



Logistics Association of Australia Ltd

STRATEGIC ALLIANCES - IS IT POSSIBLE FOR THEM TO FAIL?

In his fourth report, 1996 International Study Award winner John Reitze continues his presentation on the subject of Strategic Alliances.

Strategic alliances between companies have been generally acknowledged as a key means of coping with increasing technological development and change.

The best third party logistics companies will continue to be successful because large transport companies are fast learning that logistics is a competitive weapon.

"Whoever has the best supply chain will be the winner. Competition will be supply chain to supply chain." **Larry Mulkey**, *President, Ryder Integrated Logistics*.

My recent study tour confirmed that major US companies are forming strategic alliances with third party providers in order that they may concentrate on core competencies.

"Almost every American Company has downsized, restructured, and re-engineered. They have become 'lean organisations' and as such are turning to third parties to leverage their own scarce resources and improve their asset utilisation." **Charles Launsbury**, *VP Recycling Equipment Division, Toro Co.*

This trend means that an increasing number of firms are shopping for contract logistic services. However, whilst so called alliance numbers are increasing, particularly in the US, many are frequently unstable relationships, hard to control and prone to failure.

This apparent paradox becomes clear when it is realised that many companies confuse outsourcing of third party logistics with strategic alliances.

A contract or agreement with a third party company is usually an arm's length agreement unless both companies have the commitment and competency to reach the strategic alliance goal.

The instances of outsourcing failures are increasing in the US because more people are making decisions on whims or because it is the "in" thing to do. The

selection process is far from rigorous and perhaps the rationale behind the decision to outsource is not given the strategic attention it deserves.

There is also a proliferation of carriers, brokers and others calling themselves third party logistics companies and offering services in which they have limited experience. This combination of buyer and seller inexperience has caused disappointing results.

Promising Business Alliance Failure

Mercer Management Consulting provide the following example of how a promising business alliance can fall apart.

A rapidly growing retail company chose to establish a strong logistics process by outsourcing the function rather than build internal capabilities. The company entered into a two phase relationship with the third party logistics provider to perform inbound shipment, merge and consolidation and outbound shipment management.

Phase one was fairly routine - individual orders were shipped to the consolidation centre where store-specific vendor shipments were sorted, then reconsolidated with other shipments to the same final destination.

Phase two was more ambitious. Inbound flows would arrive in bulk. The third party was to pick orders and merge them with other products, with little or no increase in the cost of service.

Phase two was disastrous, marked by service disruptions, stock-outs and eventually, lost sales. It was reported that the roots of failure arose from a poorly defined set of expectations, poor communication, lack of contract specificity and inconsistent commitment to the spirit of partnership.

Could This Happen With a Strategic Alliance?

Discussions with some of the most successful strategic alliances in the US clearly demonstrated that this was impossible as the very nature of an alliance would prevent the above from occurring.

If the tenets of a strategic alliance as outlined in previous papers are followed with total joint commitment then issues will continually be identified and resolved before they can grow to such magnitude that they can put one or both businesses at risk.

There are widely divergent viewpoints on strategic alliances between varying sized companies.

"The lowest risk alliance is likely to be between a small and large firm. The large firm provides resources, product facilities and distribution channels. The smaller firm provides the high level of technology or export knowledge and knowledge of potential customers and markets.

"If two large firms co-operate, their inability to agree on large cultural, managerial or organisational issues outweighs the potential advantage for joint innovation." **E Perraud**, *J Xuereb Decis. Mark.*

This viewpoint was not confirmed during visits to successful US strategic alliances. In no case was the size of companies an issue or of concern to the particular alliance.

The alliances studied were between large companies, large and smaller companies and between smaller divisions of larger companies.

Success was not a matter of company sizes but the commitment from senior management, trust and the overwhelming desire for success.

In addition to the alliances studied, the Journal "*Transport Topics*", October 21, 1996, reported on a recently developed alliance for Case Corporation. Case, a company with global operations has more than 850,000 shipments and \$5 billion annual sales.

Case has outsourced all of its transportation and inventory management functions to Schneider Logistics, Fritz Cox and GATX Logistics under a five year contract.

Schneider Logistics handles all Case's domestic transportation needs, GATX is responsible for off-site warehousing and Fritz will serve as global integrator, handling all international shipments.

