Lesson 9. DEVELOPMENT MODALITIES. STRATEGIC ALLIANCES

Basic references:

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- Thomson, A., Peteraf, M.A., Gamble, J.E., & Strickland, A.J. (2020). Crafting & Executing Strategy. Concepts and readings. McGraw-Hill Education.

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Lesson 9. DEVELOPMENT MODALITIES. STRATEGIC ALLIANCES

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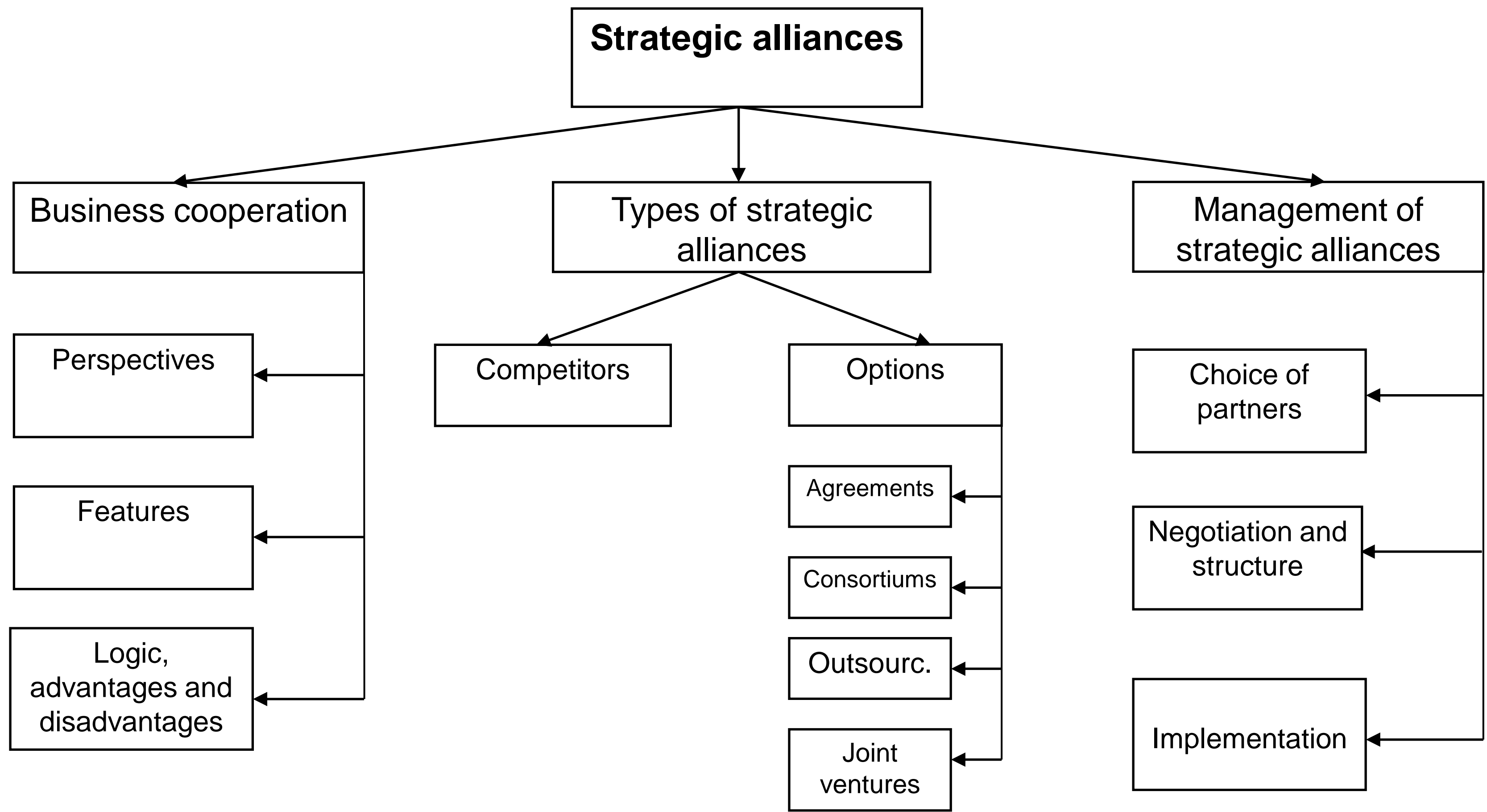

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9.1. Business cooperation: concept, logic, and motivations

Different perspectives:

- A set of strategic options in which the resources and capacities necessary for growth are obtained in collaboration with other companies.
- Strategic alliances are a form of hybrid growth: some necessary resources and capabilities are obtained internally, while others obtained from other companies.
- In a strategic alliance, two or more companies join forces to achieve common goals, but maintain respective legal independence and strategic autonomy.
- Relationships between customers and suppliers (vertical) and between competitors (horizontal).

