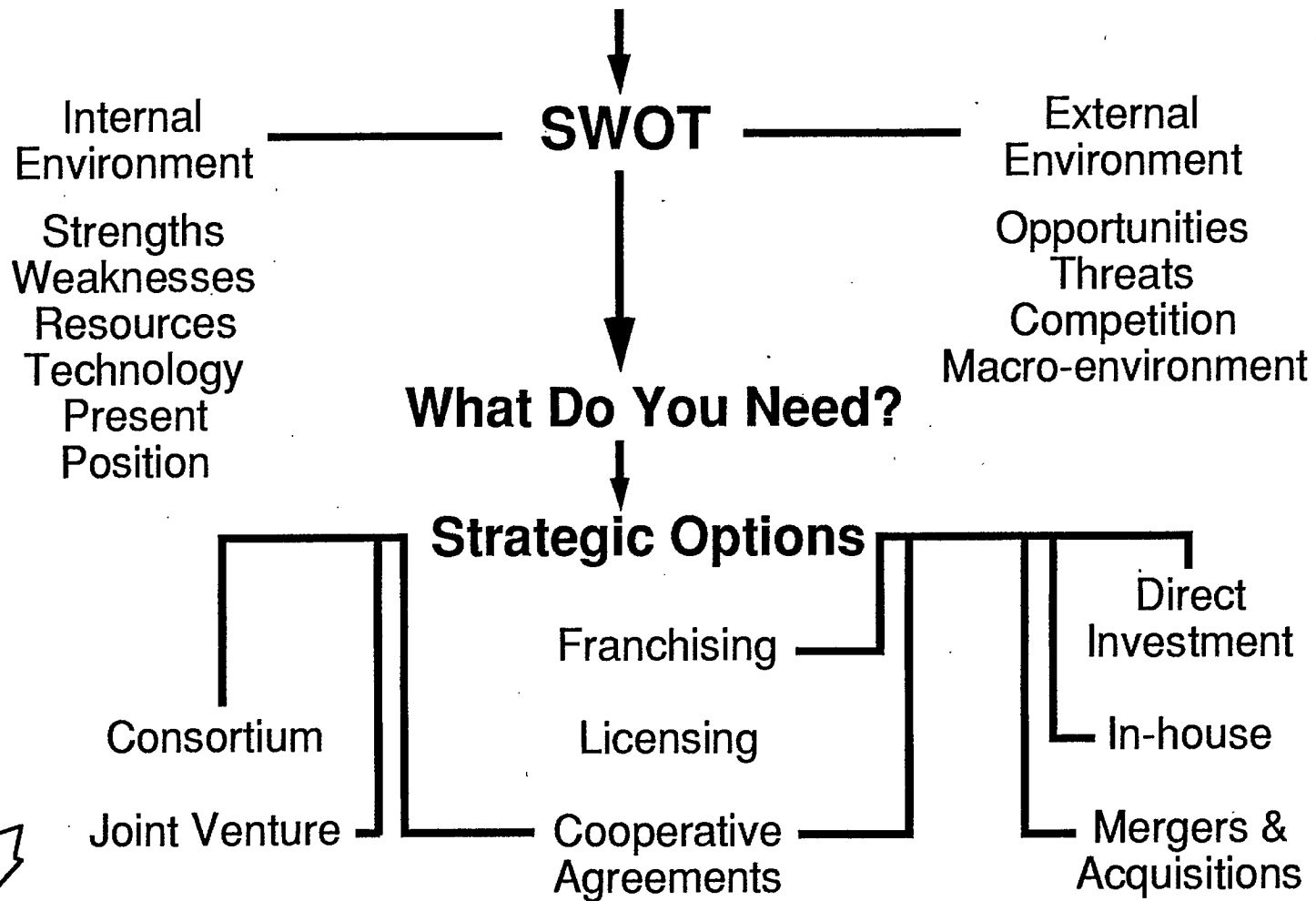
THE PARTNERING PROCESS



Source: SRI



OVERALL CORPORATE STRATEGY



RESOURCES INVOLVED IN ALLIANCE FORMATION

- Distribution Networks
- Market Acceptance
- Manufacturing Capacity
- Product
- Cash & Convertibles
- Buying Power
- R&D Capacity
- Process Skills
- Technology
- Organizational Skills
- Market Knowledge
- Tutored Suppliers



