A Growing Reliance on Alliance

Wary of the resources required by mergers, more companies are seeking growth through strategic alliances. Success in this effort begins with choosing the right partner.

by Loren Gary

IN THE PURSUIT OF GROWTH, some organizations are expressing renewed interest in mergers and acquisitions. Indeed, to achieve greater scale or incorporate a new capability into its business, this strategy often makes good sense. But many companies have insufficient capital to go that route or are wary of the complexity and commitment required to buy another firm. Instead, increasing numbers of companies are finding alliances to be a more efficient means of using limited resources. In fact, the top 1,000 U.S. companies' percentage of revenue from alliances is expected to rise from 20% to more than 30% this year, according to Boston-based consulting group Vantage Partners.

Many companies are attracted by the precise nature of partnering. "An acquisition is a blunt tool. With an alliance, you can pinpoint where the greatest value-creation potential lies and form the partnership around those specific areas only," says Benjamin Gomes-Casseres, a professor at Brandeis University's International Business School in Waltham, Mass. Still, alliances are risky. In Vantage's cross-industry survey of more than 150 alliance managers, 64% listed poor or damaged relationships as the primary cause of alliance failures. While many companies are taking a more systematic approach to relationship management, these procedures tend to kick in only after the partnership has been launched. The critical first step is picking the right partner.

Setting the framework: Strategy comes first

A partnership can mean different things to different companies. Jeff Weiss, a founding partner of Vantage's alliance consulting practice, defines an alliance or partnership as "any business arrangement in which the success of one partner is tied to the success of both. It's a long-term, complex, interdependent relationship between two separate companies that share some significant common and some significant differing goals." The degree of interdependence—how much interaction and coordination between the partners is required—is much greater than in, say, a licensing deal but less than in a formal merger or acquisition. Examples of alliances that fit this definition include joint ventures to develop new technology, build manufacturing plants, conduct research, or develop products; franchising agreements; comarketing arrangements; and outsourcing partnerships.

How extensive should your relationship due diligence be? That depends not only on the degree of interdependence, but also on the degree of organizational complexity—how much internal coordination within your own organization will be required. In all cases, however, questions of relational fit should be informed by strategic priorities. "Don't enter into a strategic alliance if you don't have an alliance strategy behind it," cautions Gomes-Casseres, who is the coauthor, along with James Bamford and Michael Robinson, of *Mastering Alliance Strategy: A Comprehensive Guide to Design, Management, and Organization* (Jossey-Bass, 2003). The first order of business, therefore, is to think about the capabilities required to succeed in your competitive environment, determine whether you have those capabilities internally, and, if you don't, decide whether it makes the most sense to develop them, buy them, or access them through partnering.

In terms of value, 1 + 1 = 3

Only after you have established an alliance strategy can you determine whether a prospective partner fits into the framework. Initial questions at this stage should include: What's the size and strength of the market targeted by the partnership? What percentage of this market does the prospective partner hold? How rapidly is that area of the prospective partner's business growing? Bronwyn Hastings, vice president of global alliances for Oracle, headquartered in Redwood Shores, Calif., says, "We wouldn't want to create an alliance with a firm that's moving away from the segment targeted by the alliance."

The answers to these questions will help you ascertain whether the partnership will actually drive incremental revenue. "In order to have a good relational fit," says Gomes-Casseres, "you must have some bad math—namely, one plus one must equal three. The value created by the partnership must be greater than the sum of the value provided by each individual partner." Look for opportunities that combine your offerings with the prospective partner's to create more complete ways of serving the market. For example, the combination of Deloitte & Touche's methodology for dealing with corporate governance issues in the financial services sector with Oracle's application software for handling Basel II banking compliance regulations created a complete solution for customers.

In terms of management, 1 + 1 = 1

Beyond the potential for synergistic value creation, there's "a second kind of bad math you need in order to have a good relational fit," says Gomes-Casseres. "When it comes to managing the partnership, one plus one must equal one. Even though the partnering firms remain independent, they need to be able to act as one, at least with regard to the alliance project. If it's a technology alliance, the two technologies must fit together seamlessly. If it's a service alliance—say, between two airlines—there must be seamless service."

A critical task in presenting a single face to the customer is identifying hidden interdependencies that can trip up an alliance's implementation. For example, if the alliance involves "going to market with information lifecycle management solutions, but the partner's sales personnel only have experience supporting information storage hardware, they may need specific training in order to be able to describe the value of how a combined solution meets customers' most pressing needs," says Marlborough, Mass.–based Ron Corriveau, vice president of business and alliance development at Legato Software (Mountain View, Calif.) and president of the New England chapter of the Association of Strategic Alliance Professionals. Incentive plans may also need to be modified to ensure better alignment between the partners' sales forces.

The partnering firms, though independent, need to be able to act as one.

The prospective partner's impact on existing alliances constitutes another hidden interdependency. A portfolio impact diagram can help you assess these implications. As Salvatore Parise and Amy Casher advise in "Alliance Portfolios: Designing and Managing Your Network of Business-Partner Relationships" (*The Academy of Management Executive,* Vol. 17, No. 4, November 2003), assign a level of strategic importance for each of your existing partners, then rate the degree to which the prospective partner will facilitate or constrain each. A prospective partner that has a highly facilitating impact on your existing partnerships or one whose own network of relationships includes firms you're looking to establish links with is obviously going to be a much better fit than one that constrains your ability to work with key existing partners.

What if the prospective partner competes with another division in your company or has a relationship with one of your competitors, as is often the case in IT alliances? Towney Kennard, the Raleigh, N.C.–based VP for strategic alliances for IBM's Global Services Group, handles such situations by "making sure we've pinpointed the specific areas and activities that will be involved in the partnership." Avoid partners that are involved with one of your competitors *in the same market niche* targeted by the proposed alliance, advises Brandeis's Gomes-Casseres: "Competition can work outside the area of focus, but not inside it."

Where alignment is—and isn't—necessary

A successful partnership doesn't require two closely matched cultures. The Fuji-Xerox partnership is now in its 42nd year, and Samsung and Corning have been working together since the 1970s, notes Gomes-Casseres, who has written a case study about the former. When the differences, including those of national culture and language, are marked, they make it harder for the partners to overlook the need to stay in close communication. Adds Vantage's Weiss: "It doesn't make much sense to ally with an organization that's a mirror image of your own. What is important is to identify the differences up front and develop a plan for dealing with them."

For example, how does your prospective partner's different business model or phase of growth lead to operational emphases that differ from your own company's? Does it have a more centralized decision-making style? How do its communication and problem-solving styles compare with yours? How does it handle conflict? A little research into the prospective partner's history of partnering may shed some light on these questions. It's also a good idea to start thinking about joint metrics that can help the partnership manage any of these differences that surface.

There are, however, two areas in which alignment is essential. First, "you need to make sure there's a consistency in the two organizations' values," says Blythe McGarvie, the Williamsburg, Va.–based president of LIF Group, a consultancy that focuses on governance and business performance management. "You want to feel good about the prospective partner representing your organization's mission and integrity." Second, make sure you have buy-in from all areas of your organization that will be involved in implementing the alliance. "An agreement that's just between the alliance staffs of the two partnering organizations is a recipe for failure," says IBM's Kennard. "That's why I require that the executive sponsors of the partnership be the affected line of business owners or industrial sector heads in IBM and the CEO of the partnering firm." ◆

Loren Gary can be reached at lgary@hbsp.harvard.edu.