April 17, 1995

Dear Colleague:

I want to thank you for your participation in INPUT's study on strategic alliances in the systems integration and professional services markets. The results of this study identified some interesting strategies and issues for vendors considering alliances in this market during the next few years.

In appreciation of your participation, enclosed is a copy of the Introduction and Executive Overview ~~for~~ of this study. In addition, INPUT will provide a discount on the purchase of the report, *Strategies for Successful Alliances,* to further express our gratitude for your help.

Please feel free to give me a call to discuss any systems integration or professional services topic. Once again, thank you for your participation—it was a key factor in the success of this study.

Yours sincerely,

Wilson Haddow
Manager, Outsourcing Services Program

1 9 9 5

STRATEGIES FOR SUCCESSFUL ALLIANCES

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Abstract

This report ~~provides analysis of how to~~ analyzes approaches to the establishment, implementation, and measurement of the success of strategic alliances in the IT industry.

The objective of the report is to assist vendors by helping them better understand key aspects of the strategic alliance process, including~~:~~ partner selection, how to foster alliance success, typical alliance problems, and measuring alliance success.

Strategies for Successful Alliances will provide ~~an~~ improved understanding of the potential problems associated with alliances, as well as ~~those~~ areas most likely to provide benefit. This will assist companies ~~which~~ that are considering forming alliances by identifying selection criteria, defining methods of measuring success and indicating ~~how~~ ways to avoid failure.

The report contains 37 pages and 20 exhibits.

Table of Contents

Exhibits

I

Introduction

This report, *Strategies For Successful Alliances,* is produced as part of INPUT's Systems Integration and Professional Services Program.

A

Scope, Background, and Purpose

In This report, ~~provides analysis by~~ INPUT analyzes ~~of~~ how best to approach the establishment, implementation, and measurement of the success of strategic alliances in the Information Technology industry.

The research on which this report is based was ~~has been~~ undertaken against the backdrop of a number of partnerships announced or now underway, some of which represent very high-profile alliances:

- *Xerox and the Electronic Data Systems (EDS) division of General Motors.* This started in June 1994 as a $3.2 billion, 10-year contract for EDS to assume day-to-day operational responsibility for Xerox's global information management system. In March 1995, EDS in turn awarded the Xerox Business Services division a five-year, $500 million contract to operate and manage some 100 EDS high-volume, networked print centers worldwide.

- *Andersen Consulting and GE Capital.* This March 1995 alliance ~~for working together~~ to pursue opportunities in the U.S. Information Technology outsourcing market focuses on mainframe computer operations. It includes the purchase by GE Capital of Andersen Consulting's OM/NI Solutions Center, thereby substantially expanding GE Capital's Commercial Processing Services business. The two firms anticipate delivering "best of breed" Information Technology outsourcing solutions by serving customers from their respective core competencies: Andersen Consulting will focus on helping firms to manage and continuously improve their Information Technology function overall, while GE Capital will provide mainframe services that improve cost-effectiveness and efficiency.

- *SHL Systemhouse and AT&T Global Information Solutions (AT&T GIS).* As agreed ~~to~~ in March 1995, AT&T GIS ~~both~~ will license for use within AT&T and will resell the SHL TRANSFORM performance support software environment. AT&T GIS expects to use the SHL client/server education and systems development software environment to combine the knowledge base and services methodologies ~~from~~ of a number of AT&T business units, providing a comprehensive information resource to AT&T services professionals worldwide.

- *GE Capital and CIS Technologies.* In November 1994, the two firms formed an equally owned business entity to provide accounts receivable financing to the healthcare industry, based on a $2 million investment by GE Capital, which is also providing access to up to an additional $7 million in debt. CIS Technologies is providing technology, research, and transaction processing service and support. Both firms will provide sales support and management.

- *Hewlett-Packard and Oracle.* As announce the two firms will jointly sell and market tl Hewlett-Packard Odapter software, of large software applications on the Oracle7 relatio management system.

Is it really Odapter?
Yes
WH

- Others:

- *Xerox Business Services and Trammell Crow Corporate Services* jointly market complementary facilities management services that integrate document outsourcing services with property management services.

- *Wang Laboratories and Bull (Integris in the U.S.)* exchanged cash, equity investment, and certain operational units to make Bull/Integris the preferred worldwide integrator and reseller of Wang's workflow and imaging software and to make Wang a worldwide distributor of Bull's open systems products. Bull receives an equity position in Wang and cash; Wang receives Bull operational units for U.S. Federal Systems Integration, for U.S. Customer Service, and for workflow and imaging software business worldwide.

- *SHL and various others,* including: *Vanstar* for offering technology deployment services; *Oracle* for jointly marketing Oracle Cooperative Applications and SHL's transformational outsourcing services, and for Oracle/SHL fixed-price migration of customer's financial systems from mainframes to open systems; *Canada Post* to jointly implement "track and trace" systems worldwide; *Microsoft* for major early NT implementation and joint clients' implementation of Exchange; other agreements with *Sun, TSW, Pyramid, Information Advantage,* and *PowerSoft.*

- *SAP America and some 50 other firms* that are Technology Partners, Platform Partners, Implementation Partners, and Logo Partners, including recently announced agreements with *Information Resources Incorporated, DEC,* and *Andersen Consulting.*

The objective of the report is to assist vendors by helping them better understand key aspects of the strategic alliance process, including:

- Different types of partnerships
- Selecting partners
- How to foster alliance success
- Typical alliance problems
- Time factors during the alliance
- Measuring success,

In the report's concluding chapter, INPUT summarizes key recommendations for success in strategic alliances, as drawn from findings throughout the report.

