Why do the firms pursue strategic alliances marketing essay

Strategic alliance is the agreement between two or more organizations to achieve the goals of all parties while remaining an independent organization. It is different from having normal deals between two or more companies, however even though most of the documentation and alliances that appeared in the past include only two companies, that doesn't necessarily mean that more organization can't have an alliance together, just like the alliance that occurred between Apple, Sony, Motorola, Philips, AT & T and Matsushita, to form general magic corporation but it falls short of a merger or a full partnership (Wheelan and Hungar, 2000, p125). This form of cooperation lies between M&A and organic growth .

In this essay I will try to discuss the meaning of strategic alliance, why do companies pursue strategic alliance, is it better than Internal growth? and what are the steps behind a successful strategic alliance. All of this will be discussed in details with relevant examples of companies that merged together for the best of all the parties involved. Furthermore I will talk about the challenges and/or opportunities behind a strategic alliance between organizations and the internal growth of the business.

A strategic alliance is a cooperation which aims for a synergy where all the partners can benefit from the alliance more than individual efforts.

Strategic alliances can be divided into different stages, starting from informal collaboration to Mergers between organizations. We can see how an alliance can be classified in the below spectrum

Types of Strategic Alliances

According to the above spectrum, we can see that on the left hand side of the spectrum we can see that the company will have greater independence, but as we go on through the spectrum we can see that the company has greater integration, that is the companies gets more involved with each other activities to fulfill their goals.

Why do companies Pursue strategic alliance?

In the new economy, any business can gain competitive advantage, by getting an access to the resources of another partner, wither it was capital, labor, technology or different markets, while other companies will look for expansion, reduction of costs and other supply chain synergies. This will add to the company more resources and ability that will enable all the participants to grow larger than before, it will also be much faster for the companies to grow so they can extend the operational and technical resources. During this process the company will save time because it won't have to develop its own resources from nothing. So the company will focus on improvement and the core of the business

But even with all the advantages behind strategic alliances, is it really better than internal development or not.

Internal development

Advantages of internal development differ from different points, wither it was costs, time or even labor. Internal development is defined as the growth within a business that occurs by expanding the number of products locations. Internal development builds on the business own capabilities and resources. Companies can develop internally in 6 steps.

The design and development of new products

Implementing new marketing plans for exporting

Opening new branches in different locations so it can be easier for customers to reach them (for example, the growth of Dominos Pizza, which occurred by building new branches to serve as much people as possible)

Research and development of new products

Devote the business for new technology that will increase the efficiency and effectiveness of the company.

Training the employees so they can gain new skills and get used to the new technology in hand

Even though these steps may not look simple, however they are considered to have low risk and cost rather than having the company look for alternatives such as acquisition and joint ventures

Internal growth / development can have different advantages for the company, these advantages are as I said earlier, it is less risky to grow internally rather than having to take over another business, further more it costs less money as the company can finance it through internal funds, it also increase power of the brand name of the business and increase its ranges of customers. By offering different products that are suitable for people of all ages. If you decide to go through with internal development u can closely monitor the costs, time and staffing.

However internal growth can have some disadvantages, such as the growth the business aims for my depend on the growth of the overall market, plus it is harder to build market share if the business is already a leader and finally this can affect the share holder as the growth will be relatively slower than mergers and acquisitions.

The disadvantages would seem to be isolation from the outside world, lack of public exposure (for the times that things go right and when they go wrong), lack of regulatory accountability and oversight (Bernie Madoff and Robert Maxwell being classic examples), and generally, the whole notion of glasnost may not apply, and in certain cases, and depending on how much net gain or loss might be at stake, may not need to be applied-or so the thinking might go, from way on up high.

BskyB Internal development attempt

Sky is a UK company, that forms a part of the lives of more than 10 millions household in the UK, it’s considered as one of the high quality television in HD. Its technology is simple but it manages to put viewers in control.

One of the common examples of companies who tried to build up their business using internal growth methods is Sky TV. During the duration between the years 2004 – 2011, Sky managed to earn a two billion in profit using internal development (see chart below). sky-org-growth1. gif

According to the above chart, we can see that Sky managed to increase its number of customers by 2 million in the span of 7 years, which was the main target (Sky reach 10 million peope in the UK. BSkyB achieved that objective earlier than expected, and that is one key reason why they have been able to enjoy consistent growth in revenues and profits, despite the recent economic downturn. (riley, 2011)

In order for Sky to develop internally, they used the Ansoff matrix as their guide for achieving their objectives. The Ansoff matrix is a marketing tool that helps the company determine its product and market growth strategy. It is formed of four different boxes, shown in the chart below.

Ansoff Matrix w500. gif

Sky strategy focused mainly on two of the four boxes, which are market penetration and product development, it tried to penetrate the market by increasing the share of TV subscribers, as for the development of product the business used innovation that lead to the success of Sky HD services.

Strategic alliance

If companies want to pursue a successful strategic alliance, they will have to follow some steps to achieve it, these steps are shown below:

The company must have a clear strategic purpose.

Look for a partner who has the same goals and capabilities as your company

Assign tasks and duties to each party that will allow each party to give out its best.

Find incentivies for the cooperation.

Reduce the conflict between partners who were once rivals in the same market.

Share the information each company possess for the best result

Exchange personnel – regardless of the form of the alliance, personal contact and site visits are essential for maintaining communication and trust

Operate with long term objectives.