Under this large alliance, Case will retain strategic direction, but all day-to-day logistics operations for parts, components and equipment from suppliers to plants to depots to dealers will be executed by the alliance.

The major three-way alliance makes Case a pioneer in the areas where the concept of tying together logistics providers in long-term arrangements to create synergies is noted for some expensive fiascos.

"Case has been successful in selecting and working with partners for products and processes that are outside our core competencies." **Jean-Pierre Rosso**, *Case Corporation Chairman.*

The basic ingredient for successful, sustainable long term strategic alliances is clear objectives that link the alliance partners to the agreed goal. Case's objective provides an excellent example of this requirement.

"The objective of the integrated logistics project was to integrate all of our logistics worldwide - all the warehousing, transportation and import/export and tie those together with the systems so that you could have visibility of any part, component or whole good, whether it was moving or at rest throughout the whole world supply chain." *Mr Trumbore, Case Corporation.*

Case is to rely on three basic categories of measurements - costs, cycle time and quality (percent on-time delivery).

While it is too early to judge the success of this major alliance, the commitment by Case to radical change after big losses in 1991-92, combined in part with Schneider's expertise (one of the alliance companies I studied), supports the view that alliances between major companies can and will be successful.

Issues That Alliance Detractors Raise Against Alliances

a) How does an alliance handle lost opportunities?

Within the alliances studied there was no indication that any opportunities had been lost. The alliance partners worked together at several different levels across both companies to ensure that issues were quickly identified and solved. Opportunities were created within the alliance and teams were charged with the responsibility for identifying external opportunities.

The functioning alliance by its very nature should be well ahead of its competitors. However, the strength and creativity of the alliances will be tested when a competitor has access to leading edge technology that is not available to the alliance. This has not happened yet, but the alliances were confident that the issue would be resolved.

b) What happens when one partner does not reach performance specifications?

With alliances being formed between companies of differing size and culture, there is the likelihood that one partner will not meet expectations. This commonly held belief is a carry over from the 'arms-length' contracts and was not experienced in any of the alliances studied.

This is contrary to the "alliance" concept, where two or more companies are committed to success and work in joint teams at several levels to research and solve problems and issues. The trust and commitment between the partners ensures a joint approach to achieving performance specifications.

The key to success is support of the partner under temporary difficulty and the unshakeable belief in the alliance. With commitment, all issues could be resolved.

c) How is uneven commitment handled?

This has been partly answered above. Without total commitment of both alliance partners, the alliance would suffer and most likely fail.

If there is uneven commitment then there cannot be a strategic alliance.

d) How is conflict handled?

In the alliances studied, conflict was not seen as a major issue or problem. In all cases, the alliance members were strongly encouraged to candidly voice any concerns or misgivings in order that the alliance could progress without any hidden grievances.

Conflict was generally seen to be healthy to the alliance provided that the conflict did not become personal.

e) How do you focus participants to remove fuzzy goals?

In all alliances, there was no room for non specific goals. Senior management commitment and a joint project agreement and review process, together with regular and formal review procedures by both middle and senior management ensured that teams were consistently working towards meeting the jointly prescribed goals.

In most cases, strategical alliance participation and results formed part of the team members and management performance reviews.

f) What procedures are in place to dissolve the alliance?

Alliances require many resources if they are to be successful, namely time for team work, management reviews and the cost of travel/accommodation for team members. With the major focus on commitment to make the alliance work, little effort has been spent on developing the necessary procedures to dissolve the alliance.

All alliances, with the exception of HUB Logistics, had formal contracts with their alliances partners, which contained exit provisions. These contracts were kept in the "bottom drawer" and were developed because of legal requirements and to protect confidential information that would pass between the alliance partners.

All the alliances studied were achieving significant results so that the question of dissolution was one of academic interest. All firmly believed that the alliance concept was too deeply entrenched within their respective organisations for this to eventuate.

Summary

Strategic alliances will not fail, provided:

- Senior management commitment is obtained; and
- Clear and concise objectives are set.

All other proposed reasons for failure only support the contention that the so called alliance was probably a third party services contract in which participating companies maintained an arms length arrangement. Strategic alliances will succeed if the basic tenets are embraced by all participants of the alliance companies.