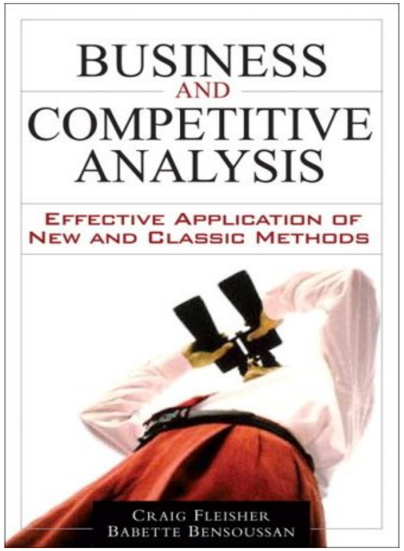


FT Press
FINANCIAL TIMES

Chapter 16

Strategic Relationship Analysis

Ch16. Strategic Relationship Analysis

- Short Description
- Background
- Strategic Rationale & Implications
- Strengths & Advantages
- Weaknesses & Limitations
- Process for Applying Technique
- FAROUT

Ch16. Strategic Relationship Analysis

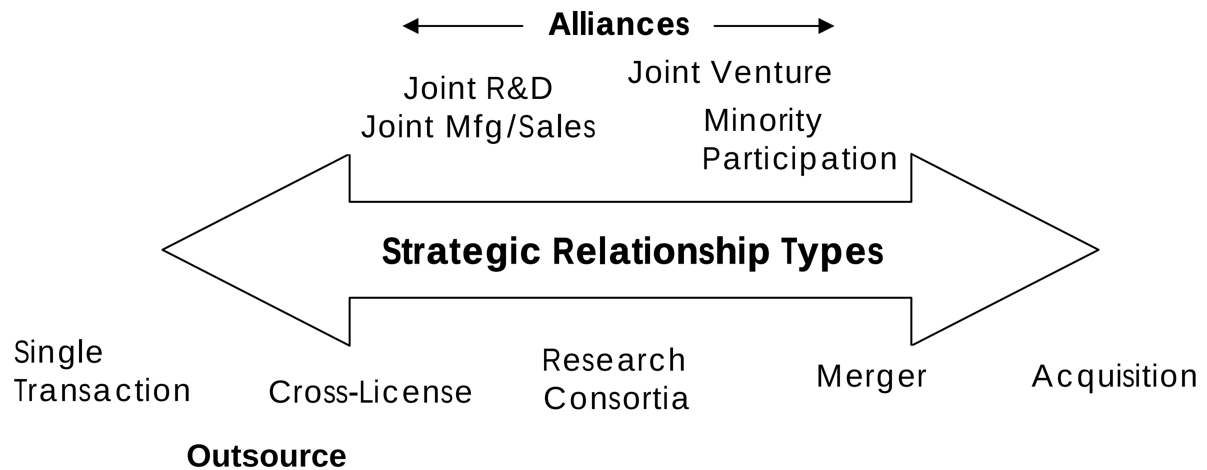
Short Description

- Strategic Relationship Analysis (SRA) involves the study of strategic inter-firm relationships to determine their present and potential future competitive impacts.
- Strategic relationships (SRs) are found in the form of alliances, consortia, joint ventures, networks and partnerships.
- They are all co-operative arrangements in which the competitive success of the partners is bound together to some degree.

Ch16. Strategic Relationship Analysis

Background

- 1970s-mainstream research struggled to fit SRs within the predominant ‘theory of the firm’.
- 1990s: explosion of research into all forms of SRs.
- One way of illustrating the range of relationships is to examine many of the popular forms of relationships:



Ch16. Strategic Relationship Analysis

Background

- Common forms of strategic inter-firm relationships include:
  - *Consortia* — an association of firms who co-operate for some definite purpose.
  - *Constellations/alliance groups/strategic networks*: a set of firms linked together through alliances that compete in a competitive domain.
  - *Joint ventures* (JVs) — are contractual agreements bringing together two or more organizations for the purpose of a business undertaking.
  - *Licensing agreements* — the granting of permission by a firm to use intellectual property rights.
  - *Mergers and acquisitions (M&As)* — sometimes viewed as an alternative strategy to an alliance.

Ch16. Strategic Relationship Analysis

Background

- *Minority investments* — a relationship in which one firm makes an investment in the shares of another, but whose ownership of the firm is less than 50 per cent of its outstanding shares.
- *Networks* — are an intricately connected system of firms.
- *Outsourcing* — work is performed for a firm by people other than the firm's full time employees.
- *Strategic alliances (SAs)* — are agreements between organizations in which each mutually commits resources to achieve shared objectives.