THREE SIMPLE RULES OF SUCCESSFUL PARTNERING

1. Do Your Homework
2. Partners Must Match and Advantages Must Balance
3. Management and Operating Staff must be Equally Committed to making Partnering a Success



PARTNER SELECTION CHECKLIST

- Be Willing to Commit Time and Resources to the Analysis and Selection of Partners
- Ensure the Partner has what You Need
- Understand Potential Partner's Strengths and Weaknesses - Look at its Balance Sheet, Technological Capability, Decision making Process, Profit and Growth Orientation - Don't be Fooled by Superficial Similarities
- Know the Real Reason why the Potential Partner wants to do the Deal



PARTNER SELECTION CHECKLIST

- Assess a Planned Alliance from Your Partner's Perspective - is it the Best Combination for Both Firms
- Determine Whether the Potential Partner is in Direct Competition with You - In which Markets
- Consider How an Alliance Will Strengthen Your Potential Partner - Are You Creating a Competitor or Strengthening a Competitor at Your Expense
- Research Your Partner's Track Record on Cooperation



PARTNER SELECTION CHECKLIST

- Be Explicit About the Availability of Key Resources
- Be Fully Aware of Partner's Other Alliances Particularly Those with the Potential to Impact on the Current Deal
- Identify Problems that Might be Transferred to You, e.g. Labour Unrest
- Look for a Cultural Match on Key Variables



PARTNER SELECTION CHECKLIST

- Get to Know the Key People - Ensure there is Policy Level Commitment in both Firms - Personnel Commitment of Senior Officers
- Have a Champion in Each Firm
- Ensure There is Operating Support in Your Firm and Potential Partner's Firm
- If the Deal Looks Good but You have Doubts about the Partner - Start Small



THE RIGHT PARTNER

- Complementarity of Technical Skills and Resources
- Mutual Need
- Financial Capability
- Relative Size
- A Compatible View of Strategy and Objectives
- Complementary Operating Policies
- Compatible Management Teams
- Trustworthy and Committed
- Low Risk of Becoming a Competitor



