

Becoming an alliance 'partner of choice'

Alliances are exploding in volume and value. Often delivering ROI over 50% higher than business as usual, alliances are rapidly overtaking acquisitions as a primary growth strategy. Mike Nevin analyses how premier alliance-builders in different sectors are able to reward shareholder with superior returns.

Alliances are exploding in volume and value. The average company in a group of 90 multinationals based in the United States, Europe, and Asia formed 117 strategic alliances over the last three years. IBM alone formed more than 500. These companies expect alliances to increase from an average 16% of their total market value to 25% in the next five years. (Source : Research by the Association of Strategic Alliance Professionals www.strategic-alliances.org).

Few CFOs spend as much time steering alliances as other management vehicles, yet major management consultancies suggest that more CFOs should. Alliances are zipping past acquisitions as a primary growth strategy. They range from so-called 'Barney alliances' – the 'I love you, you love me' variety that generated buzz but little value during the dotcom era; to best-in-class partnerships, which enable companies to increase market share, boost revenue and gain access to new markets.

"The ROI for alliances is at least 50% higher than the average ROI for a company's total business," reports Peter Pekár Jr, national director of corporate alliances for investment banking firm Houlihan Lokey Howard & Zukin in Los Angeles and co-author of *Smart Alliances: A Practical Guide to Repeatable Success* (Jossey-Bass, 1998). "Among Fortune 500 companies, overall business ROI was a little less than 11% about 18 months ago, coming into the downturn. ROI from alliances among the Fortune 500 during that time was almost 17%."

But most alliances fail to survive long enough to reap those returns. Those that succeed are developed and executed through a disciplined process woven into the companies' day-to-day operations, and finance organisations play a pivotal role in those activities. They help convert alliances from fuzzy ideas to powerful and efficient engines of growth.

What is a 'partner of choice'?

As alliances proliferate, a handful of companies have emerged as 'partners of choice', reputedly the best partner in an industry or business sector. These premier alliance-builders also tend to reward shareholders with superior returns. Pfizer, BP Amoco, Eli Lilly and Intel, are all frequently cited as partners of choice, they boast a five-year total return to shareholders which is 1.5 times that of competitors. While obviously not due to alliance success alone, the pattern persists across industries – preferred partners are superior performers.

Organisations that are drawn to partner of choice programmes have consistently identified common triggering conditions:

- 20% (or more) of their revenue or profits are expected to come from alliances or joint ventures.
- 20% (or more) of the value they create for their customers will come from alliances.
- Multiple alliances (or a networked enterprise) are becoming a fundamental part of their business delivery structure.
- Alliances are increasingly essential to the growth and future competitive advantage of their company.

Given the growing economic and strategic impact of alliances, and alliance reputations, it is surprising that fewer than 10% of companies (Source : Extending the Enterprise a report by the Economist Intelligence Unit published in Oct 2002) have assessed the effect of their alliance brand on the opportunity, quality and success of the alliances they create. Yet recent global research¹ reveals that a strong alliance reputation confers significant benefits throughout the alliance process.

Companies with leading alliance reputations are the first port of call for companies seeking partners. They are approached earlier and offered higher-quality deals. They often negotiate better deal terms and close deals faster, as would-be partners will tolerate greater uncertainty knowing that a particular partner has a track record of success. Potential partners may even be willing to make greater concessions to get the deal done knowing that their chances of success are greater. A standout alliance brand increases trust and willingness to make unilateral commitments, which speeds integration. A stellar reputation also increases the odds of success because allying companies devote top people to the alliance's ongoing management.

There is anecdotal evidence that the value of a good reputation can be enormous. Pfizer's exceptional reputation supposedly persuaded Warner-Lambert to partner in the Lipitor deal. This marketing alliance is considered to be worth more than US \$1 billion in annual sales for Pfizer. Starbuck's enthusiasm for PepsiCo's adeptness at interdependent alliances (founded on PepsiCo's successful canned iced tea joint venture with Unilever) blossomed into an alliance for ready-to-drink coffees expected to become a billion-dollar business.

The value of a leading alliance brand increases commensurately when:

- Alliances are the basis for competitive advantage.
- Rivalry for alliance partners is high, particularly with winner-take-all exclusivity, such as joint ventures, exclusive licenses and sole-sourcing agreements.