Strategic Relationship and Implications

- Firms across nearly every industry and in all parts of the world have elected to form SRs.
- Reasons why organizations pursue these relationships:
  - Ability to access resources or enter new markets.
  - Competitive complexity has grown and no single firm can acquire and manage the needed resources.
  - Exchange information.
  - Expedite new products or services to market more quickly.
  - Exert collective lobbying and political strength.
  - Improve access to new technology.

Ch16. Strategic Relationship Analysis

Strategic Relationship and Implications

- Reasons Cont'd:
  - Improve production, sales, research, and development efforts.
  - Inhibit competitors.
  - Lower costs by achieving economies of scale.
  - Lower risks of new product development or research through pooling of expertise.
  - Organic growth is typically no longer sufficient to appease executives' and shareholders' demands.
  - Shortened product life cycles mean that firms need to accelerate their ability to generate return on products.

Ch16. Strategic Relationship Analysis

Two key strategic relationship processes

- All SRs will compose at least the following two critical processes :
  - Process of forming the strategic relationship.
  - Process of managing the relationship.
- These processes can offer clues that can impact a rival's, or your own firm's, competitiveness.
- Many firms are find it difficult to capture the full value of their relationships.
- Two reasons for relationship failure are:
  - Insufficient attention to the working relationship between partners.
  - Lack of a corporate alliance management capability. (Segil, 2003)

Ch16. Strategic Relationship Analysis

10 factors Critical to Strategic Relationship Success:

1. Alliances must serve a clear strategic purpose.
2. Partners must have complementary objectives and capabilities.
3. Partners must be able to work on those tasks for which they are qualified.
4. Incentives must be structured to encourage co-operation.
5. Areas of potential conflict between the partners must be identified in advance and minimized.
6. Communication must be active, two-way and candid.
7. Personnel must move in both directions between partners.
8. Partners need to retain a focus on their long term shared objectives.
9. Partners should try and develop a number of projects on they can collaborate together so that all their eggs are not in one risky basket.
10. Partners should retain and build in as much flexibility into their arrangement as possible.

Ch16. Strategic Relationship Analysis

Strengths and Advantages

- SRA assists the analyst in focusing on competition in the way that it is structured.
- Can provide insights into competition at micro-level.
- SRA can be supported by software.
- Analyst’s ability to develop new insights and to better support decisions and actions could be a strategic advantage

Weaknesses and Limitations

- SRA does not provide immediate decision making support.
- Many SRA efforts become exercises in developing complex network diagrams that provide little practical insight.
- Most decision makers will not appreciate visualizations.
- SRA requires specific forms of data to be effective, much of which is expensive and not easily available.

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- **Step1:** Study your firm's relationship formation readiness:
  - Includes having negotiation skills, change management, relationship management, interoperable systems support from senior executives, and form of a relationship management structure.
  - Should define business vision and strategy.
  - Alternatives to a strategic relationship should be considered.

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- The next step is to evaluate and select potential partners:
- Should consider:
  - The complementariness of the partner's capabilities
  - Whether it has been involved successfully in any prior relationships
  - If it has the capabilities to manage the relationship
  - Whether it has the resources to make a good 'go' of the relationship.

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- Next: Meeting between potential partner and working out details that are acceptable to both parties.
- Useful to use life cycle concept.
- Next: Relationship management.
- When assessing relationship management is useful to look at:
  - Degree of fit between the relationship portfolio and the firm's strategy, goals and objectives.
  - Overall performance and value in the firm's portfolio of relationships.
  - Performance of individual relationships.
  - Reviewing all relationships to identify synergies.

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- Underperforming relationships in the portfolio.
- Fastest growing relationships.
- Parties’ roles and responsibilities.
- Facilitating the launch of new relationships.
- Re-launching poorly performing alliances.
- Health of the working relationship between your firm and your partners.
- Comparing alliance management capability against proven practices (see Benchmarking).
- Creation of knowledge and performance management systems to facilitate the sharing of lessons.

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- **Step 2:** Studying a rival's relationships:
  - Identify relationships:
    - Look at results of the rival's business model analysis.
    - Identify the nature of the relationships.
  - Map relationships:
    - Employ mapping techniques.
  - Assess and analyze the relationships:
    - Age or timing of the relationship.
    - Location of the relationships.
    - Management's relationship capacity and expertise.