B
Methodology

As listed in Exhibit I-1, INPUT conducted telephone interviews with 22 consulting and technology firms experienced in strategic alliances.

Exhibit I-1

Firms Interviewed

- American Management Systems
- Andersen Consulting
- Arthur D. Little
- AT&T
- Boeing
- C3
- CACI
- Cambridge Technology
- Computer Sciences Corp.
- Control Data
- Corporate Software
- DEC
- Electronic Data Systems
- Ernst & Young
- Grumman
- Hewlett-Packard
- PRC
- Price Waterhouse
- The Registry
- SEI
- Tandem
- Wang

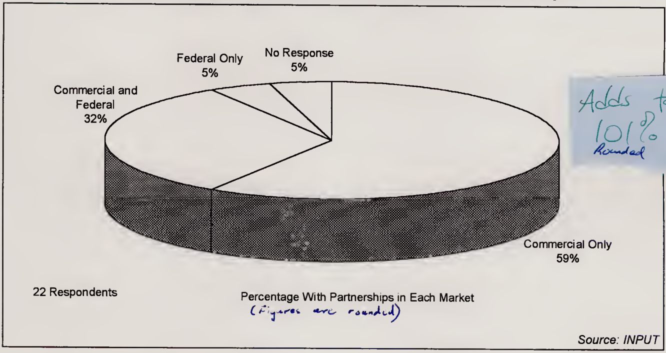
Source: INPUT

roman numeral

Most of these firms have had experience with commercial partnerships only, as shown in Exhibit I-2.

Exhibit 1-2

Interviewees: Mix of Commercial versus Federal Partnerships



Adds to 101% Rounded

Structured questionnaires were used to collect this data. Secondary research sources, such as industry journals, periodicals, and other INPUT reports, also were studied ~~in the~~ for preparation of the report.

C
Report Organization

The report consists of five additional chapters:

- Chapter II is an Executive Overview highlighting the key findings of the report.
- Chapter III provides background on setting up alliances, and describes the types of strategic alliances found from the survey and the most important factors in selecting a partner.
- Chapter IV provides advice for firms that want to maximize the success of their strategic alliances.

- Chapter V identifies key problems encountered during alliances, indicates to what extent alliance success varied over time, and reviews the measures of success that have been used.
- Chapter VI concludes the report with a ~~series of~~ summary-level recommendations for vendor success in strategic alliances.

D
Related Reports

For additional insight into strategic alliances, readers are encouraged to consult other INPUT reports, such as the following:

U.S. Systems Integration and Professional Services Markets, 1994-1999

U.S. Outsourcing Market Analysis, 1994-1999

The Relationship Between BPR and Systems Integration

The Impact of Business Process Reengineering on Outsourcing

II

Executive Overview

This chapter highlights the key findings detailed thoughout the report.

A Key Advice

As shown in Exhibit II-1, two categories of advice stand out in the feedback from the firms interviewed.

Exhibit II-1

Most Common Advice

- Alliances succeed only if there are shared corporate commitments, objectives and goals, and understandings — Advice offered by 86% of the firms interviewed
- Nurturing of both communications and the working relationship is key to alliance success — Advice offered by 41% of the firms interviewed

Source :INPUT

The most common advice is to ~~observation regarding~~ ensur~~ing~~e that corporate commitments are shared between the alliance partners, keep~~ing~~ objectives and goals in alignment, and ensur~~ing~~e that the partners' understanding~~s~~ of the terms of the alliance are not in conflict.

The second most common category of advice focuses on the need for nurturing communications, person-to-person and organizational, and the alliance's working relationships, to encourage ~~so that partners can have~~ a high degree of alliance success.

B

Summary of Key INPUT Recommendations

Exhibit II-2 summarizes the eight areas of INPUT's key recommendations for alliance success.

Exhibit II-2

Key Areas of INPUT Recommendations

1. Objectives and understandings
2. Communications
3. International considerations
4. Choosing a partner
5. Types of alliances
6. Definition of responsibilities
7. Impact of time
8. Measuring success

Source: INPUT

The first two recommendations relate directly to the most common categories of alliance advice provided by firms, as listed in the previous Exhibit.

First, INPUT recommends that a firm entering into a partnership look for close alignment in the commitments that each partner is willing to make and the primary objectives that each has for the alliance. Included in this is the alignment of each partner's understandings of the terms of the alliance, both initially and over time.

Second, INPUT recommends that each partner in an alliance ~~should~~ work carefully at nurturing the alliance's communications channels, in part to foster a shared mutual understanding of the alliance's terms over time. Closely related, the alliance's working relationship itself must be consciously examined, and enhanced wherever and whenever possible, if the partnership is to succeed.

See Chapter VI for details on all eight recommendation areas.

III

Setting Up Alliances

This chapter ~~starts by presenting~~ gives some background ~~regarding~~ on some of the information technology (IT) industry's most common perceptions about setting up strategic alliances, as derived from secondary sources. It then describes INPUT's findings from this primary research survey about the types of strategic alliances undertaken and the most important factors in selecting a partner.

A
Background on Strategic Alliances

1. Reasons for Alliances

One well-accepted and common motivation for entering into strategic alliances is to bring to the firm's customers a new expertise, product, or service that the firm either cannot provide at all or cannot provide by itself as economically, quickly, or effectively as it can in partnership with a leader in that area. This generally takes one of two forms: integrated marketing or sales of certain existing products or services from each firm, or development together of one or more products or services. Often a development or marketing alliance can lead to faster time-to-market and thus a competitive advantage for one or both partners. In certain situations, such a partnership is virtually the only practical way to achieve a market position that is critical to the success of one or both firms.