Stages of development

A partner of choice programme will develop in most organisations through the following stages:

Stage I: Opportunistic alliances

- Alliances may or may not be strategic.
- Single champion with a vision and each alliance is a stand-alone venture.
- Alliances are not part of the corporation's standard operating procedure.
- Alliances are not tightly connected to some other major strategic effort in the company, and not viewed as a fully acceptable growth form – the 'least desirable choice'.

Stage II: Extended corporation

- Separate corporate efforts in supply, production, marketing/sales, and international initiatives resulting in alliances (but these efforts are not tightly linked as part of value chain reengineering).
- Strategic view toward the alliances, and alliances are seen as a viable growth alternative (albeit maybe a less desirable one in some people's eyes).
- Efforts begin to adopt best practices in alliance formation and management around the company to create a corporate wide architecture and become the partner of choice.

Stage III: Networked enterprise

- Systematic reengineering of the value chain.
- Alliances are seen as a means to a larger competitive advantage.

- Close integration of supply, production, marketing, sales, service, information, international initiatives, breakthrough generation, etc.
- Wide-scale use of full range of alliance capability building means to leverage competitive advantage.

Building alliance reputation

Partner of choice status derives from four principal sources that vary in potential value, level of investment, payback time horizon and sustainability: corporate assets, alliance track record, alliance management skills and alliance brand promotion.

Of the four sources of alliance reputation, a good place to start is with alliance management skills, since a company can take specific action. Partners of choice consistently demonstrate excellence in three areas of alliance management.

- **Speed** – Alliances can provide quick access to resources that otherwise take years to build alone. Speed may be enhanced by positioning the alliance outside the standard corporate organisation, freeing it from internal politics; and by settling alliance details well before deal close, so the crucial integration phase goes smoothly and sails into the management phase.
- **Performance discipline** – Research indicates that only half of all alliances have formal performance measures in place, and of those that do, they are rarely yielding high-quality metrics. Partners of choice instead apply the principles of the balanced scorecard to their alliances. They agree on measures of sustained success and pay special attention to two or three that become focal points for alliance stakeholders.
- **Partner focus** – Partners of choice create value for their alliance partners beyond the alliance agreement and without incurring substantial costs. They share management advice, market intelligence, and customer feedback. They tout their partners unique contributions to market makers. They create visibility and leads for alliance partners through introductions to a vibrant, often exclusive, community of other operating units and other alliance partners.

Commercial benefits

Finally there are tangible commercial benefits to be gained from successful partner of choice programmes as the following examples illustrate:

In 1998 'Alpha' company (a real company but obviously a fictitious name) identified alliances as one of the top four priorities in the company. It had 462 alliances across the spectrum of business in areas such as R&D, business development, strategic supply management, manufacturing and marketing & sales. After putting in a partner of choice programme the company's stock rose 600% between 1998 and 2002. Alliances were worth \$20 billion in market capitalisation (1/3 total value) of the company during that time. 'Co-opetition' was a massive competitive edge for the company. During the four years the organisation grew to be the most sought after partner in its sector, allowing it to charge favourable rates for alliance deals and allowing it to choose the best of the best suppliers.

In 2001 an international retailer best known for clothing and food products, but also operating considerable businesses in financial services, homeware and other general services. Faced the problem that they couldn't insource IT and were unwilling to outsource IT. What was required was an approach that allowed the company to take advantage of leading edge thinking from suppliers whilst not losing control of a critical business driver. The company instigated a partner of choice approach with the following results:

- Project delivery times improved by 230% (from 23 weeks average to 10 weeks).
- Project costs for the introduction of new ICT projects reduced by 131% (from £193,556 average to £148,222).
- Client costs before project start reduced by 133% (from £125,000 to £94,222).
- Client time per project reduced by 185% (from 26 weeks to 14 weeks).
- Partner supplier time reduced by 112% (from 9 weeks to 8 weeks average).

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About Alliance Best Practice Ltd

Alliance Best Practice Ltd is a strategic alliance research consultancy based in the United Kingdom. Its partners are a group of independent alliance experts who each specialise in some aspect of strategic alliance formation or management. Its goal is to increase the knowledge and subsequent adoption of proven best practice principles. To support it in this endeavour it has researched strategic alliances deeply and maintains an extensive database of observations of alliances in action gained from many leading edge partnering organisations. This database currently contains over 26,000 entries.

We welcome contributions from anyone who would like to submit research for consideration into the database or from organisations who would like to be benchmarked. Please direct all enquiries in the first instance to mike.nevin@alliancebestpractice.com or enquiries@alliancebestpractice.com if you would like further insights from the database please visit our website at www.alliancebestpractice.com

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