



Logistics Association of Australia Ltd

STRATEGIC ALLIANCES - A GUIDE TO SUCCESS

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

In previous papers I have discussed the following:

- The role of strategic alliances in the supply chain
- The basis of strategic alliances
- Strategic alliances secrets
- Is it possible for strategic alliances to fail?

Whilst the theory of, and results of, strategic alliances point to sustainable competitive advantage, difficult questions still confront companies:

- Whether or not to pursue strategic alliances
- Which company to align with
- How to succeed in the relationship.

Model to Evaluate Partnerships

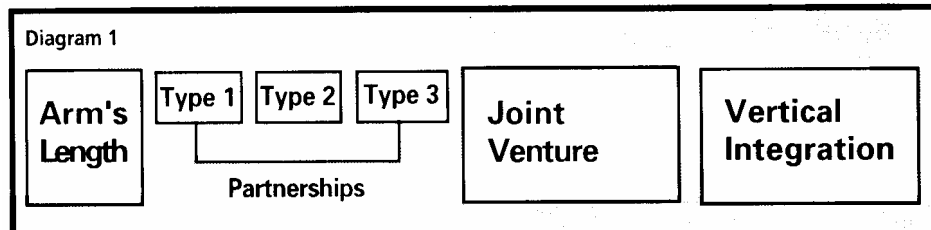
Information from Goodyear Rubber and Tire Co and the Council of Logistics Management Conference directed me to a "model" that could be used to evaluate potential partnerships.

The International Centre for Competitive Excellence, University of North Florida, analysed a number of business relationships, then developed a relationship model that managers can use to address fundamental questions:

- Is a potential relationship one that will result in competitive advantage and is it worth the time and resources needed to fully develop into a partnership?
- Which type of partnership is likely to provide the best pay off?

In the model, **D Lambert**, **M Emmelhainz** and **J Gardner** classified relationships as a continuum between arm's length transactions to vertical integration.

These relationships were defined as (see Diagram I):



Arm's Length: normal business transactions with no joint sense of commitment or joint operations

Type 1: limited short-term activities, coordination and planning between the companies

Type 2: long-term integration of activities involving multiple functions between the companies

Type 3: reserved for those suppliers or customers critical to an organisation's long-term success.

Strategic Alliances encompass aspects of *Type 2* and *Type 3* relationships and normally entail some degree of shared ownership across the two parties. The Partnership Model has three major elements:

- Drivers - compelling reasons to partner
- Facilitators - supportive corporate environmental factors which enhance partnership growth and development
- Components - joint activities and processes used to build and sustain partnerships.

Assessments of the current or potential alliance depend on many personnel at various levels in both companies completing questionnaires assessing drivers and facilitators.

(Note: The questionnaires are not reproduced here, but form part of Doug Lambert's paper).

Drivers include:

- Asset/Cost efficiencies ie cost reduction
- Customer service ie reduced inventory
- Marketing advantage ie access to better technology and innovation
- Profit stability/growth ie long-term volume relationships.

Each party independently uses a questionnaire to assess the strength of their specific drivers. The drivers must be strong enough to provide each party with a realistic expectation of significant benefits.

The guide or questionnaire provides a rating scheme for each driver. The higher the score, the greater the potential for significant benefits.

The strength of the partnership is determined by the facilitators.

Facilitators

Facilitators provide the motivation to partner. They are elements of the corporate environment that allow a partnership to grow and strengthen.

The four essential facilitators were identified as:

- Corporate compatibility - culture and business objectives must mesh
- Managerial philosophy & techniques - ie teamwork
- Mutuality - ability of managers to develop joint goals
- Symmetry - no junior partner.

Other facilitators may include - shared competitors, exclusivity, geographic proximity, prior history and shared end-user.

Facilitators apply to the combined environment of the two potential partners. The strength of the facilitators is assessed using a similar questionnaire to that used for the drivers. The higher the score, the better the chance of partnership success.

The "Propensity to Partner" matrix shows that the appropriateness of any one type of partnership is a function of the combined strength of the drivers and facilitators. (Diagram 2)

Diagram 2		DRIVER POINTS		
		8-11 Points	12-15 Points	16-24 Points
F A C I L I T A T O R	5-11 Points	Arm's Length	Type 1	Type 2
	12-15 Points	Type 1	Type 2	Type 3
	16-25 Points	Type 2	Type 3	Type 3

Components

Components in the model are the activities and processes that management establishes and controls throughout the life of the partnership. Components include:

- Planning - adds flexibility and strength to the relationship
- Joint operating controls - either party can change the operation of the other for the good of the partnership
- Communications - key component to successful partnerships
- Risk/reward sharing - concept of shared destiny
- Trust and commitment - permanent, long-term relationship
- Financial investment - financial interdependence leads to stronger partnerships.

The Partnership Model was designed primarily as a tool to help develop new partnerships. Both parties use the model internally to assess the drivers and the appropriateness of partnering.

Personnel from Goodyear and Yellow Freight assessed their relationship using the questionnaires and analysed the scores to identify gaps or inconsistencies between levels within and between each company.

This partnership or strategic alliance comprises of a number of teams at various locations with participants from both companies.

A formalised reporting structure within and across both organisations ensures that the projects are kept on track using established measures.

This is a brief introduction to the model developed by the International Centre for Competitive Excellence.

The model alone does not guarantee success. Managers must build and maintain effective partnerships.

The paper "So You Think You Want A Partner" by **Douglas Lambert, Margaret A Emmelhainz** and **John Gardner** was published in Marketing Management Summer 1996, Vol 5, No. 2, pages 25-41.

Please contact me on telephone (03) 6221 8349 if you would like a copy of this excellent paper.

This paper completes my findings on strategic alliances. Having studied a number of successful US strategic alliances, I am convinced that this type of relationship will assist many Australian companies to become world competitive and more valuable to their stakeholders.

I will provide some general observations as my final paper next month.