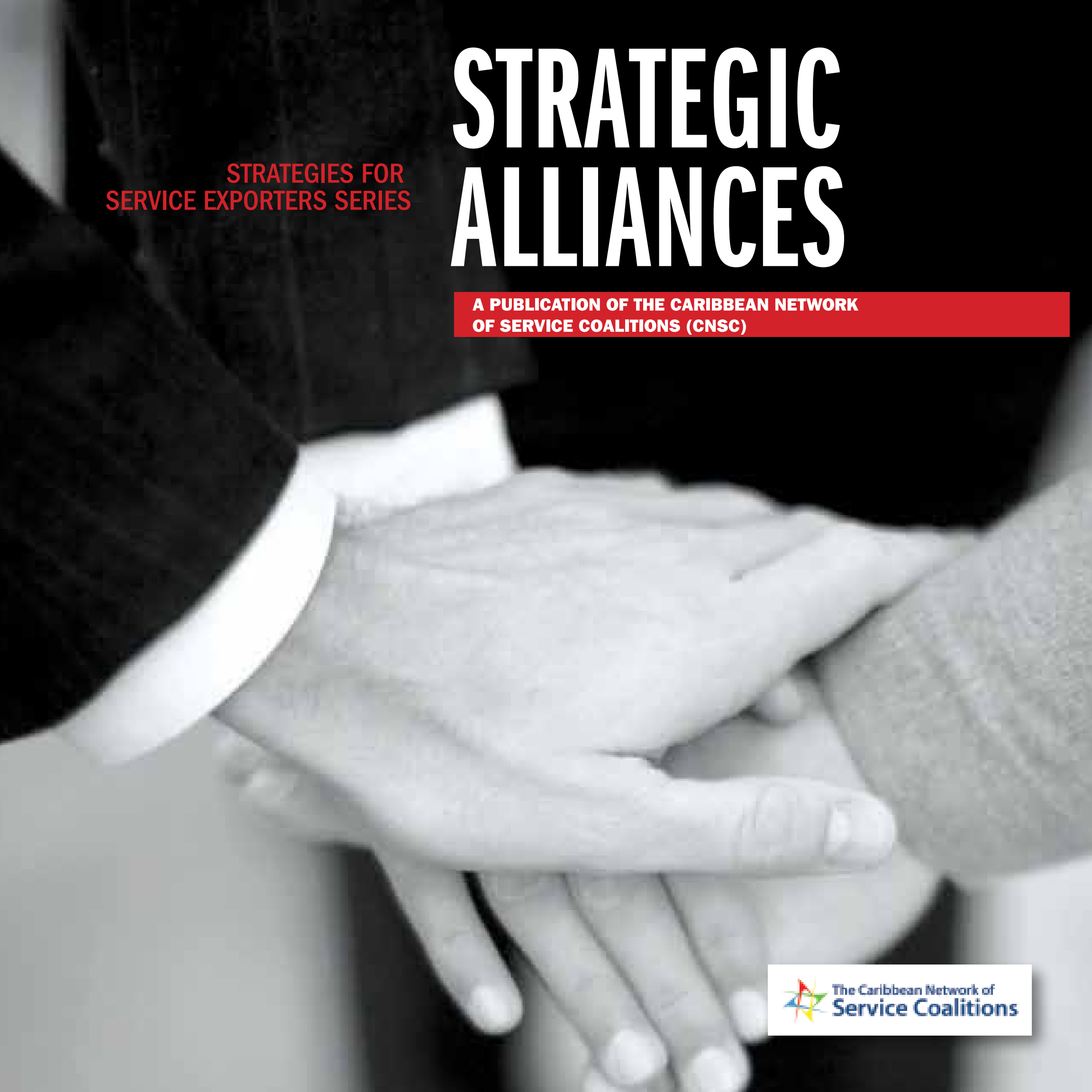

STRATEGIES FOR
SERVICE EXPORTERS SERIES

STRATEGIC ALLIANCES

A PUBLICATION OF THE CARIBBEAN NETWORK OF SERVICE COALITIONS (CNSC)

The Caribbean Network of
Service Coalitions

“TOGETHERNESS, FOR ME, MEANS TEAMWORK.