9.1. Business cooperation: concept, logic, and motivations

Features:

- Explicit agreements between two or more companies (formal and informal).
- Affects larger part of the company value chain.
- Common goal, or at least, goals congruent with each other.
- Agreement must be long-term (never short-term): strategy over tactics.
- Companies maintain legal independence and strategic autonomy.
- Power-sharing among participating companies (balance/imbalance).
- There may be shareholding participations.

9.1. Business cooperation: concept, logic, and motivations

Motivations:

- **Internal motivations** (same as mergers):
  - Economies of scale
  - Cost reduction
  - Sharing activities or functions
- **Competitive motivations**:
  - Diversification
  - Process integration
  - Distributing the market (collusive agreements)
- **Strategic motivations:**
  - Exploitation of new businesses
  - Transfer and technological complementarities
  - Search for new markets
  - Experience effect

Collusive agreement means any deal or convention, formal or informal, written or oral, involving competitors and intended to eliminate uncertainty in competition through the fixing of sales prices, limiting production, allocating zones or quotas in the market, or affecting tender processes, or which, while granting them market power, consist in determining sales conditions or excluding present or prospective competitors.

9.1. Business cooperation: concept, logic, and motivations

Advantages:

- Easy reversibility of option
- Improved competitive position: increased bargaining power (tender agreements)
- Rationalisation of industry
- Access to geographical market or new activity
- Access to complementary resources or capabilities
  - Carrying out projects that are too expensive or risky (tender agreements)
- Capacity learning
- Technological development
  - Development of innovations
  - Technology transfer
  - Share great R+D risks
- Economies of scale and/or scope
- Political restrictions

Economies of scale are **cost advantages companies experience when production becomes efficient**, as costs can be spread over more goods. A business's size is related to whether it can achieve an economy of scale - larger companies will have more cost savings and higher production levels.
Economies of scope can be described as producing two or more products simultaneously at a lower cost than producing them individually. For example, a company uses similar raw materials and production units to produce various products instead of one at a time.

Economies of scope focus on the average total cost of production of a variety of goods. In contrast, economies of scale focus on the cost advantage that arises when there is a higher level of production for one good.

Disadvantages and limitations:

- Reduction of strategic autonomy (costs of autonomy)
  - Shared decision making
- Difficulty in maintaining balance (coordination and negotiation costs)
  - Management, organisational, and cultural ambiguity
- Possibility of opportunistic behavior
  - Hidden agendas
  - Appropriation of capacities
  - Dissemination of key information
- Possibility of future dependence on the alliance
  - Loss of control of operations
    - Unbalanced learning or outcomes
    - Abandonment of internal development

9.2. Types of strategic alliances

- Among competitors
  - Scale or dimension
    - Joint provisioning: joint networks
    - Pseudo-concentration
  - Complementarity
- Among non-competitors
  - Verticals (customers-suppliers)
  - Intersectoral (symbiotic)

9.2. Types of strategic alliances

1. Protocols (agreements on the standard characteristics of the products, etc.)
2. Exchange of members of the board of directors
3. Consortiums
4. Private brand agreement
5. Dual marketing
6. Vendor/buyer agreement
7. Commercial agreement
8. Franchise
9. Licensing
10. Joint venture
11. Exchange of minority holdings
12. Acquisition
13. Merger

(**Impact** and **duration** range from a minimum in 1, to a maximum in 13)

Impact \ Durability	Low	High
High		13 Merger 12 Acquisition 11 Exchange of minority holdings 10 Joint venture 9 Licensing 8 Franchise
Low		7 Commercial agreement 6 Vendor/buyer agreement 5 Dual marketing 4 Private brand agreement 3 Consortiums 2 Exchange of members of the board of directors (exchange of board members) 1 Protocols (agreements on the standard characteristics of the products)

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9.2. Types of strategic alliances

1. Protocols: agreements on standard characteristics of products.
2. Exchange of board members.
3. Consortiums: temporary joint ventures.
4. Private brand agreements: a company markets products manufactured by someone ese under its own name.
5. Dual marketing: marketing in hands of a third party.
6. Vendor/buyer agreement: concerns product parts or components and not the commercial side.
7. Commercial agreements: marketing is done under the manufacturer's name.
8. Franchising: local agent is responsible for the day-to-day running of the company, according to the brand standards - agent is taught the secrets of the business in exchange for royalties.

