

# **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





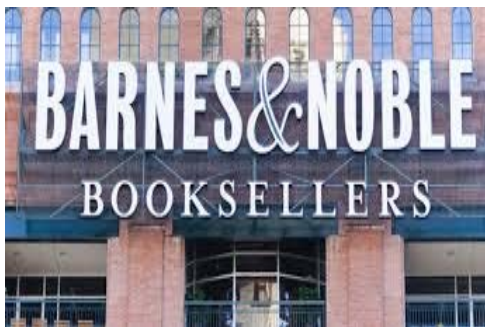
## Examples

- 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

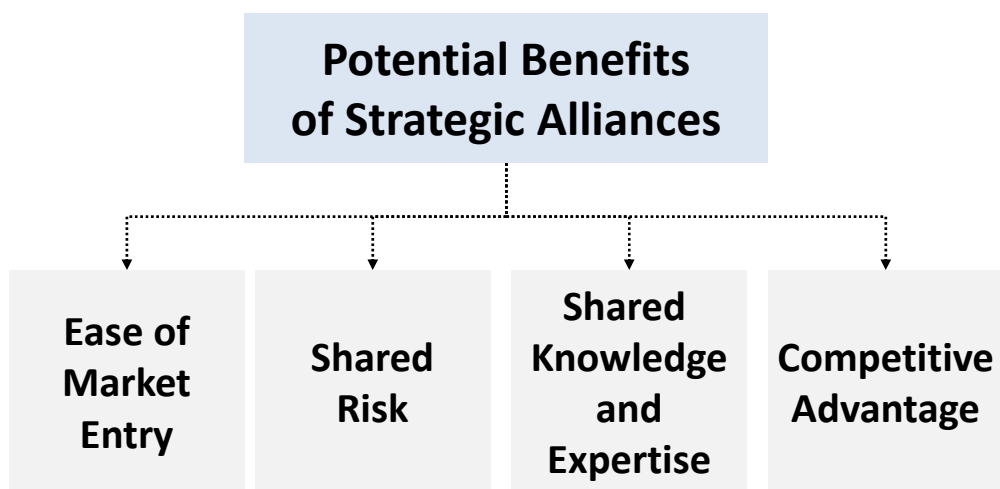
- A **Starbucks-United Airlines** alliance has resulted in their coffee being offered on flights with the Starbucks logo on the cups.



## **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.

## 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 start 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



