

Building Effective Strategic Alliances

CHASE, 15 February 2006

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About Sue Froggatt

- Membership Development Specialist & Marketer
 - Recruitment
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 - Marketing Events
 - Going Global
 - Future Trends
 - Strategic Planning
 - Volunteers
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- Association Manager articles
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- Membership Development Awards
 - Recruitment
 - Retention
 - 8th March 2006

What do
Nike, Gallo Wines & Boeing aircraft
all have in common?

Total business conducted through alliances

Source: Economist Intelligence Unit Global Survey

1990 : 3-5%

2000: 20%

2005: 30%

2010: 40%

“The greatest challenge in corporate culture and the way business is being conducted, may be the accelerating growth of relationships based on partnership, not ownership”

Peter Drucker

Course Content

- 1. Definition**
- 2. 21 Pitfalls**
- 3. 32 Success Factors**

1. Definition

“Two or more bodies working together to achieve something that one cannot do, or chooses not to do alone, that has a significant and often long term impact, on the organization.”

Source: Alliantist

“A co-operative arrangement between two or more parties who combine their strengths to achieve compatible objectives whilst retaining their individual identities and share the risks and rewards.”

Source: Charles Bartling

- **Strategic**
 - **Vital and significant in achieving strategic plan**
 - **Last from 6-15 years**
 - **Many alliances are not strategic**
- **Alliance**
 - **Origin**
 - **Japanese from 'keiretsu' = conglomerate**
 - **Between large trading families**
 - **No legal agreements**
 - **Interdependence**
 - **To mutual advantage i.e. only a win-win outcome**
- **Objectives can be different, but compatible**
 - **Restaurant association & schools**
- **Can be**
 - **A handshake**
 - **A legally binding formal contract or**
 - **An agreement between countries for mutual protection from aggressors**

- **Membership associations & NFP finding**
 - **No capacity to respond to opportunities**
 - **Rapid changes in member environments**
 - **Increasingly diverse needs**
- **Now a premium on learning to manage a wide community of networked organisations**
- **Value comes from best relationships with alliance partners**
- **Inability to co-operate will stop organisations moving forward**
- **Starting early will facilitate access to the best alliance partners**
- **Co-operation is a new 'must have' competence**
- **Many association turnarounds have come via alliances**

To be 'strategic'

- **Must be aligned with organisational strategy**
- **For associations, need to focus on member value, not making £**
- **Key Question... 'Can we deliver on our mission statement more effectively by working with partners or by working alone?'**
- **Review**
 - **Are there any projects on hold or rejected because of lack of resources?**

2. Pitfalls

- More failures than successes
 - In early 90's, 61% failed (McKinsey)
 - By 2004, 52% failed
 - Highest with international alliances
 - 50% fail due to poor planning & 50% due to poor management
- Can be very dangerous – IBM & Microsoft
- Lack of literature
 - Failure just being discussed
 - Metrics just emerging
- The good news? 70% improvement if follow best practice
- So proceed with caution!!

1. Follow a structured process e.g. PSL
2. Not enough preparation time
 - On average takes 8-12 months
 - Impatience
3. Poor strategy & goals e.g.
 - Increase revenue to fix a drop in member retention
 - Underdeveloped membership benefit offer
4. Hidden agenda leading to distrust e.g.
 - A 'race to learn'
 - Attempt to control market
5. They are introduced as an objective
6. You create a future competitor
 - Trojan Horse Syndrome
 - Build in a 'golden parachute'
7. Do not share strategy & goals
8. Wrong emphasis early on e.g.
 - Getting 51% (control)
 - Focus on doing the deal
 - Focus on getting legal documents signed
9. Lack of understanding of what is involved
 - Unrealistic expectations
10. Fails the 'public perception test' & damages your reputation

Example: AMA & Sunbeam

- American Medical Association endorsed Sunbeams products
- 0.3-3% of revenue as royalty
- Estimated to generate \$m in revenue for public health campaigns
- Marketing & legal department approved deal
- Press reaction was
 - *“Horror”*
 - *“Disgusting”*
 - *“A conflict of interest”*
 - *“Heads should roll”*
- Never presented to the board for approval
- Contract was put on hold
- AMA got a \$20m lawsuit from Sunbeam
- Investigation found 183 similar deals from a proactive marketing department
- Three senior executives resigned

- This failed the public perception test
- *“How are your members going to perceive the arrangement”*
- Should be willing to endorse others who’s products meet the same standards