Develop multiple joint projects

Be flexible – alliances are open-ended and dynamic relationships that need to evolve in pace with their environment and in pursuit of new opportunities

To ensure the greatest likelihood of success, organizations contemplating forming an alliance need to develop a disciplined, structured and systemic strategic alliance process. (see figure 1):

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In most of the startups, it is hard to the cooperating with stronger and better known companies who can help the company get in competition in the market faster and decrease the financing needed than others

The advantages of strategic alliance are a great deal, but most importantly the companies will have a relative advantage in size and ability to get to know the market faster, or an alliance can work between companies with different products, services or even skills, this is can benefit the companies in different ways depending on what each company possess. for instance, an alliance between a startup with an advantage in development and production with a company with proven marketing skills). If the companies form joint venture formally, by establishing a separate legal entity for it (AKA as Joint venture) it is similar in nature to a partial acquisition in consideration for shares. This is because the transaction creates an entity that combines the relative advantages of both parties and ties their futures together, at least with respect to the field in question.

There are much more advantages in Strategic alliance, such as better access to attractive county markets, this can also mean that the partners can take advantage of the counterpart local market knowledge. Strategic alliance can also fill the gaps in experience or knowledge of local market, this will gain them technical knowledge and most importantly the allies can combine their energies so as they can defeat a mutual rival.

There are many examples of successful strategic alliances, for example:

- Xerox & Fuji Film (1962-present): the most successful US-Japanese joint venture

- Siemens & Corning (1973-1999)

- Microsoft & Intel (1981-present): an alliance that reshaped the micro-computer industry by establishing a dominant standard for hardware and software

- Starbucks & Tata group (2012 – present)

As for the disadvantages of strategic alliances, most importantly if a company decides to follow through with it, then the managers will have to take into consideration the fact that they will lose control to some extent over their business, as they now have new equal partners who will definitely want to take a part in the process of decision making. This is often difficult for many business owners as they don't want to lose the power they have in the company, many alliances fail due to this reason, for example. XXXXXXXXXXXXXXX

Furthermore we have the issue of trust, many alliances fail due to the lack of trust between companies, trust exists when one company has the confidence in the ability and power of the other company, this may be a big reason behind failure, for example the cooperation between giant drug company called Eli Lilly and a small biotechnological company called Amylin Pharmaceuticals inc, the main reason behind the alliance was so that the companies can develop a drug to fight off diabetes, however a low point in the relationship followed by a shouting match between the marketing chiefs, which led to a failure, the main reason behind this failure is mutual distrust.

More importantly we have the issue of culture, if two cross border companies decide to undergo Strategic alliance, then they will have to take into consideration the different cultures between the companies, for example, if an alliance between a Japanese company and a US company occurs it is most likely that the Japanese company will assign the very best senior manager, however the US companies will opt to assign the young and upcoming professional to the same alliance, even though both companies think they are fully committing their best resources, the counter parts will perceive that the other is not committed in the same way, this will eventually create miscommunications and lack of trust. In order to avoid this issue the company will have to overcome the cultural barriers

Finally, in some cases of strategic alliances, one of the counter parts may be more dominant than the other this will probably cause the other party in becoming too dependent on another firm for essential expertise over the long-term

Strategic alliance between starbucks and Tata Group

One recent example about strategic alliance, as mentioned earlier, is the alliance between Starbucks and Tata group, Starbucks chose to enter into a strategic alliance with Tata group, so as it can enter the Indian market and establish their name in India.

Starbuck announced that they will join Tata global beverages in a 50 – 50 joint venture on January 31st, 2012, whereas both partners will invest a sum of $80 million initially.

As a result of the joint venture Tata Starbucks ltd was formed in January 2012. John Culver (president of Starbucks in china and Asia pacific) confirmed that Starbucks will join Tata group, so that Starbucks can join the Indian market, which will be one of the largest markets outside the US. Rama Bijapurkar, a market research expert and author of Winning in the Indian Market, said: “ If Starbucks come to India thinking that just because they carry a foreign label it will walk over the local competition, they are going to be in big trouble. “ But there is an opportunity for them here, not least because there really are no nice places to meet in our big cities, outside the lobbies of five-star hotels.” The main objectives behind the Joint venture in Tata’s view, was to increase the number of Starbucks stores in India to surpass the number of stores in china.

According to John culver in an interview he made, he thinks that now is the right time for starbucks to enter the market in India, given the growth the economy is experiencing as well as the emerging middle class. He thinks they have the perfect partner in Tata global beverages, as they have like minded values, that shares the same passion, for delivering high quality coffee for the people, that also shares the passion to give back to the community in which they do business.

So far the Joint venture is working out for the best of the two companies Tata Global Beverages Ltd. Starbucks Corp Indian partner, gained the highest operating profit in just two months over the 5 years. Profit from operation rose 14%, while net income increase by 25% and the stock price increase by 3. 8%

Conclusion

In conclusion, we can answer the question of wither or not companies should pursue strategic alliance ahead of internal development. In my personal opinion, I think that it really depends on the situation of the business, Internally and externally. In some circumstances it is better for the company to grow by itself, just like dominos and BskyB did.- especially if the organization was concerned about exposing its core competences, felt that its existing resources and competences would be sufficient to meet the market opportunity, and it needed high levels of control over its development decisions. In other circumstances the organization may look for outside partners, to support them in achieving their goals, just like Starbuck alliance with Tata, as starbcks wanted to expand its market in Asia, and India was an open market for them to achieve their objectives. Strategic alliances and Internal development have many advantages, all of which help the business achieve its strategic goals. So we can say that in order for us to decide which option to go with we would need to look at each case seperatley from the other. Look at all the factors that will affect the help the organization achieve their goals

Furthermore We can conclude that strategic alliances is a powerful tool that is used to achieve the business strategic goals. But in order for strategic alliance to be successful the business must follow a careful organized process from the beginning to the end as explained in the essay from strategic conception to alliance termination. The business must take its time to set a proper strategy for a successful alliance, set clear rules of governance and to monitor the results at timely basis. So strategic alliance can provide a powerful competitive advantage in new markets.