9.2. Types of strategic alliances

9. Licensing: a manufacturing contract where a product is designed by one party and manufactured by another.
10. Joint venture: two or more parties set up a third party, on a more permanent basis than a consortium. Skills contributed are complementary
11. Exchange of minority holdings (Renault and Nissan).
12. Acquisition: Opel by GM (1929), and then by PSA (2017), keeping the bought company's name and brands.
13. Merger: both companies disappear and a new third company appears in its place.

9.2. Types of strategic alliances

If a company wishes to speed up its entry into a given geographical area

And it has **strengths** in: / Then it should **opt for**:	Manufacturing	Brand/image	Marketing	Local market specifics	Financial resources
1 Acquisition	Yes	Yes	Yes	Yes	Yes
2 Franchise	Yes	Yes	Yes	Yes (little relevance)	No
3 Joint venture	Yes	Yes	Yes	No	No
4 Commercial agreement	Yes	Yes	No	No	No
5 Private label agreement	Yes	No	No	No	No

Notes:

1 Dual marketing is a case in-between private label agreements and commercial agreements, where neither allied organization has strong brand image, or both organizations have equal brand image.

2 Joint ventures can be established for other reasons, such as not being legally possible to acquire a company. This is an exceptional case.

What do we have to offer?

9.2. Types of strategic alliances

- Among competitors
  - Scale or dimension
    - Joint provisioning: joint networks
    - Pseudo-concentration
  - Complementarity
- Among non-competitors
  - Verticals (customers-suppliers)
  - Intersectoral (symbiotic)

9.2. Types of strategic alliances

As a team, please classify these alliances in one of the 13 types studied:

1) http://cincodias.com/cincodias/2010/09/27/empresas/1285594784_850215.html
2) http://www.vitiscompras.com/
3) http://www.autopista.es/noticias-motor/articulo/mot7931.htm
4) https://carniceryperete.wordpress.com/consorcios-y-grupos-de-exportacion/

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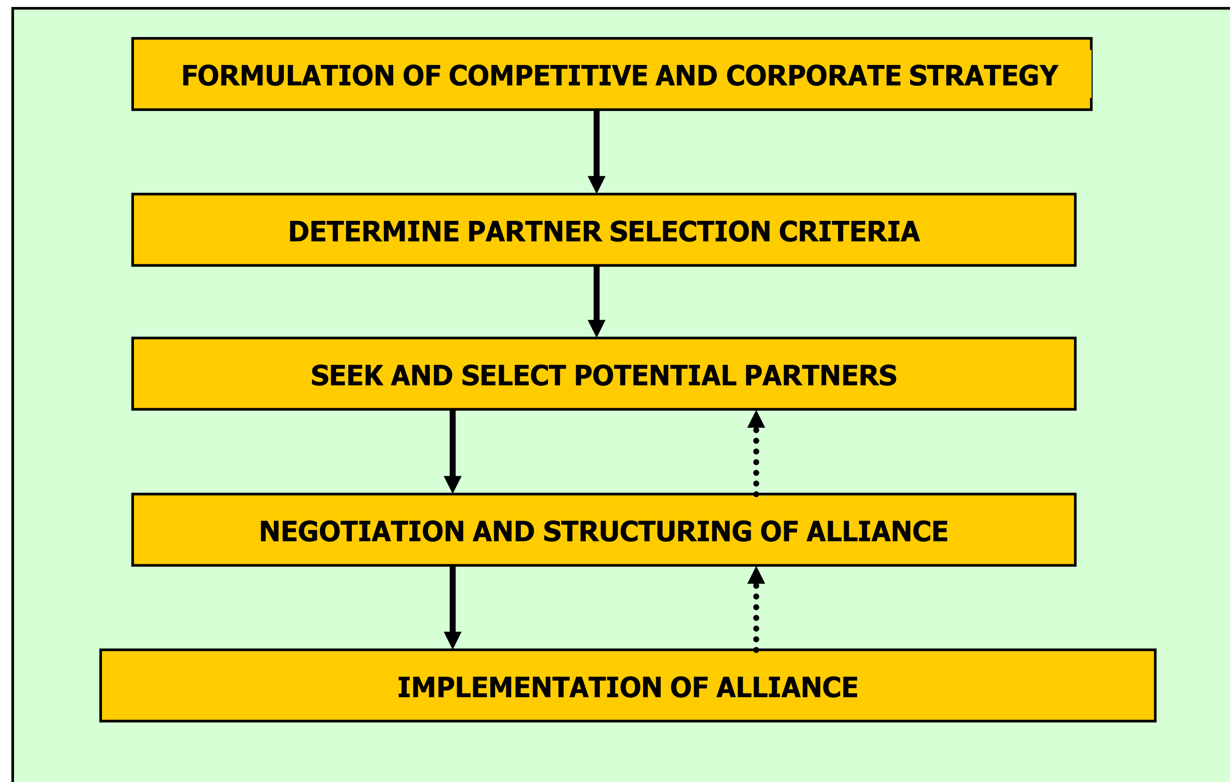
9.3. Choice of type of alliance