Such an alliance may also be a means to win customers that are new to one or both of the partners, in part by extending the "value proposition" (i.e., the value provided by the firm's products and services) offered by the firm, and thus attracting new customers. One efficiency that can result is that such a partnership can allow a firm to concentrate on continually refining and improving its key core competencies without being distracted

by having to provide or enhance other functions that can be better handled by the partner. Alternately, there may be a "learning curve" model that is key to the alliance, whereby one or both partners wish to expand or strengthen their areas of competency ~~through~~ by working together over time.

One important sub-set of this kind of alliance is a partnership between a "large-older" firm and a "small-younger" firm. Often such alliances work for mutual benefit because the large firm gains access to the small firm's new technology that cannot be as easily or quickly developed in-house, while the small firm gains access to the capital and/or distribution resources of the large firm. Such partnerships are also less risky to both sides than would be outright acquisition of the small firm by the large one.

Another driver of strategic alliance formation is the desire to market or sell jointly to each other's customers, presumably for the mutually beneficial result of increased sales, revenues, and profits.

Other partnerships may be focused on reducing costs, perhaps by using resources more effectively, by reducing overhead, or by offloading functions to another firm. This might also involve changing ways of doing business with one another in a manner that reduces costs.

Closely related are partnerships that mainly allow a firm to augment internal capabilities -- and thus perhaps avoid the cost of developing or extending those capabilities ~~themselves~~ itself. Examples might be network management or disaster recovery agreements that transcend mere vendor-buyer relationships, perhaps because of a corresponding product or service provided in the reverse direction under the same agreement.

Some strategic alliances in IT are focused on better management of future contingencies, especially where there may be a high degree of uncertainty. That is one view of the recent acquisition of McCaw Cellular by AT&T. This partnership started out with AT&T taking only a one-third equity stake that provided McCaw with capital and access to AT&T's customer base. As a full acquisition, on the other hand, the partnership provides AT&T with leadership access to the high-growth cellular telephone business and perhaps a re-entry point into local telephone service. This is an ideal way to manage the uncertainties of how these contingencies will impact AT&T in the future. Similarly, McCaw's uncertainties in the face of future competitive, technological, and regulatory contingencies are reduced by acquisition-based full access

to the AT&T brand name, the larger firm's customer service expertise, and its financial and technological strengths.

2. Critical Success Factors

In terms of partnership success factors, some observers say that it is best to aim for "high-stakes" partnerships: Larger stakes, it is argued, will drive the partners to work harder for success. Others counsel firms to "start small" with limited-scope partnerships.

Also, some say, aim to ensure that both partners are critical to one another's success in the venture—that it is not a one-sided alliance.

There is general agreement that it is also important to alliance success that the interface between the companies, their communications and working relationship, be very strong. Some argue that the strength of the working relationship can be enhanced by consciously aiming to place the alliance's communications and management structure somewhat outside either firm's existing business practices and rules. This is particularly important when the communications and management structure are culturally very different between the firms. Included in managing the relationship are agreements about expected outcomes, time horizons, and mechanisms for coordination, communication, and resol~~ving~~ution conflicts.

Finally, some argue that *only* long-term partnerships, those expected to last more than five to seven years, are worth the effort required for a successful strategic alliance.

B
Experience with Partnerships

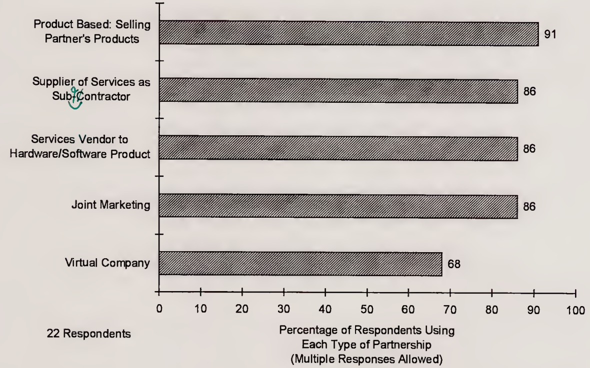
Exhibit III-1 details the experience of interviewees' firms with different types of partnerships. Almost all of those interviewed have had experience with four key types:

- Product-based partnerships, in which the product or products of one or more partners are sold to customers as part of the alliance agreement
- Sub-contractor relationships, in which one partner owns the prime contract with one or more customers and the other functions in the sub-contractor role

- A partnership based on providing one or more services to a vendor of hardware or software products
- A joint-marketing relationship.

Exhibit III-1

Experience: Types of Partnerships



Source: INPUT

Somewhat fewer firms report operating together as part of a "virtual company" a larger entity that exists mainly to implement an agreement to work together under defined terms, rather than being an actual corporate structure. Note that a virtual company often is formed to support a specific business project, and thus may be disbanded after project completion. Although less important to date than the other forms of partnership reported here, INPUT believes that virtual company alliances will become increasingly common in the future.

The slight majority (55%) of ~~those~~ firms interviewed that have had experience with international alliances report that some special factors come into play, as listed in Exhibit III-2.

Exhibit III-2

International Alliances—Special factors

- Cultural differences
- Differences in business practices
- Issues of exporting from the U.S.