11. Internal deficiencies in the organisation - not ready
 - We have met the enemy and it is us! (Pogo)
 - Take an alliance fitness test (Doz & Hamel)
12. Complex to manage
13. Reactive, not prepared & proactive
14. Some uncomfortable with loss of control
15. Exclusive arrangements upset people
16. Overdependence
17. Lack of commitment from the top
 - Need buy-in, not just approval
 - Felt to be 2nd best option, reviewed after other business, best managers not working on
 - Arrogance
18. Reduced donations
19. Reduce commitment from community
20. Opportunistic self interest - undermines the alliances
21. Legal problems
 - Will your constitution allow you to? May need to change
 - Competition law – particularly if alliance with a competitor
 - Information exchange
 - EU & UK merger control rules

“We heard our affinity partners were being disbanded via a press release.”

*Director of Membership
UK Professional Association*

3. Success factors

Essential

1. Partner selection (70%)
2. Senior management commitment (68%)
3. Clearly understood roles (49%)
4. Clearly defined objectives (47%)
5. Good communication between partners (40%)
6. Relationship building (35%)
7. Thorough planning (31%)

Important

8. Close senior management ties (30%)
9. Frequent performance feedback (20%)
10. Day-to-day attention (18%)
11. Fair sharing of risks, resources & rewards (13%)
12. Clear payback timelines (11%)
13. Alignment of culture (10%)
14. Previous alliance experience (9%)

Worthwhile

15. Integration of information system (5%)

Source: Technical & Alliance Survey of 455 CEO's

Ref: Paper by Elmuti & Kathawala, Management Decision, Vol 39 No 3

Experts add...

16. High level of trust is the most accurate predictor of success ***
 - If loose, like a cracked mirror
17. Creation of best value in members eyes
 - Measurable VFM benefits
18. High level of LT commitment to win-win
19. High levels of interdependence
 - You need each other
20. Strategically important to both partners
 - Equal commitment & priority
 - The one for whom priority is highest does most of the work
21. Personal chemistry
22. Integrity
23. Sharp focus & a strong vision of what can be achieved
24. Confidence in partner

25. Good strategic fit i.e. strategic synergy
26. Complementary critical driving forces
27. Compatible style of management
28. Effective mechanisms for resolving disputes
 - Define a ladder for escalating the resolution of problems
 - An exit strategy
29. Individual excellence
30. Recognition this is going to take effort
31. Delivery as stated
 - Removes the performance risk
 - Otherwise leads to anger & mistrust
32. Realistic performance indicators
 - Appropriate measurement & metrics

Alliance metrics

**Ref: Measuring the value of partnering
by Lorraine Segil**

Recommendation

- Ask your senior managers and directors to brainstorm the pitfalls and success factors
- Match their results against these lists to find the learning opportunity

Examples

American Institute of Architects

Have an aggressive programme of alliancing and outsourcing.

Reduced staff from 230 to 155 whilst upgrading member services.

Reviewed each goal statement. Who can do things better than us i.e

- 1. Faster**
- 2. More accurately**
- 3. Cheaper?**

- Bingo Association & Breast Cancer
- National Autistic Society & Vodaphone
- Guide Dogs Association & Andrex
- Marie Curie Cancer & Yellow Pages
- Amnesty International & Reebok
 - Why? Overlapping values
 - Amnesty had values that Reebok wanted to foster in its corporate culture
 - Linked human rights to athletic shoes & clothing that gave you freedom to make a statement about wearing what you want to and being who you want to be
 - Started with Reebok made a \$10m investment in a world music tour
 - Reebok now have a Human Rights Award
- CARE & Starbucks Coffee
- Tesco's & Cancer Research Race for Life

- Why?
 - Corporate social responsibility
 - FP helping NFP solve societies problems
 - Cause related marketing
 - Social enterprise

Guide Dogs for the Blind

New CEO

- 1. Divested assets & operations. Sought partners to run hotels & holidays for the blind. If quality was not maintained, would take back control.**
- 2. Partner with local government to do training it was best at. Might even outsource. Issue was quality.**
- 3. Created an umbrella organisation in the visually impaired sector, included competitors, to present a unified agenda & single voice.**

Did not grow association to achieve mission. Instead invested in competitors if did better job!

Ref: Harvard Business Review

Conclusion

- **Like a good marriage – takes effort, commitment & enthusiasm, not control & ownership**
- **Co-operation core competence**
- **In a thesaurus alliance=association**
- **Should be naturals!**