In my business of motion pictures and television entertainment, many minds and skillful hands must collaborate... It makes us reflect how completely dependent we are upon one another in our social and commercial life. The more diversified our labors and interest have become in the modern world, the more surely we need to integrate our efforts to justify our individual selves and our civilization.” [WALT DISNEY]

PREAMBLE

In the Caribbean, services firms are impacted by differing and even conflicting influences. While services firms are typically small and resource scarce, there has been increasing pressure on these firms to generate foreign exchange by exploring markets beyond the national boundaries – a resource-necessary pursuit.

This challenge is compounded by a general aversion to cooperation in the Caribbean, which hinders resource sharing efforts, such as the establishment of strategic alliances, which would make services exporting endeavours much more feasible.

This paper seeks to demonstrate how strategic alliances significantly improve the competitiveness of service firms, especially in the penetration of new markets, in hopes of providing the persuasion necessary to empower firms in the establishment of these competitiveness enhancing relationships.

STRATEGIC ALLIANCE

A strategic alliance is a cooperative arrangement between two or more independent firms to pursue a set of objectives in order to enhance mutual economic gain. 'Strategic Alliance' is a general term which covers a wide range of collaborations between companies, from an informal sharing of activities or resources, to a formal, structured joint venture equity sharing partnership.

Every company in the Caribbean has a resource need; it may be customers, capital, expertise, technology, distribution channels, production capacity or simply know-how. There are three ways essentially a company can meet these resource needs: by building resources internally, by buying resources, or by allying with other companies to share resources.

Previously, international corporations endeavoured to meet resource needs internally, namely via expansion and the establishment of wholly-owned subsidiaries. With increased access to information and networks, this trend evolved to a rise in joint ventures, where at least two partners establish a separate entity and share cost, risk and benefit. Presently, as the rate of change continues to grow rapidly, businesses require many and different types of new resource inputs to maintain and enhance their competitiveness. Advances in telecommunications have also given rise to significant expansion of networks and information, placing potential resources at a much closer proximity. Strategic alliances (which include joint ventures) are now considered the most appropriate form of collaboration.

"IN THE CONNECTED ECONOMY, CONNECTIONS MATTER."
[FORBES]

Many large, powerful firms have recognized the power of alliances and have embraced these partnerships as an element of their core strategy. From this corporate need, a new type of expertise has evolved. The profession of alliance managers has developed and strategic alliance models, best practices and strategies have been established, some of which will be highlighted below.

WHY FORM A STRATEGIC ALLIANCE?

"ALLIANCES HAVE BECOME AN INTEGRAL PART TO CONTEMPORARY STRATEGIC THINKING." [FORTUNE]

There are many reasons to form a strategic alliance, including:

- **Diversifying Services**
  Customers are more demanding, informed and expect more personalized services than was the case in the past. No single organization has the required total expertise and resources to best serve its customers. Sharing skills is one of the more common forms of alliances, where two dissimilar companies collaborate to offer a more holistic package. Consider web developers, who may require partnerships with programmers, graphic designers, animators and even writers, to offer their clients the most complete package possible.

- **Growing Businesses**
  Small businesses can grow fast. Oftentimes organic growth alone will not be sufficient to meet a company's required growth rate. While partnering with a competitor might seem imprudent or intimidating, these types of collaborations enable companies to offer 'more' of the service by sharing strengths and mitigating weaknesses. Once the appropriate due diligence is applied (more on this below), these collaborations can support a company's growth. Collaborating with a competitor also provides an opportunity to share advertising costs and impede the efforts of other competition outside the partnership.

- **Speed to Market**
  Opportunities in services are very fluid and generally must be acted upon quickly. Strategic alliances can support rapid moves by offering the necessary resources in a much swifter manner than traditional routes, securing bank loans ... for example.

- **Enhancing Credibility**
  Partnering with a well-reputed company can enhance credibility in new markets and can strengthen positions in existing markets.

- **Reducing Costs**
  Research and development costs, equipment or technology, for example, can be shared via strategic alliances, reducing production and innovations costs.

A strategic alliance essentially provides a platform to exchange resources. Where there is a need for a resource, there is also likely an innovative partnership solution to meet the need.

