Chapter 7

International Strategic Alliances

Introduction

- What is meant by Strategic Alliance?
- Purposes of Strategic Alliances
- Success Factors
- Mistakes Leading to Failure
- Types of Alliances
- Examples

Introduction

- ❑ A firm wishing to enter a new market often faces major difficulties, such as:
  - Deep-rooted competition or
  - Tough government regulations.
- ❑ **Partnering with a local firm** can often help it exceed such barriers.

Introduction

- **A firm may want to learn more about:**
  - how to produce something,
  - how to acquire certain resources,
  - how to deal with local governments' regulations,
  - And how to manage in a different environment.
- **the information that a partner often can offer.**

Introduction

- strategic alliances are very risky and unstable.
- Failure rate of International Strategic Alliances is between 30% to 60%.
- Even profitable alliances can be uncertain by conflict.

What is Strategic Alliance?

- **A strategic alliance** is an agreement "partnership" between two or more companies stating that the involved companies will act in a certain way in order to achieve a common goal that partners cannot achieve (easily) independently.
- Strategic alliance is a long-term value-creating relationship.

What is Strategic Alliance?

- **Partners may provide the strategic alliance with:**
- Resources such as products,
- Distribution channels,
- Manufacturing capability,
- and knowledge, expertise.

Examples

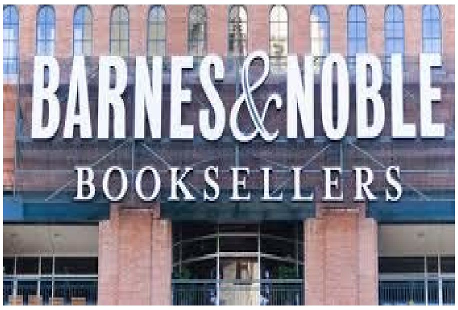
- Riyadh Metro
- Sony-Ericsson

Examples

- Sky Team Airline Alliance .
- https://www.skyteam.com/en

Examples

- Starbucks partnered with Barnes and Nobles bookstores, in 1993 to provide in-house coffee shops, benefiting both retailers.



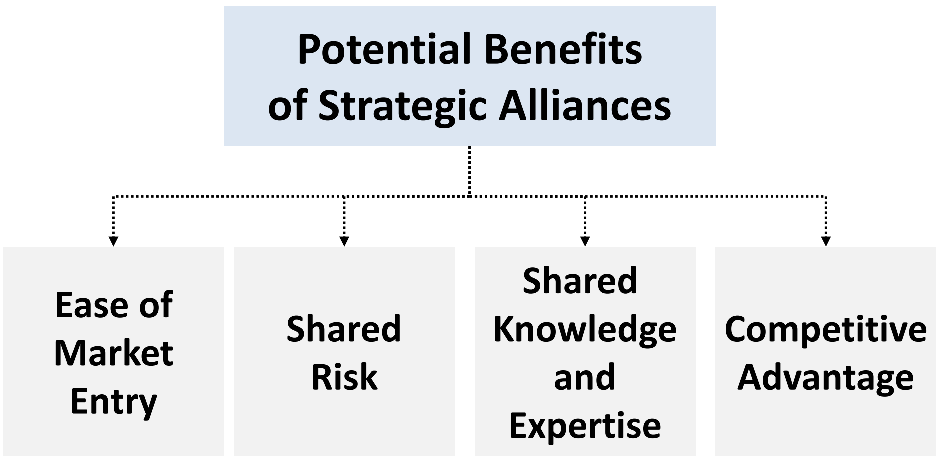
Examples

- A Starbucks-United Airlines alliance has resulted in their coffee being offered on flights with the Starbucks logo on the cups.

Benefits of Strategic Alliances

- Adding value to products/services.
- Improving market access.
- Strengthening operations.
- Adding technological strength.
- Enhancing strategic growth.
- Building financial strength.
- Fast market entry while keeping costs down.

Figure.1 : **Benefits of Strategic Alliances**



Success Factors

- 1. **Selection:**
  - Selecting strategic partner should be based on company's goals, objectives & values system.
  - Select partners who have ability to work in a collaborative environment.
- 2. **Trust:**
  - Existence of trust in a relationship reduces the risks associated with opportunistic behavior as this generates greater profits and serve customers better.

Success Factors cont'd

- **3. Communication:**
  - Communication is critical for building successful relationships to achieve the benefits of partnership as it allows partners to understand alliance goals, responsibilities and helps with the sharing of individual experiences
- **4. Conflict Resolution:**
  - Firms should be motivated to engage in joint problem solving as they are, by definition, linked together to manage an environment that was more uncertain and unsettled.

Success Factors cont'd

- **5. Developing a focused winning strategy :**
  - Based on distinctive competencies and competitive advantages of the partners in the selected target market (s).
  - To ensure there will not be a conflict between alliance partners.
  - To be able to manage the company cultural challenges that may arise between the alliance partners.

Success Factors cont'd

- **6. Define and align decision rights:**
  - To define what decisions are important to the alliance, which partner should make them and how the decisions will be made and monitored.
- **7. Exit Strategy:**
  - Agree upon an exit strategy for the alliance. It Is important to have agreement in advance on how the alliance will be concluded if and when it may fail and/or when it has achieved its objectives.

Mistakes Leading to Failure

- One of the partners is too dependent on the other's capabilities.
- Problems and dilemmas of mistrust.
- Cultural and language barriers.
- Limited access to the information: for a partnership to work effectively, one partner (or both) may have to provide the other with information it would prefer to keep secret.

Types of Strategic Alliances

- **Equity strategic alliance:** an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage.
- **Non- equity strategic alliance:** an alliance in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage.

Types of Strategic Alliances cont'd

- **Joint Venture:**
- A **joint venture** (**JV**) is a special type of strategic alliance in which two or more firms join together to create **a new business entity** that is legally separate and different from its parents.
- Each of the businesses has an equity stake in the individual business and share revenues, expenses and profits.
- Although unequal ownership is common, many are owned equally by the founding firms.
- Example : Google and NASA developing Google Earth.

Types of Strategic Alliances cont'd

❑ Franchising:

- Franchisees pay a set-up fee and agree to ongoing payments so the process is financially risk-free for the company.
- However, problems do exist, particularly with the loss of control over how franchisees run their franchise.

Types of Strategic Alliances cont'd

Marketing alliance:

- is a functional alliance in which two or more firms share marketing services or expertise.
- In most cases, one partner introduces its products or services into a market in which the other partner already has a attendance.
- The partner firm helps the newcomer by promoting, advertising, and/or distributing its products or services.
- The partner firm may negotiate a fixed price for its assistance or may share in a percentage of the newcomer's sales or profits.

Types of Strategic Alliances cont'd

- **Research and development (R&D) alliance:**
- **R&D** alliances tend to fall into the joint venture category, where two or more businesses decide to started a research venture through forming a new entity.
- **Distribution Relationships:**
- This is perhaps the most common form of alliance. Strategic alliances are usually formed because the businesses involved want more customers. The result is that cross-promotion agreements are established.

Examples

- Apple has partnered with Sony, Motorola, Phillips, and AT&T in the past.
- Delta And Virgin Atlantic To Form Strategic Alliance .
- Toyota's alliances with BMW