AVOID COMPROMISING YOUR COMPETITIVE ADVANTAGE

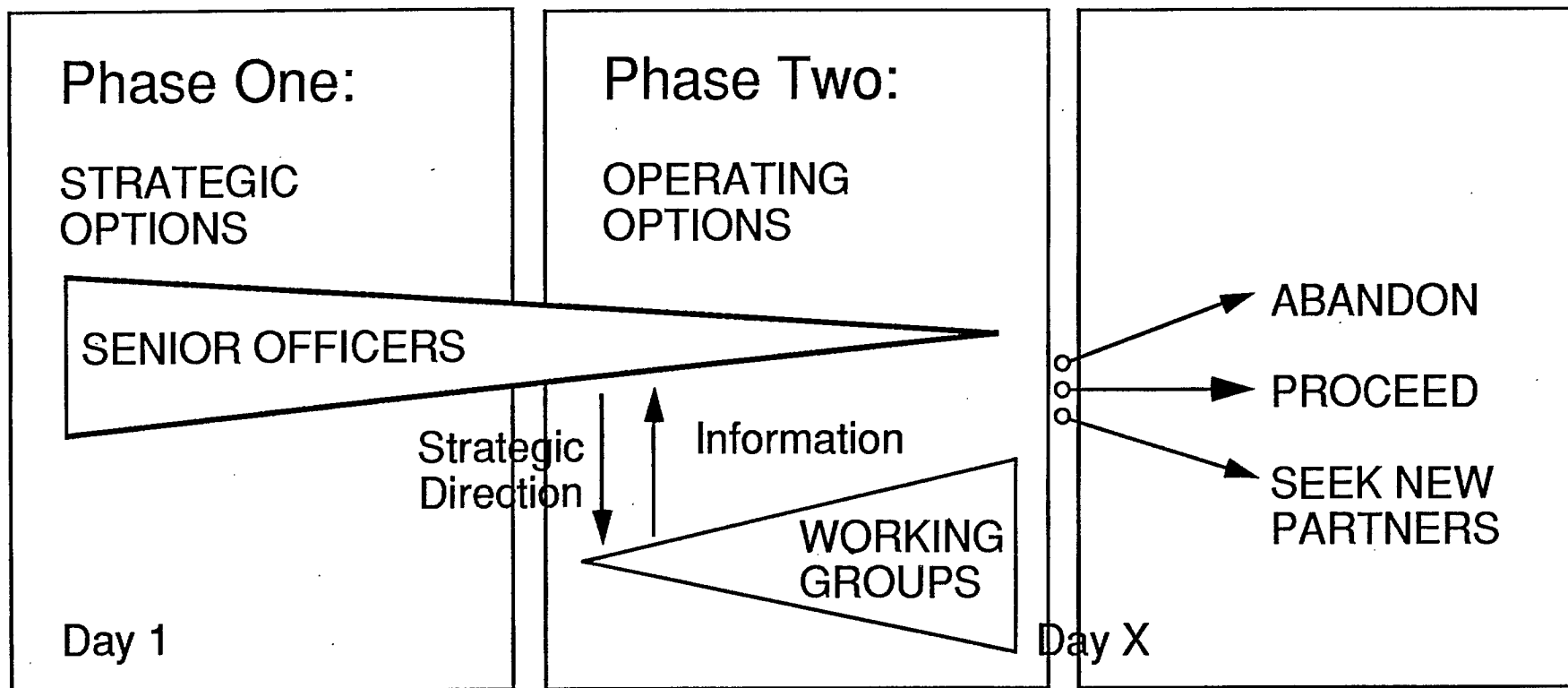


When Contemplating a Strategic Alliance
Assess the Likely Impact on Your:

- Key Operating Efficiency
- Technological Progress/Direction
- Future Strategic Position
- Decision Making Process (Partner Influence on Critical Decisions)
- Know How
- Market Position
- Abilities in Other Markets, Products (Diversion of Resources)
- Organization