Source: INPUT

At the top of the list are the differences in culture, presumably including language differences, that often must be bridged to support successful implementation of an international alliance. Closely related, there may be specific differences in how business is practiced in non-U.S. locations, whether those are matters of law or custom. Finally, some interviewees note that a working partnership that ~~which~~ requires exporting of equipment, materials, hardware, software, or other items from the U.S. will involve special export-related factors, making it different from either a domestic U.S. alliance or ~~from~~ an international alliance that can function without such exports.

Based on these findings, INPUT recommends that firms enter alliances having an international aspect with special caution. It will be important to anticipate areas in which cultural differences or differences in national business practices may impact the partnership, and then to staff, plan, or otherwise manage to handle those differences. Similarly, a firm should examine whether export issues will require special procedures or operations not normally part of the firm's business practice.

C

Choosing a Partner

Exhibit III-3 lists the factors that the firms interviewed consider most important in choosing an alliance partner.

Exhibit III-3

Choosing a Partner: Most Important Factors

Rating of Importance	Factor Mentioned by Respondents
Most Important	- Financial stability - Track record - Commitment to long-term relationship - Industry knowledge
Secondary Importance	- Knowledge of specific business processes - Overall technical knowledge - Specialized technical experience
Low Importance	- Management expertise - Sales contacts - Experience with previous alliances

Source: INPUT

Several different factors cluster together as being most often cited by firms as highly important in choosing an alliance partner:

- The partner should be on a stable financial footing.
- Before partnering, a firm should look at the track record of a potential partner in businesses or technologies similar to ~~the~~ those involved in the alliance. (Note the distinction between this and interviewees' feedback about alliance experience, cited below in the last point for this Exhibit.)
- The partner should demonstrate a commitment to fulfilling a long-term working relationship.
- The partner's knowledge of the industry should represent a positive contribution to the alliance.

Although ~~While~~ still rated as very important overall, other factors are cited on a somewhat ~~more secondary~~ less frequent basis:

- The partner's demonstration that specific business processes are part of ~~their~~ its base of knowledge and experience.

- Overall technical knowledge of the subject matter to be dealt with by the alliance.

- Specialized experience with the technology or technologies that are involved in the partnership.

Three other factors are rated as less important: the expertise of the partnering company's management, the sales contacts that the partner brings to the alliance, and ~~their~~ previous alliance experience. Contrasting this last point with the greater importance ascribed to "track record," cited above in this exhibit, interviewees seem to be saying that specific experience of a potential partner in other alliances or partnerships is less important than ~~their~~ an overall record of business or technical performance in areas that will be key to this alliance.

IV

Alliance Experience and Advice for Others

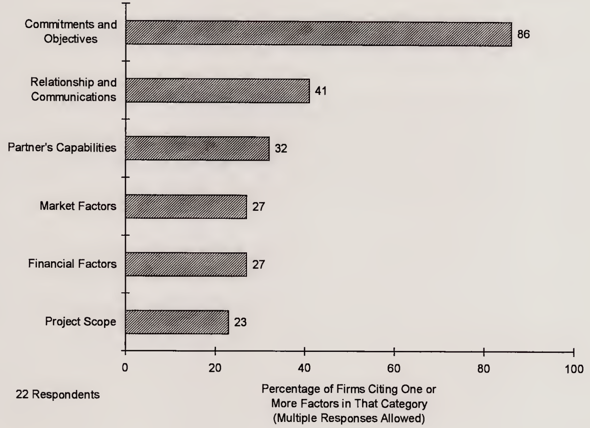
This chapter ~~section of the report is a~~ reviews ~~of~~ experiences gained by companies that ~~who~~ have participated in alliances. In addition, this chapter identifies what the firms interviewed would advise other firms to look for in order to maximize the success of their strategic alliances.

A
Key Advice Overall

As Exhibit IV-1 summarizes, interviewees' feedback falls into six main categories. (Note: See Exhibits IV-2 and IV-3 for detailed feedback on each of these categories.) Most important by far is a series of insights about how the partners manage their commitments to and the objectives of ~~for~~ the alliance. Second is ~~a cluster of~~ feedback about the working relationship and how its communications are managed. Less often cited is ~~are:~~ advice that relates to the partner's capabilities, various factors related to the marketplace, financial factors, or matters dealing with the scope of the project.

Exhibit IV-1

Key Categories of Advice About Successful Strategic Alliances



Source: INPUT

As noted by the title of Exhibit IV-2, below, the first two categories of advice cited above, commitment and communication, are top factors contributing to alliance success.

Exhibit IV-2

Specific Advice on Commitment and Communication

- Be sure of shared corporate commitments, objectives ~~&~~ and goals, and understandings
  - Achieve clear understanding of objectives and benefits
  - Agree on roles, responsibilities, measures, and expectations
  - Know the commitments of each for resources and investment
  - Match commitments - corporate and executive
- Nurture communications and the working relationship
  - Consciously care for the working relationship
  - Effective communication is key
  - Aim for trust and win/win deals

Source: INPUT

In the initial category of advice reported here, interviewees cite issues of commitments, objectives and goals, and shared understandings.

1. Understand Objectives and Benefits

Firms entering an alliance are urged to be sure that the partners' understanding of objectives and benefits is clear to both parties. This includes the specific advice to be sure that both the partner's objectives and the firm's own objectives are understood clearly. Also, be sure these are communicated accurately. In addition, look for mutual benefits within those objectives. One form of mutual benefit is profit sharing: 41% of the firms interviewed report that profit sharing is a partnership objective ~~that~~ with which they have experience ~~with~~.