- **Organisational models and structure type**
  - Organizational models:
    - Leadership model: one partner dominates.
    - Cooperative model: power balance among partners (joint venture)
    - Integral model
  - Structure type:
    - Formal structure: contracts
    - Informal structure: mutual trust

9.4. Management of alliances and implications

◆ **PROCESS OF HYBRID GROWTH OPTIONS**



Determination of the criteria for choosing partners

1) Collaborators:
   - Dissemination of information
   - Qualification process
   - Contribution to cost reduction
   - Management capacity
   - Access to financing

2) What is the profile of the partner you are looking for?
   - Criteria related to tasks (contributes to the KSF)
   - Criteria related to the partner
   - Strategic complementarity
   - Organisational complementarity (when interaction is required)

Search and selection of potential partners

1) Who are potential partners?
   - External and internal research pathways

2) Are objectives and motivations congruent with those of the company? (strategic complementarity)

3) Is there organisational compatibility?
- Basic when a high level of interrelation between people from different companies is necessary

Negotiation and structure of the alliance

1) Negotiation process

- Definition of formal agreement
- Creating sense of mutual trust
- Long and iterative process
- Intervention of various management and operational levels

2) Contents of cooperation agreement

- Specific objectives
- Purpose and objectives of agreement
- Expected duration and renewal conditions
- Contributions from partners
- Distribution of responsibilities, ownership, and control
- Distribution of results of agreement (if success or failure)
- Designation of directors involved in agreement

Implementing alliances

1) Continuous process regarding:
   - Commitments
   - Executions
   - Re-negotiations