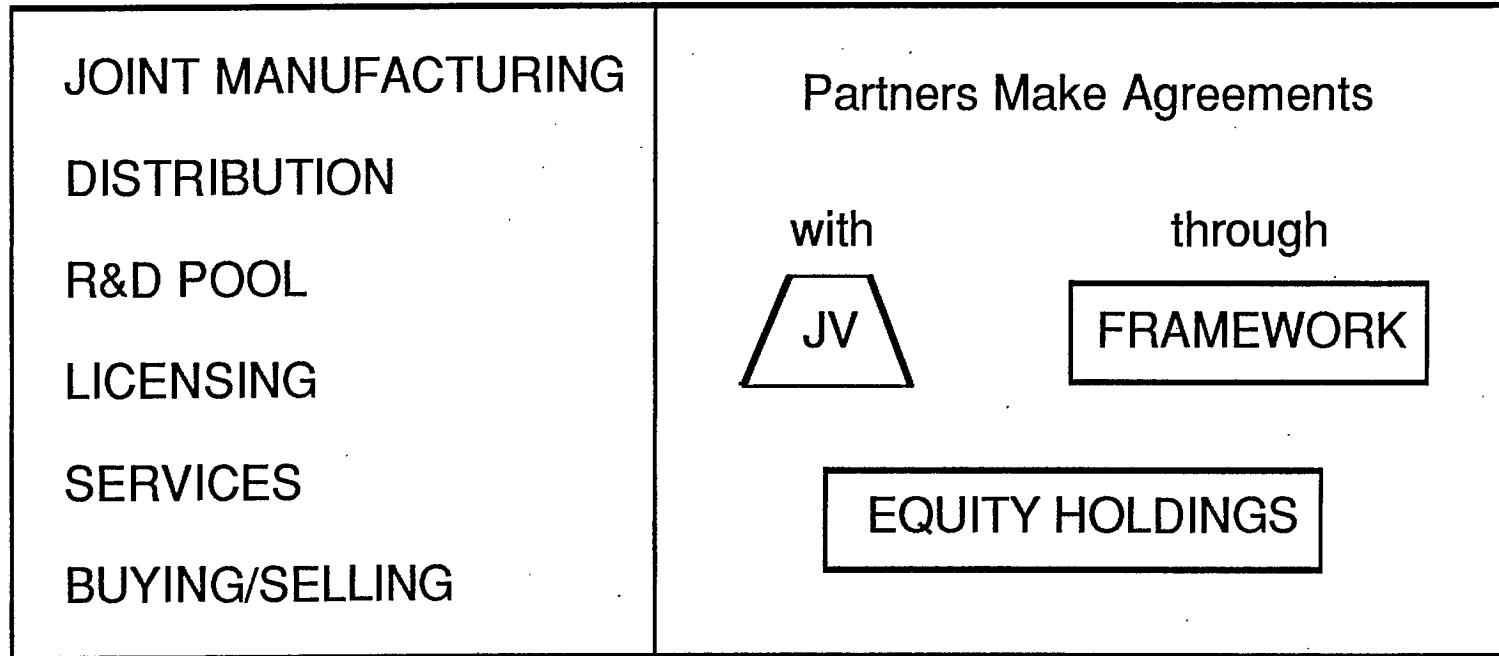
TWO-PHASE NEGOTIATION



Source: Business International

STRUCTURAL CHOICES

The
Contents
Cupboard



Source: Business International

NEGOTIATING YOUR ALLIANCE

SOME SIMPLE ADVICE

- Explore and Define Your Interest Together
- Identify Deal Breakers at the Start
- Isolate Divisive Issues
- Work Towards Clarity
- Avoid Pressure or Coercive Tactics
- Be Willing to Give as Well as Take
- Build Internal Understanding and Commitment



NEGOTIATING YOUR ALLIANCE

SOME SIMPLE ADVICE

- Involve those Who are Going to Manage the Alliance in the Negotiation Process
- Ensure there are Measures in Play to Protect Your Contribution Find - Appropriate Legal Protection for Your Rights Before Getting Too Deeply Involved in Negotiations
- Maintain the Ability to Walk Away
- Assume the Deal is Temporary - Expect the Best and Prepare for the Worst
- Beware the Negotiating Partner



IMPORTANT MARKETING ISSUES

Key Issues to Address Are:

- Who Decides What the Product Will Be?
- Who Designs the Product?
- Who Chooses the Product Name?
- Will You Share Advertising or Marketing Campaigns?
- Who Decides on Improvements or New Additions to the Product Line?
- Who is Responsible for Warranty Obligations?
- Who is Responsible if a Customer is Injured?
- What Happens if the Product Infringes on the Intellectual Property Rights of Someone Else?
- What Happens to Marketing Rights if the Partnership Ends?



KEY TECHNOLOGY ISSUES

Partners Need to Resolve: ✓

- Questions of Ownership of Technologies Developed by the Alliance
- The Right to Use and Market:
 - Technologies to be Developed
 - Technologies from Outside Sources
 - Core Technologies



KEY TECHNOLOGY ISSUES

Partners Need to Resolve: ✓

- Division of Royalties if a Partner Markets Technology or Products Based on Technology Developed by the Alliance
- Ownership and Rights to Use Improvements in the Technology ✓
- Decision-Making Procedures Concerning Products Based on New Technology ✓
- Legal Rights Involved if a Third Party Infringes on Technology Developed by the Partnership ✓



STRUCTURING A JOINT VENTURE

Some Issues to Consider: ✓

- How Will the Management and Board of Directors of the Joint Venture be Chosen?
- Will the Joint Venture Rely on its Own Staff or on Service Contracts from the Partners for Financial, Management, or Technical Services?
- What Happens if the Joint Venture Needs Additional Capital?