2. Agree on Roles

Roles and responsibilities of each partner must be agreed upon prior to the start of the alliance. Who will undertake what roles — separately or jointly? Wh~~at~~ich responsibilities will be shared, and which will be assigned to only one of the partners? To help clarify these roles and responsibilities, it is recommended that shared measurements be clearly agreed to, and that each partner understand what metrics are used internally by the other to judge performance. Such clarity, including agreement about numerical measures and timelines that both partners can agree to, will help ensure that both partners' expectations are in line.

3. Identify Resource Commitments

One specific understanding that is critical to the success of the partnership is just what resources and investments are being committed to the alliance by each party. One recommendation is that the required resources be identified and committed to from the start. Further, a mentality of "investing in the alliance" on both sides will help to ensure success of the partnership.

4. Ensure Corporate Commitment

The issue of whether the commitment of the partners is matched at two levels, corporate commitment and commitment by key executives at each firm, must be resolved. Note that corporate commitment includes both financial commitments made by each side as well as being sure that the alliance fits each firm's long-term corporate strategy. Both corporate and executive commitments should be at matched levels ~~of commitment~~ from the outset. Moreover, it is advised that these commitments be consciously reevaluated on a periodic basis, with ways devised to test for changes in either side in management commitment to or alignment with the goals of the partnership.

In order to best implement this advice about commitment issues, INPUT recommends that as many of these as possible be dealt with before the partnership agreement is finalized. Explicitly state both shared and separate corporate objectives, and benefits expected, for mutual sign-off as part of the agreement. Sign off also on separate versus shared roles and responsibilities, mutual expectations, and what forms of measurement of alliance success will be used. Define financial, investment, and other resource commitments as specifically as possible in writing. Finally, although this likely cannot be reduced to a written agreement, before the partnership is finalized each firm should make a high-level, top-down review ~~as to~~ of the commitments being made by each organization, confirming that the corporate and executive-level commitments of each are appropriate, solid, and well-matched.

The other, closely related category of advice cited here is the need to nurture communications among all individuals in the partnership in order to continually strengthen the working relationship.

5. Develop Effective Communications and Working Relationship

What this means above all is consciously caring for the health of the working relationship. Interviewees said repeatedly that the key here is to

communicate effectively. This includes a corporate-wide approach to coordinating the relationship and its communications, which may require the assignment of a manager of the business relationship. As always, "The devil is in the details"; be sure everyone impacted agrees to all details in clear communications. Make sure that expectations are clearly understood. And communicate with a spirit of patience for understanding by the other individual.

6. Build Trust

Such communications, and the working relationship itself, will be most effective when a spirit of trust prevails. This includes the key factor of agreeing not to pirate, or recruit away, the other partner's people. It also includes trying to err on the side of fairness to the other partner. And finally, it means aiming to structure relationships based on win/win deals, which by their very nature tend to foster open and clear communications.

Regarding these communication issues, INPUT recommends that a firm's care for the alliance's working relationship should start even before the agreement is signed. Those communicating between the firms to establish the partnership often will be those communicating frequently to implement it, so management should ~~look~~ seek to foster the best possible communications channels from the start. Consciously focus a portion of both pre-alliance and ongoing internal discussions about the project on who is communicating with whom at the other firm and on which topics. Successful alliances look for opportunities to bring in other individuals or points of connection and communication to improve the effectiveness of the working relationship. Look carefully to see if trust and win/win deals are the prevailing tone of the relationship, and implement corrective actions if they are not.

Exhibit IV-3 outlines other factors cited, but noted less frequently, by the firms interviewed.

Exhibit IV-3

Less Often Cited Success Factors

- Determine partner's strength overall and specific capabilities
- Look for market opportunities and leverage factors for the alliance
- Carefully manage partners' compensation, sales, and expenses
- Aim initially for small, limited-scope projects

Source: INPUT

7. Seek Financial Strength and Stability

As mentioned earlier, the partner's overall financial strength and stability ~~are~~ is a key factor~~s~~ in choosing a partner and ~~this is identified here also as a~~ in achieving success ~~factor~~. Overall strength also refers to the partner's reputation and the experience of ~~their~~ its management team. One specific factor in judging strength is to analyze and understand the partner's capabilities and ~~their~~ limitations from the start, as well as ~~their~~ its commitment of resources to the alliance.

8. Share Market Opportunities

Focusing on shared market opportunities and factors of leverage is critical, of course, to the success of almost all alliances. (Note that INPUT believes that ~~the~~ relatively infrequent ~~low frequency level~~ of interviewees' mention of this factor relates less to its lack of importance and more to its status as a "given" factor in most alliances, and thus one often overlooked when answering a free-form, open-ended question.) In most instances, the key factors driving two firms into alliance are some combination of market opportunity that can be addressed more effectively together, and the leverage factors, the complementary, company-specific strengths, that each firm brings to the partnership. The markets to be addressed by the alliance should relate to products that meet both current and likely future demands of customers. A leadership, or emerging leadership, market position held by one or both partners is ideal, and often is a key leverage factor. The partners' market strategies should relate well to one another, including complementary marketplace strengths ~~that can~~ to be contributed. ~~by each side.~~ A focus on common customers in the marketplace may be possible, yet it may also be important to acknowledge clearly that the firms are both competitors and partners: today's so-called "coopetition."

9. Define Financial Rewards

As always, money is a key factor. For compensation, each partner must be happy with the money being made: Fair, win/win deals, and on-going working relationships, should be the watchword, as discussed earlier. This includes careful sorting out of profit sharing that accrues from sales generated by the alliance, and may require an attitude that one interviewee reported communicating to the team: "Sharing the money is better than no work at all." It also means that money going out (i.e. expenses) must be funded adequately, which means dedicating ~~enough~~ sufficient resources from the start; this fits with earlier advice about matched corporate commitments, including financial commitments. As noted earlier, an "investment mentality" regarding the expenses of the alliance is advised.