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- Assess and analyze the relationships Cont'd:
  - Market context of relationships:
    - What is the size and relative attractiveness in terms of profit potential of the market targeted by the relationship?
    - What share of the market do the potential partners currently hold?
    - How quickly is this particular area of the prospective partners' business growing?
    - Have prospective partners been improving their capability in the targeted relationships' market area?

Ch16. Strategic Relationship Analysis

Process for Applying the Technique

- Assess and analyze the relationships Cont'd:
  - Mix of relationships.
  - Number of relationships.
  - Position in the relationship.
  - Potential for knowledge spillovers.
  - Size of the firms in the relationship.
  - Clusters of relationships.
  - Strength and positions of the parties in the relationships.

Sample: Strategic Relationship Analysis Matrix

	N. America	S. America	Asia Pacific	Africa/MidEast	Europe
Star Alliance (21 percent Market Share)	Air Canada, UAL, USAir	Mexicana, Varig	AirNZ, ANA, Asiana, Singapore, Thai		BMI, LOT, Lufthansa, SAS, Tyrolean
SkyTeam (19 percent Market Share)	Continetal, Delta, Northwest	Aero-Mexico	Korean Air		Air France, Alitalia, CSA Czech, KLM
OneWorld (14 percent Market Share)	American	LAN	Cathay Pacific, Qantas	Royal Jordanian	AerLingus, British Airways, Finnair, Iberia,

- **FAROUT Summary**

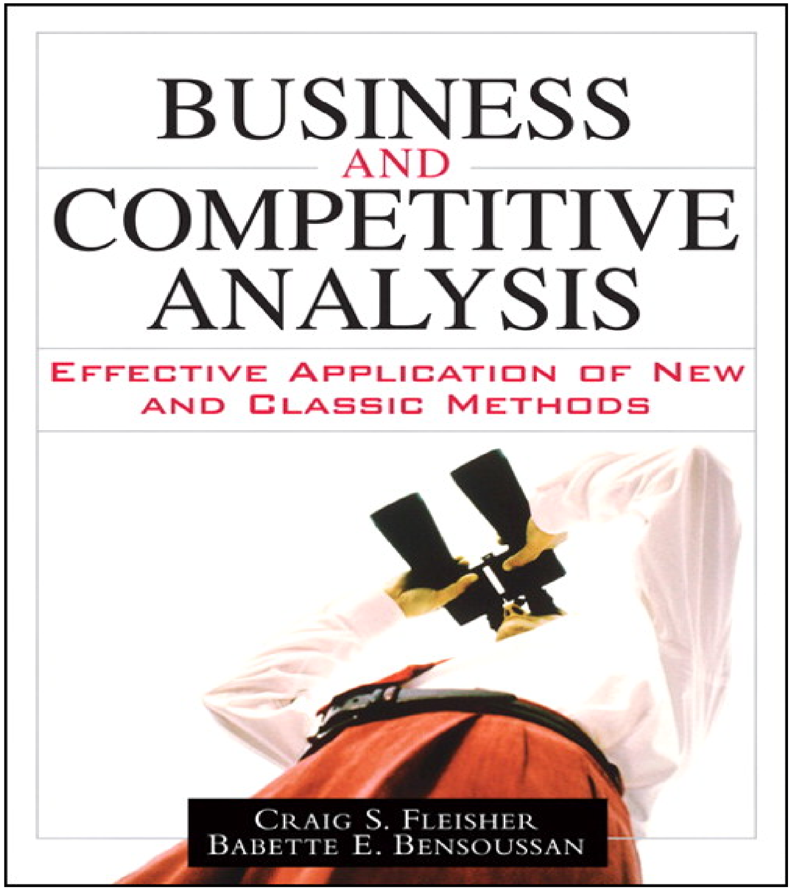
	1	2	3	4	5
F					
A					
R					
O					
U					
T					

Ch16. Strategic Relationship Analysis

Related Tools and Techniques

- Industry Analysis
- Issue Analysis
- Management Network Analysis
- Stakeholder Analysis
- STEEP/PEST Analysis
- Strategic Group Analysis
- SWOT Analysis

Ch16. Strategic Relationship Analysis



For More About Strategic Relationship Analysis & 23 Other Useful Analysis Methods, see:

Fleisher, Craig S. and Babette E. Bensoussan

Business and Competitive Analysis: Effective Application of New and Classic Methods

FT Press
FINANCIAL TIMES

Upper Saddle River, NJ
2007