STRUCTURING A JOINT VENTURE

Some Issues to Consider:

- How Will the Joint Venture Decide Whether to Expand Into New Businesses?
- What Will Happen if One of the Partners Wants to Sell its Interest in the Venture?
- How Will a Decision to Liquidate the Joint Venture be Made?
- How Will Ownership of the Joint Venture's Technology and Other Assets be Divided if the Venture is Liquidated?



WARNING SIGNALS?

Think Twice About Doing the Deal if:

- You Experience Difficulty Agreeing on What is Proprietary Data
- They are Trying to Push You into Making Quick Commitments
- You Sense They are not Being Honest and Straightforward with You
- They are Uncomfortable Discussing Their Intentions and Plans
- They are Spending a Lot of Money Without Serious Thought



MANAGING YOUR ALLIANCE

Alliance Management is Facilitated if:

- Goals and Objectives are Clearly Defined
- Sufficient Resources are Committed
- Key People are Assigned to the Alliance
- Clear Lines of Communication are in Place
- There is Clear Accountability and Responsibility
- Progress Monitoring System and Benchmarks are in Place
- Limitations are Recognized
- There is Commitment from the Top
- Both Partners are Prepared to be Flexible



GET THE MOST FROM COOPERATION

- Learn How to Learn at Least as Well as Your Partner ✓
- Encourage Flexible Responses - Alliances are Very Fast Moving
- Promote Win-Win Alliances - Not Win-Lose Alliances ✓
- Ensure Equality of Respect, Even when One Partner is much Weaker
- Maintain Walls, Take Hostages and Keep a High Price on Your Head
- Be Flexible about New Alliance Options - They may be Staring You in the Face



COMMON PROBLEMS IN STRATEGIC ALLIANCES

- Underestimation of Management Time Involved ✓
- Failure to Achieve the Link Between Objectives and Action Plans
- Inflated Expectations
- An Overemphasis on Rational and Negotiating Detail
- Weakness in Partnership Selection and Relation Building
- A Lack of Understanding of the Balance Between Obligation and Rights



COMMON PROBLEMS IN STRATEGIC ALLIANCES

- No Provision for Possible Divorce ✓
- Management Rewards Not Compatible with Demands
- Persistent Conflict Between Long Term and Short Term Goals ✓
- More Concern with Financial Control than with Strategic Objectives
- Alliance Used to Hide a Weakness Rather than Supplement a Strength ✓
- Lack of Commitment ✓
- Poor Lines of Communication Between Parties ✓



12 STEPS TO SUCCESS ✓

1. Make Sure Your Goals are Clearly Defined Before Searching for a Partner. You Must Know What You Need Before You Look to a Partner to Satisfy those Needs.
2. Be Certain at the Outset that You are Willing to Commit the Resources that it will take to Form and Manage a Partnership.
3. Get to Know Your Potential Partners, Their Strategies, Objectives, Operating Procedures, and their Track Records on Co-Operation Well Before You Consummate a Deal. In Particular, make Certain they are Trustworthy and Committed to the Partnership. ✓



12 STEPS TO SUCCESS

4. Be Clear with Your Potential Partners About Objectives and Obligations, and Don't Hesitate to Deal up Front with Contentious Issues.
5. Pay Attention to Preparing and Gearing Up Your Internal Organizations for the Strategic Alliance.
6. Be Flexible in Negotiations, and Ready to Concede on Points You Consider to be Minor.
7. Strike a Flexible Deal. Recognize that Circumstances and Markets Change and Your Deal May Have to Change too.



12 STEPS TO SUCCESS

8. Take Appropriate Measures to Protect Your Competitive Advantage by, for Example, Ensuring Your Technology is Patented etc. ✓
9. Plan Your Exit Up Front, and Have an agreement With Your Partner About the Termination of the Alliance. ✓
10. Institute Performance Milestones and a Formal Review Process. ✓
11. Don't Overemphasize Short-Term Results. Look at the Alliance in Terms of Your Long-Term Strategic Objectives. ✓
12. Above All, Remember That the Key to Alliance Success is Common Sense. ✓