10. Start With Limited-Scope Projects

Finally, several interviewees advise starting with small or limited-scope projects at first. This may mean starting slowly, perhaps with just one project or a few projects at first. A narrow scope for the partnership that can be clearly focused may be useful. Within the alliance agreement's boundaries, once piece of advice is to try to regard each opportunity on its own merits.

B

Alliance Objectives

One clear conclusion from the findings presented above is that alliance objectives are a very critical success factor. As Exhibit IV-4 shows, several types of objectives for alliance partnerships have been met most effectively by the firms interviewed.

Exhibit IV-4

Alliance Objectives That Worked Best

- Objectives that were most effectively met:
  - Joint marketing
  - Marketing of complementary services
  - Prime contractor/sub-contractor relationship
  - Sales lead generation
- Less-successful objectives:
  - Sharing development
  - Joint project-operation responsibility

Source: INPUT

Two of the top objectives are directly related to marketing factors. Joint marketing by the partners of their products or services is the single most effectively met objective. Close behind is the marketing of complementary services — services that one partner offers but that ~~is~~ are missing from the service~~s~~ mix of the other. Also effective, these firms reported, is their operation together in a prime contractor/sub-contractor relationship. The fourth most effectively met objective is the generation of sales leads through the alliance partnership.

These firms report that they have been less effective in the operational objectives of sharing development work between partners, as well as in implementing joint responsibility for project operations.

As Exhibit IV-5 indicates, these firms report that certain of their pre-set expectations for the alliance's objectives were met better than others.

Exhibit IV-5

How Well Did Alliance Objectives Meet Expectations?

Rating of Achievement	Factor Mentioned by Respondents
Best met expectations	- Prime contractor/sub-contractor relationship - Joint marketing
Less so	- Marketing of complementary services - Sharing development - Joint project-operation responsibility
Lowest in meeting expectations	- Sales lead generation

Source: INPUT

At the top of the list, the firms interviewed reported the highest success for objectives relating to prime contractor/sub-contractor alliances and for joint marketing of products and services. They have been relatively less successful, however, in fulfilling their expectations for marketing complementary services, for sharing development, and for joint project operations. Finally, although the previous exhibit (Exhibit IV-4) shows sales lead generation as a moderately achieved objective, partners' expectations for this objective must have been higher, as it falls at the bottom of this list.

Based on these ~~reports~~ responses, INPUT recommends that firms exercise extra caution when entering into or implementing strategic alliances that call for developmental or operational responsibilities to be shared between the firms, rather than divided in a more traditional prime contractor/sub-contractor relationship. This data indicates that implementing such shared responsibilities is generally both less successful and less likely to meet a firm's expectations for the partnership, thus requiring more careful management if such arrangements are critical to the definition and success of the alliance. Caution is also in order regarding expectations for generation of sales leads.

V

Alliance Problems and Success

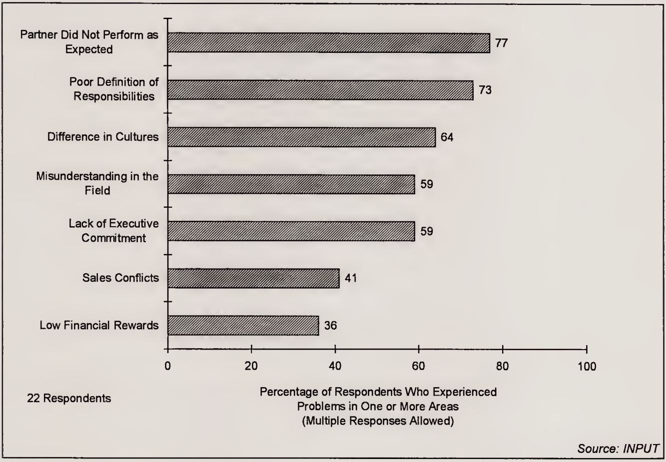
This chapter identifies key problems encountered during alliances, indicates to what extent alliance success varied over time, and reviews the measures of success that have been used.

A Problems

The firms surveyed replied to questions on the top problems they have encountered with strategic alliances, providing the overall ranking of problems shown in Exhibit V-1.

Exhibit V-1

Reported Problems with Alliances



Two problems stand out at the top of the list:

- Failure to perform as expected during the course of the alliance.
- Responsibilities that were not clearly defined.

It comes as little surprise that there is a strong correlation between these two factors. Note that in three-quarters of the instances where a firm, reports problems with a partner not performing up to expectations, ~~they~~ it also mentions ~~that they have seen~~ problems with poor definition of responsibilities. This fits directly, of course, with earlier-reported feedback about setting and communicating clear roles and responsibilities (see Exhibit IV-2 ~~Specific Advice on Commitment and Communication~~). See ~~that section~~ Chapter IV of the report for ~~the relevant~~ INPUT's recommendations, that ~~which are appropriate for~~ to firms aiming to prevent the closely related problems identified here.

Clustered together as moderately important are three other problem factors. First among these is a difference in cultures between the partnering firms. It is interesting to note that two-thirds of those reporting culture differences also report international alliance experience, which may have been a contributing factor; on the other hand, some with international experience report no culture-clash problem, and some without international alliances still report culture problems, presumably of the "corporate culture" type. Second in this group of moderate problems ~~is~~ are situations of field-based misunderstandings within the alliance. These are mainly due to lack of, or poor, communications regarding the implementation aspects of the alliance. Third are problems that stem from lack of executive commitment, which once again is a key point of advice cited earlier in this report. Again, the INPUT recommendations made in Chapter IV are relevant in preventing these problems.