* 30 ADVANTAGES IN ESTABLISHING A STRATEGIC ALLIANCE

1. Focus on Core Competencies
2. Keep Company Small
3. Move Quickly
4. Access to Additional Products
5. Access to Capital
6. Access to Distribution Channels
7. Access to Equipment
8. Access to Expertise
9. Access to Human Resources
10. Access to Innovation
11. Access to Know-How
12. Access to Networks
13. Access to New Markets
14. Access to Technology
15. Block Competition
16. Close Gaps in Company
17. Design Collaborations
18. Diversify Offerings
19. Enhance Bidding Capacity
20. Enhance Image
21. Enhance Marketing
22. Improve Credibility
23. Improve Relationships with Customers and Suppliers
24. Increase Export Capabilities
25. Increase Sales
26. Learning Opportunity
27. Reduce Overheads
28. Reduce Risks
29. Share Research and Development Costs
30. Strengthen Market Position

STRATEGIC ALLIANCES IN SERVICES EXPORTING

"FOR MOST COMPANIES, THE BASIS OF COMPETITION HAS SHIFTED (FROM COMPANY AGAINST COMPANY) TO GROUPS OF COMPANIES COMPETING AGAINST GROUPS OF COMPANIES." [DAVID ERNST, MANAGEMENT CONSULTANT]

For small service providers, the establishment of strategic alliances is the quickest, cheapest and easiest way for a service company to export. Strategic alliances are highly, even decisively important to a small service provider's export endeavours. Yet, this highly successful strategy is often overlooked in the development of export strategies in the Caribbean.

Exporting products and services, however, is the most common alliance strategy according to both Deloitte's Corporate Development Survey and the Inter-Company Marketing Group survey on strategic alliances, with 1 in 3, in both instances, noting that strategic alliances in exporting was their company's approach. Having a local partner - the right one - can be the difference between success and failure in a new market.

Strategic alliances are important to service exporters for a number of key reasons:

- Evading barriers to trade;
- Local understanding – i.e. benefitting from your partner's market knowledge, including cultural understanding;
- Accessing local networks and distribution channels;
- Accessing national incentives;
- Accessing resources including office space and staffing;
- Benefiting from your partner's credibility in the market.

10 DISADVANTAGES IN ESTABLISHING A STRATEGIC ALLIANCE

1. **Creating a Competitor**
2. **Distractions, Disappointments, Stress**
3. **Loss of Opportunities Based on the Relationship**
4. **Managing Diverse, often Conflicting Operational Practices**
5. **Managing Language and Cultural Barriers**
6. **Mistrust**
7. **Over-reliance**
8. **Potential for Clashes of Ego**
9. **Sharing of Profits**
10. **Time-Consuming**

STRATEGIC ALLIANCE PROCESS

> "A STRATEGIC ALLIANCE IS A SYNERGY WHERE 'ONE PLUS ONE EQUALS THREE'."
> [MITCHELL LEE MARKS, MANAGEMENT CONSULTANT]

While strategic alliances might be the ideal solution to many small services providers, alliances tend to have a high failure rate. This is especially the case when strategic alliances are established with firms from other countries who share dissimilar organizational, social and cultural backgrounds that intensify differences and cause the relationships to break down. The challenges are further exasperated by miscommunication issues such as language barriers, limited face-to-face contact and cultural misunderstandings.

These challenges can be mitigated through proper planning with respect to establishing, maintaining and ending the relationship.

START WITH A STRATEGY: Many firms establish a strategic alliance by 'finding' a partner, then developing a strategy that fits. This is putting the proverbial 'cart before the horse' and will result in a strategic alliance that does not wholly meet the needs of either firm involved.

An alliance should originate from a strategy initiated by the identification of the needs of a firm in a particular context (i.e. a specific market opportunity). The strategy should outline the objectives of the alliance, as well as the organizational strengths and weaknesses of your firm to clearly identify what is needed and what can be offered.

From the above inputs, partner criteria should be developed and should be weighted (e.g. 'must haves', 'must not haves' and 'would be nice ifs'). In developing partner criteria, it is not sufficient to simply list expertise or resources, but consider also business philosophies, decision-making structures and other criteria that will affect the alliance.