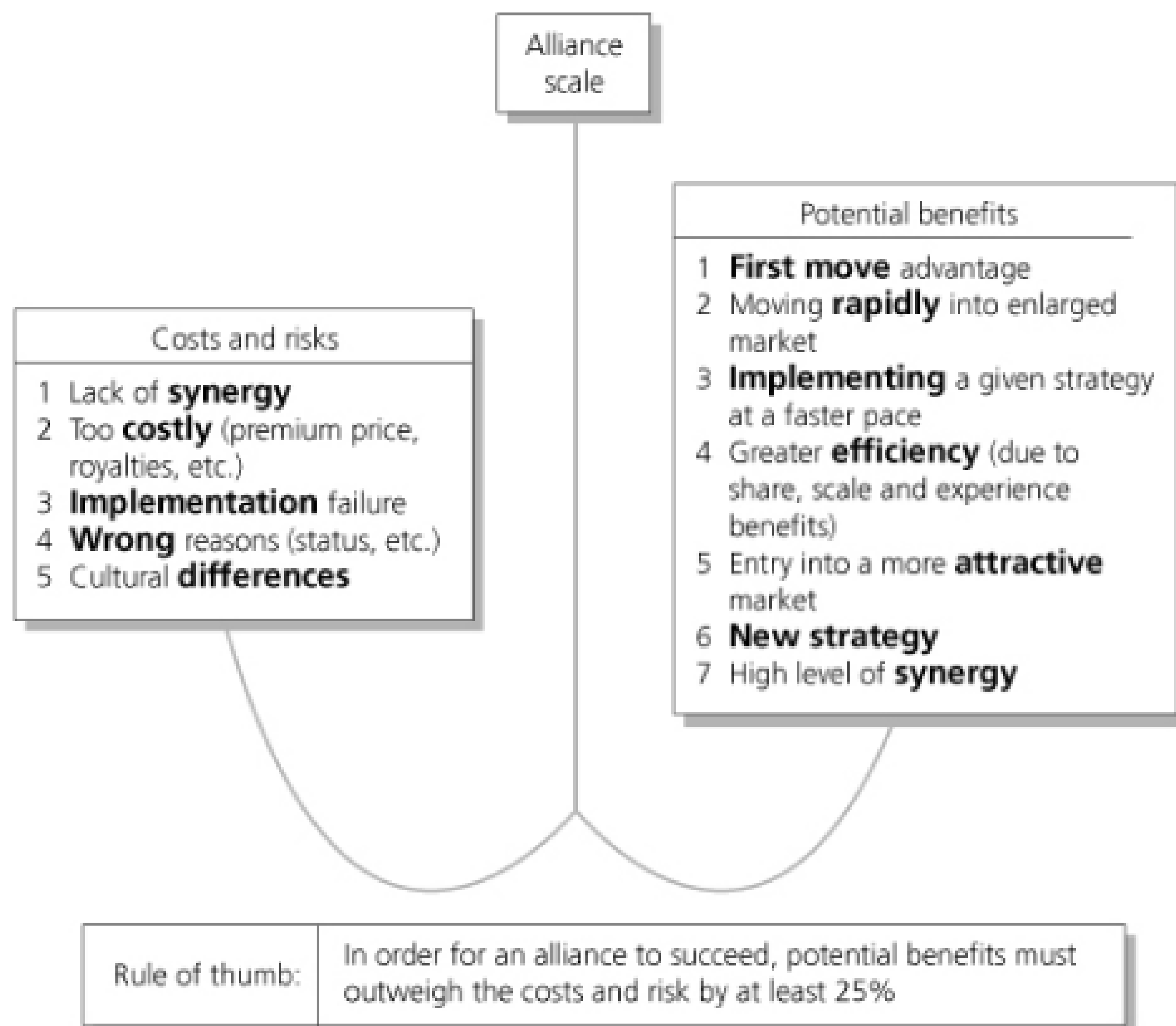
2) Constant evaluation of the development in:
   - Efficiency
   - Fairness (equity)

9.4. Management of alliances and implications

- Main failure causes
  - Design stage:
    - Determination of partner selection criteria
    - Research and selection of potential partners
      - Too optimistic when valuing synergies
      - No evaluation of cooperation difficulties
    - Negotiation and structuring of the alliance
  - Failure in implementation

https://watchinginternationaleconomy.wordpress.com/2014/09/22/por-que-ha-fracaso-la-alianza-estrategica-entre-apple-y-u2/

. Advantages and disadvantages of alliances



Why did the strategic alliance between Apple and U2 fail?

The Apple event held on 9 September (2014) continues to be discussed, and more specifically, the company's decision to give away the latest U2 album on iTunes. Apple presents this as a successful promotion, yet Apple’s strategy did not have the expected results. Why?

1. Users do not want impositions: users hate to be imposed on or directed towards a certain item. Apple's strategy with the U2 album was more of an imposition than a gift for iTunes users. The best route would have been to say: "Here's the new U2 album. Take it if you want".

2. Downloads are over: Why did Apple and the band think that downloading would be such a success at a time when everyone is looking to streaming music services? The truth is that downloads on iTunes are still in the thousands, but this has not been the case in this example. Why?

Why did the strategic alliance between Apple and U2 fail?

3. U2 is not so trendy: Here's why: the band does not arouse the same interest as it did some years ago, especially among the iTunes target audience. Despite the negative results of this strategy, U2 benefited because, although the exact amount (there is talk that the advertising campaign cost more than $100 million) that the band received for ‘giving away’ its album on iTunes has not been made public, the amount is probably greater than what the band would have obtained if it had released the album in the conventional way.