



Logistics Association of Australia Ltd

STRATEGIC ALLIANCE SECRETS

In the third of his reports, 1996 International Study Award winner John Reitze discusses the secrets behind successful strategic alliances.

A Partnership (alliance) is: '... a tailored business relationship based on mutual trust, openness, shared risk and rewards that yields a strategic competitive advantage, resulting in a business performance greater than would be achieved individually.'

Source: The International Centre of Competitive Excellence, University of North Florida

Discussions with managers and staff from a number of successful US strategic alliances clearly identified a number of consistent elements which support the above definition.

More importantly, the adoption of these principles would immediately begin to generate benefits to the participating companies.

Sensitive Information

Trust between companies is essential if a business relationship is to transform from an 'arms length' agreement to a strategic alliance.

Historically, many business agreements/contracts have operated in an environment of distrust similar to that enjoyed with market competitors.

Companies tended to:

- Withhold information, whether sensitive or not
- Wasted resources in verifying contractor supplied information
- Feared information "leaks"

Successful alliances are confident and comfortable in sharing sensitive information. However, every employee does not have access to the other company's information or vice versa.

Staff working on alliance projects or part of an alliance team are given access to financial and other information from both companies consistent with their needs.

Of course, highly sensitive information is available only to senior managers.

More often than not, alliance partners were required to sign confidentiality agreements to protect each others information. This has not undermined the basic foundation block of alliances -trust - and in all cases it was viewed as a legal requirement.

Examples of trust include:

- The alliance transport supplier being included in senior management discussions related to site selection and design of new plant/warehouse
- Schneider National associates from alliance teams of market competitors Procter & Gamble and Kimberly Clark are located next to one another but all without fail maintain alliance confidentiality while enjoying normal office relationships. However, "others sign confidentiality agreements on major detail exchange when they do analyses", according to John Burton, of Schneider National.

Whilst Goodyear and Yellow Freight undertake joint benchmarking, Yellow Freight are not asked to provide information on other companies that are part of the review.

Core Competencies

In general, the core competencies of the alliance partners changed with the formation and ongoing development of the alliance. Previously, the individual transport companies supplied basic transport needs, while the manufacturing companies dabbled in running private truck fleets prior to alliance formation.

Information sharing and the close working relationships targeting inefficiencies at the interface of both companies has resulted in the core competencies of both partners expanding at a far faster rate than those of non-alliance competitors. This, of course, translates into savings for both companies.

Examples of alliance partner core competency changes are:

- Ryder Dedicated Logistics has introduced new technology, systems and thinking into its relationship with Whirlpool. Whirlpool now focuses on manufacturing, while Ryder's increased third party provider competency will lead to enhanced business opportunities
- Both Schneider National and Procter & Gamble core competencies have increased through the joint development and introduction of an EDI paperless environment

- Walgreen has been able to reduce attention on supplier inventory by encouraging its partners to manage inventory throughout the supply chain. Increased knowledge, greater attention to core competency and cost savings have been achieved
- HUB Logistics has developed a broad experience dedicated to servicing market niches which continues to expand their business opportunities. Their partners are able to benefit from enhanced performance and regular reports.
- Both Hershey Chocolate and Exel core competencies have grown through the introduction of radio frequency equipment, paperless transactions and warehouse management systems. The enhancement of core competency in one or both of the alliance partners with the exception of a few proprietary systems has enabled both partners to use this knowledge with other companies to the improvement of the total business.

In general, the application of jointly developed efficiencies was restricted to non-competitors of both alliance members.

Competitive Advantage

Competitive advantage encompassed a range of issues to the different alliances. These issues included immediate access to leading edge technologies, improved customer service and exclusive agreements. Underlying these issues are cost savings.

Schneider National provides leading edge technologies such as a satellite truck tracking system and advanced 'in house' developed software.

It would not have been cost effective for Procter & Gamble to develop such a system for a private truck fleet. On the other hand, Procter & Gamble could have waited for a supplier to develop such technology, but this would have put it on the same level with its competitors.

The long term relationship with Schneider put it ahead of others and gave it competitive advantage.

Schneider is able to use its generic technology with Kimberly Clark, Procter & Gamble's competitor, but each package is tailored to suit each individual company under strict confidentiality.

On the other hand, Philip Morris, in developing its alliance with HUB Logistics, stipulated that they wanted an exclusive arrangement where HUB would not provide a similar service to competitors. Both companies found the opportunity to create competitive advantage by examining the needs of Philip Morris and the service offered by HUB Logistics.

This perspective put them well ahead of their competitors, who were denied access to the program under this arrangement.

Hershey Chocolates' alliance with Exel Logistics has resulted in improved warehouse efficiencies and transport savings. The technology and thinking could be developed by competitors. They are currently experiencing reduced costs which enables them to jointly distribute Hershey chocolates with competitor products in the knowledge that their costs further up the supply chain have been minimised.