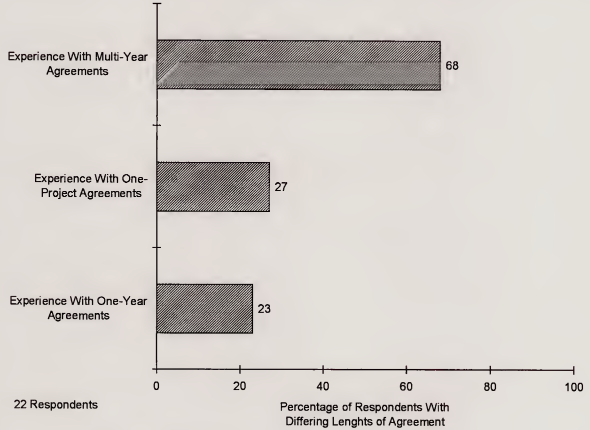
Significantly lower among alliance problems reported are ~~the last two~~ factors: sales conflicts between the partners and financial rewards that fall below ~~their~~ expectations. This indicates that most firms are realistic with regard to their expectations of financial rewards from alliances ~~plus~~ and they are effective ly managing the sales activities related to the ir alliances.

B
Success Over Time

As Exhibit V-2 shows, over two-thirds of the firms interviewed have experience with multi-year agreements, with far fewer (only about one-quarter) reporting project-by-project or single-year agreements.

Exhibit V-2

Length of Agreements

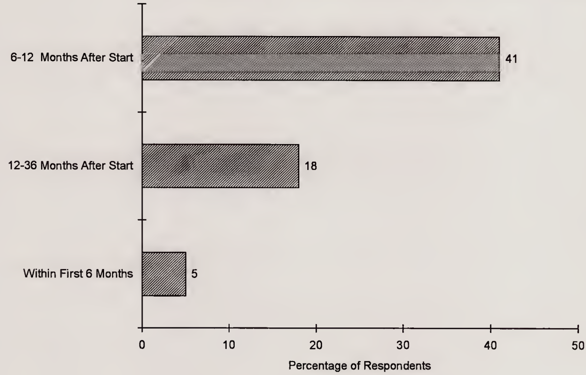


Note: Multiple responses allowed

Source: INPUT

Exhibit V-3

Time Required to Achieve Greatest Success



Source: INPUT

Interestingly, however, Exhibit V-3 indicates that the second half of the first year of the agreement is the time of greatest success in the alliance. INPUT believes the lack of success in the first six months is due to the time required for the implementation of the alliance to take place within field organizations.

In today's fast-changing market, relatively few firms can afford to wait over 12 months for an alliance to achieve success, unless it is a partnership based on long-term technical development. Yet the response, by 18% of the interviewed firms, that greatest success is not achieved until 12-36 months after the start of the alliance indicates that between many organizations the development of the working relationship and establishment of communications takes a long time.

Exhibit V-4, and associated comments in Exhibit V-5, show an intriguing two-to-one ratio: Twice as many firms believe that more time would not have generated more alliance success, versus those who believe that more time would have led to more success. Comments associated with the first "No" factor cited here appear to tie back mainly to the earlier discussion

about the importance of shared objectives and commitment~~s~~ ~~plus~~ and effective communication. The second is a direct reference to the "time window" for effectiveness just discussed. On the "Yes" side, only one firm cited a "three-year-plus" time window for effectiveness.

Exhibit V-4

Are Alliances More Successful With More Time?

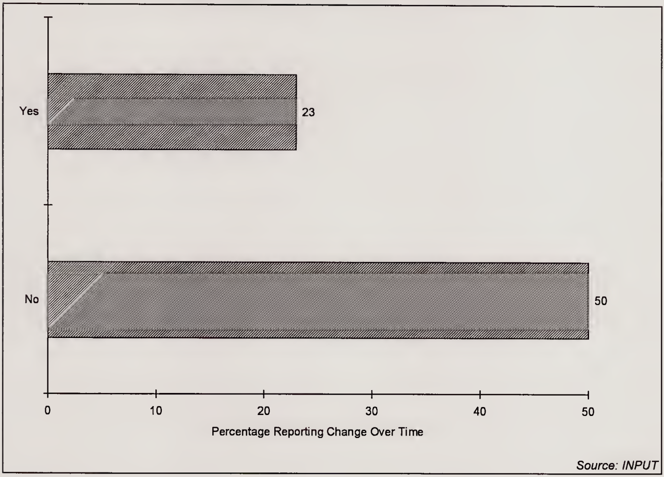


Exhibit V-5

Are Alliances More Successful With More Time?—Comments

Why "No" ?:

- Alliance either works or does not--time is not the key
- A certain time window sees the highest success
- As conditions change, time may become a disadvantage

Why "Yes" ?:

- Over time, can better understand and adjust to other's approaches
- "Our alliances *mainly* become highly effective only after three years."

Source: INPUT

Although ~~While~~ these findings regarding time impacts on the alliance in no way rule out the usefulness of multi-year agreements, INPUT does recommend that firms carefully evaluate alliance success at the end of the first year. They should look especially for success factors that surfaced in the six-to-twelve-month period, then aim to extend and maximize those factors in the second and any succeeding years.

C
Measuring Success

Exhibit V-6 lists the ranking of five measurable results of alliance success. These were derived by asking these firms which results they rated as "most important"—the success factors that they most *want* to achieve.