Establish an evaluation process and treat the process with the same severity (if not greater) as if new staff were being hired.

IMPORTANT

It is critical from the onset that the entire business team is aware of and supports the strategic alliance.

FIND A PARTNER: A challenge in selecting a partner in another country is the lack of familiarity with the various firms. According to the ICMG survey, 70% of the companies surveyed relied on peer-to-peer networking as a way to find an alliance. Consider also:

- directories of national/international industry associations;
- recommendations from local business support organizations (i.e. Chamber of Commerce);
- reputable industry publications;

- online discussion forums, industry blogs, Linkedin;
- hiring a business development consultant in the country to prepare a shortlist of potential partners.

IMPORTANT

While it may be tempting to do so, do not simply establish alliances with companies that have a strong reputation or that are known to you. Remember that an alliance must be built on needs and established via measurable criteria.

SELECT A PARTNER: When potential partner(s) have been identified, undertake a joint meeting (or many!). The vision, strategy and expectations of both partners should be articulated, as should all 'deal-breakers'. Determine how much time and money both parties can afford to invest. Discuss from the onset how the alliance might be governed. This is also an ideal opportunity to identify any gaps in the alliance or opportunities not previously identified.

When it has been confirmed by both parties that the companies are both strategically and culturally aligned, conduct the required due-diligence on the potential partner (i.e. ensure compliance with local labour and tax laws, absence of any conflict of interests, secure relevant financial statements, testimonials). Ideally, the due-diligence should be done in collaboration with the potential partner.

IMPORTANT

Test the partners! Each partnership should begin with a low-risk, clearly defined 'pilot' project that will highlight the pros and cons of working together towards a shared objective.

STRUCTURE THE ALLIANCE: This is where the details of the alliance are agreed upon. For small businesses/projects it may not be necessary to involve attorneys, though this certainly should be undertaken if the alliance is a significant one. Regardless of whether attorneys are involved or not, all details of the alliance must be written down. This contract/memorandum of understanding/strategy must be developed jointly to ensure that all needs and interests are being met. It should include:

- Work plan;
- Deliverables;
- Measures of success (for both parties)
- Time frame;
- Protocols for Decision Making;
- Chain of Command;
- Responsibilities and inputs;
- Financial Arrangements;
- Governance (the treatment of intellectual property, customer data and other confidentiality constraints, information storage, human resources, performance standards, communications/reporting between parties);
- Conditions regarding follow-on work;
- Exit strategy – determine how to end the relationship if the alliance fails.

"WE CANNOT ENTER INTO ALLIANCES UNTIL WE ARE ACQUAINTED WITH THE DESIGN OF OUR NEIGHBORS." [SUN TZU]

IMPORTANT

Do not try to 'win' during the negotiations. This may cause contention in the relationship from the start. Remember that the point of the alliance is to form a team to 'win' additional customers and 'beat' other competition.

MANAGE THE RELATIONSHIP: By no means is the formalization of an alliance an ending point to governance and due diligence, rather this is a starting point. Remember that alliances are relationships and like all relationships, require maintenance.

Institute regular strategy and reporting sessions. Ensure that milestones and deliverables are being met. Discuss challenges and opportunities that might arise within the relationship.

Take notes, minutes, document agreements and actions to be undertaken.

Remember that an alliance is a continuous give and take. Be aware and sensitive of trust issues.

Re-evaluate the relationship using quantitative and qualitative criteria (e.g. level of trust, goodwill) at regular intervals. A strategic alliance is not permanent. Once the goals have been achieved, determine if the alliance should be reconfigured or ended.

IMPORTANT

Do not let the relationship fail as a result of faulty assumptions, low trust and lack of communication.

LEARN: The average alliance lifespan is seven years. Do not become over-dependent on the alliance relationship. Develop competitive strengths through the alliance. Maintain boundaries that mitigate unnecessary competition with the partner when the alliance ends.

If the above processes are followed, trust and security in the relationship will likely be established and the company will be positioned to achieve success not possible alone.

"IF YOU DO NOT SEEK OUTSIDE ALLIES AND HELPERS, THEN YOU WILL BE ISOLATED AND WEAK."