Goodyear Rubber & Tire gain competitive advantage by sharing detailed cost information with Yellow Freight. This enables the joint teams to tackle high cost areas. Progress is determined by a comprehensive set of measures.

Whirlpool is gaining a competitor advantage by concentrating on its core business strengths and having its alliance partner apply its expertise in providing distribution services at reduced costs.

Walgreen retains its competitive edge by working closely with its suppliers to provide improved inventory control and deployment.

Risk

There are risks in any business relationship. In strategic alliances joint teams focus on the pertinent issues to reduce the risk to the partnership. If one firm has nothing to lose while its alliance partner is highly exposed, then it has no compelling reason to work hard to the benefit of shared objectives. One would argue strongly that an alliance cannot exist with a large imbalance in risk.

Risk sharing between Goodyear and Yellow Freight created a powerful incentive to co-operate to achieve mutual gains. On one hand, Goodyear faced the risk of losing a valued carrier because of a demand for rate increases, while Yellow Freight risked losing an important customer unless it accepted unprofitable rates below market value.

In this alliance, the level of risk was reduced by the formalised reporting structure, whereby the individual project team direction and results were closely monitored by the steering committee of middle managers from both companies.

It is essential to choose alliance partners carefully as the rush to achieve mutual benefits may mean that one company becomes exposed to the other company's problems. This does not mean that under an alliance built on belief and trust, that at certain times, one partner may have to support the other to ensure the survival of the alliance.

At one stage, Whirlpool offered to assist Ryder through a difficult patch to ensure the continuation of the valued relationship.

Schneider National reduced the risk in its alliance with Procter & Gamble by acquiring access to the latest global positioning satellite technology for the truck fleet and concentrating on superior driver training.

The continual measurement of conformance/non conformance, fast payment for good service and the depth of committed and trained associates within both companies further minimises risk to either business.

The HUB Group alliances are insulated from risk by the routine measures and comparison of these measures against industry data. The regular reporting of these measures ensures that the alliance partners can assess the level of risk and act accordingly.

Hershey Chocolate has minimised its risk in its alliance with Exel by sharing a joint warehouse facility. The continual personal contact has resulted in a strongly bonded team which continually seeks improvement. The routine use of measures demonstrates the gains achieved in working together.

All alliances stressed that when a key alliance manager left the business or was transferred to a different area within the company there was minimal disruption to the alliance because the belief in alliances was deeply entrenched within the company. In some companies the performance in the alliance team was a critical factor in staff performance reviews.

Creativity

Creativity is enhanced within an alliance. A strategic alliance provides access to more resources, technology or people than one partner could possess or buy. This combined capability exposes both companies to a greater range of options.

Goodyear shares creativity by utilising systems and people. In reviewing the location and design of new Goodyear super centres, Yellow Freight managers are on the concept team.

Similarly, when Yellow Freight developed a new financial system, Goodyear finance representatives were invited to sessions where they, together with Yellow Freight staff, received detailed information on the new package.

Schneider National endeavours to encourage creativity from its associates. The company encourages 'out of the box' thinking by creating an enterprise where staff are empowered to try new ideas. Limited failure is tolerated as this promotes the bubbling up of ideas from any associate.

Hershey Chocolate has had significant success in sharing creativity by having joint task teams. This has been made easier by both partners sharing the same facility. However, the benefits achieved and the ongoing drive for success has encouraged creativity and new ideas.

Ryder Dedicated Logistics encourages creativity through regular joint brainstorming sessions with Whirlpool staff whereas the HUB Group depends on its creativity to sell unique cost effective solutions to its alliance partners.

Creativity within alliances cannot be formalised. Each of the alliances studied supported and benefited from creativity in different ways.

Customer Service

Successful strategic alliances provide many benefits to the partner companies which directly impact on the alliance customers. All end customers benefit from elimination of inefficiencies in the supply chain through cost containment or reduction.

Philip Morris found that it had too many point of sale material warehouses, inventory was in the wrong place and often wasted. Furthermore, there was inconsistency in the quality of installations, which dissatisfied many of their customers.

The third party installation developed with HUB Logistics addressed these issues.

"Third Party Installation is a good program for us. We have reduced costs. It improved our customer service and we're getting consistency in the marketplace with faster turnaround," said Carlos Merla from Philip Morris

The Goodyear Rubber & Tire/Yellow Freight alliance managed to reduce supply chain costs by closing a major warehousing facility. This was achieved by researching the needs of the end customer to ensure that customer service was not reduced.

The research findings ensured that customer service levels were retained, or in some cases, improved.

Summary

The secrets to developing successful strategic alliances that add value to the supply chain include:

- Trust in sharing of sensitive and confidential information
- Supporting core competency
- Enhancing competitive advantage
- Risk sharing • Improving creativity

- Concentrating on customer service.