[SUN TZU]

EXAMPLES OF WELL-KNOWN STRATEGIC ALLIANCES?

ACCESS TO DISTRIBUTION CHANNELS

In 2001, Procter & Gamble and Coca-Cola established an alliance. Procter entered the deal to capitalize on Coke's vast distribution network, while Coke wished to add Procter's nutritional supplements to its drinks.

SHARING RESEARCH AND DEVELOPMENT COSTS

In 2011, pharmaceutical giant, Eli Lilly partnered with a German drug maker in an alliance to develop and market new diabetes drugs. The deal combined Lilly's longstanding experience with diabetes drugs with the German company's innovations in this area.

ENHANCE MARKETING

Star Alliance is the world's first and largest global airline alliance. The alliance serves to enhance marketing efforts via joint marketing initiatives.

✱ HIGHLIGHTS IN FORMING AN ALLIANCE

1. An alliance must be established based on criteria. Do not get into a relationship with the wrong partner because of a pressing, immediate need.
2. Trust your gut. If you feel uneasy about a potential partner, it is likely there is a reason. Even if there is no identifiable reason, the trust in the alliance will be negatively affected and the relationship may break down.
3. An alliance must be maintained based on needs and objectives. Do not lose sight of your goals no matter how stable or friendly the alliance might be.
4. Do your homework and keep doing it. This means plan well and review often. Jointly develop a strategy, with measurable objectives and milestones.
5. Do not overly focus on the financial details of the alliance at the expense of the strategy – or both will soon be irrelevant.
6. Manage the relationship. Do not delegate your relationship entirely to staff or base it simply on the MOU/legal agreement. Communicate often. Develop personal relationships. Take time out to celebrate achievements.
7. An alliance is a win-win scenario. It is important that your partner does not feel that they are being taken advantage of. A natural reaction to this is to evade responsibilities and the relationship invariably breaks down. Focus only on joint success and creating greater opportunities than previously expected.
8. No shortcuts. It is easy to get caught up in the relationship or the big picture, but do not gloss over the details. Remember the adage, "'the devil is in the details." Write everything down.
9. Do not over-commit. Only manage as many relationships as you can do so effectively. Remember that opportunities are endlessly being created and lost – but will certainly be lost if you spread yourself too thin.
10. Plan for the end from the start. A strategic alliance is a temporary relationship, even if it is long term. As partners evolve it is likely that they will begin to diverge. Articulate how the relationship will end from the start and keep your eyes open for other opportunities.
11. Stay autonomous. Do not become over dependent on your partner. This dependence will only be a disadvantage to you.

Strategy

- Identify needs
- Define alliance
- Establish partner criteria
- Establish partner evaluation process

Partner

- Identify potential partners
- Evaluate partners based on strategic fit, as well as other criteria such as experience and cultural fit
- Conduct due dilligence

Structure

- Structure the alliance (in writing)
- Define goals and measures of success
- Ensure suitable governance and exit strategies are in place

Manage

- Communicate
- Monitor the quantitiave and qualitative factors of the alliance
- Trouble shoot

Evaluate

- Identify gaps between goals and results
- Continue, relaunch or exit alliance
- Learn

A strategic alliance can be a powerful tool for achieving the goals of a service provider, but only if the relationship is carefully and thoughtfully managed from start to finish. Taking the time to create the strategy and structure, regular monitoring and frequent communication can be the difference between achieving goals and losing the resources committed to the alliance.

By implementing the above strategies a small service company can take big leaps.

This publication has been developed for the benefit of Caribbean service firms and all of the stakeholders who contribute to the development of the services sector in the region. Permission is granted for the reprinting of any material in this booklet, subject to due acknowledgement of the source.

Several industry specialists and experts have contributed directly and indirectly to this series. Best practices have been incorporated where possible based on interviews with successful exporting firms, trade support institutions and/or international best practices. Several key documents were referenced, including publications developed by the International Trade Centre and the Government of Canada, as well as extensive internet research on the specific topics. We wish to acknowledge and thank the many contributors, as well as those who reviewed the material for content and accuracy.

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For more information see http://c-nsc.org.

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