Exhibit V-6

Measures of Alliance Success
That Firms *Rate* as "Most Important"

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- Ranking, in descending *importance* of different measures of alliance success:
    1. Increase in revenue
    2. Increase in profit
    3. Volume of new types of business gained
    4. Number of new sales contracts
    5. Length of time the partnership exists

Source: INPUT

Exhibit V-7, on the other hand, indicates the result of these firms re-ranking those same success factors to show which ones they consider themselves to have been "highly successful" in actually *achieving* that measurable result in their alliances.

Exhibit V-7

Measures of Alliance Success Where Firms Actually *Achieved* "Highly Successful" Results

no ital

Ranked in order of the extent to which firms actually proved *"highly successful"* in alliances:

1. Increase in revenue
2. Length of time the partnership exists
3. Number of new sales contracts
4. Increase in profit
5. Volume of new types of business gained

Source: INPUT

In comparing ~~and contrasting~~ these two rankings of measurable success factors, note that for only one of the most highly important measures (increase in revenue) did the importance of the measure match its successful achievements—number-one rankings for both.

In contrast, the second and third most *important* factors (increase in profit and volume of new types of business gained) ranked at the bottom of the list of alliance *successes*. These firms found that they were relatively more successful in achieving the lower importance success measures of length of time the partnership exists and number of new sales contacts. In other words, except for increasing revenue, these firms did not achieve their most important measures of alliance success.

Based on these findings, INPUT recommends that firms aim first to measure success in terms of revenue increases, and use other, generally less successful, measures on a secondary basis.

VI

Recommendations for Success

This chapter offers summary-level recommendations for vendor success in strategic alliances, derived from the findings presented throughout the earlier chapters.

A
INPUT Recommendations

As shown in Exhibit VI-1, INPUT derives eight key recommendations from the findings of this report.

Exhibit VI-1

Summary of INPUT Recommendations for Alliance Success

1. Be sure that all the partners' commitments, objectives, and understanding~~s~~ of the terms of the alliance are in close alignment
2. Nurture carefully the alliance's communication~~s~~ channels and all aspects of the working relationship
3. For international alliances, watch out for cultural differences and different national business practices
4. When choosing a partner, pay close attention to the firm's financial stability, overall business track record, long-term commitment, and industry knowledge
5. Be more cautious if planning an alliance outside the most successful types: ~~C~~contractor relationships and joint marketing
6. Aim to avoid problems that stem from poor definition of partners' responsibilities
7. Expect variations in alliance success over time
8. Focus on increases in revenues as the most likely measure of success

Source: INPUT

First among the recommendations that INPUT makes is to focus carefully on alliance commitments, objectives, and understanding~~s~~. Above all, this means that partners must agree explicitly on the commitment that they bring to the alliance and on the partnership's shared objectives. Most often these objectives will relate to shared market opportunities, plus factors of leverage between the firms partnering. Note that this agreement ~~both~~ must be made at the start of the partnership and then ~~must be~~ reviewed and renewed periodically. Further, this means that a firm must be clear that each partner has the same shared understanding of the alliance's terms and conditions, both initially and over time. This recommendation relates closely to the next point.

Second, ensure that understanding~~s~~ of the terms and conditions of the partnership ~~stay~~ remains aligned over time. For the overall success of the alliance, each partner must focus continually on communication~~s~~. Be sure that overall corporate-level communication~~s~~ channels are defined explicitly and structured for effectiveness. ~~Look~~ Seek to foster key person-to-person communication paths and practices. Communication is, however, just one key factor in the health of the working relationship. All aspects of that relationship will be more healthy to the extent that there is

attention focused explicitly, as a key part of the alliance, on the mechanics of working together effectively.

Third, be cautious when there is an international aspect to the alliance. Problems in international relationships show up most often due to cultural differences and the resulting misunderstandings, so again it is important to pay careful attention to communications. Look for ways that culture clashes may undercut effective communication, then plan to protect against those factors. Also, watch out for business practices and customs that may be routine in one partner's nation but unusual or even out of the question in the other's, then plan ~~for~~ how to handle those diverse business practices.

The fourth recommendation concerns factors regarding choosing a partner. "Look before you leap" regarding a partner's finances. Recognize that if the~~y~~ partner is ~~are~~ suffering financial instability before the alliance is agreed to, that may ~~come back to~~ undercut the partnership's success, especially if the partnership itself or the commitment of resources to it later becomes jeopardized by a financial reverse suffered by the partner. Closely related, is the requirement to examine the partnering firm's overall business track record, looking for signs of relevant success rather than failure—not just within alliances ~~they have~~ it has undertaken in the past, if any, but also in ~~their~~ its business record in general. Note that there may be trouble in the alliance if the partner is not committed to long-term working relationships. Most partnerships take time to demonstrate success (see the seventh recommendation, below), so a lack of such commitment may create trouble. Those partners willing to commit to a long-term working relationship most likely will be the same ones that have strong knowledge of their industry based on their leadership over time—another key factor in choosing a partner.

Fifth, ~~while~~ though other types of alliances may work effectively, aim to focus first on alliance opportunities that involve a prime contractor/sub- contractor relationship or a joint marketing agreement. These generally are the most successful alliances, so they should be looked for first. Be more cautious, and recognize that success is less likely though certainly still possible, ~~for~~ in other types of alliances.

Sixth, and closely related to the first and second points above, recognize that many alliance problems result from situations where the partners' responsibilities either were not defined effectively at first, or changed or needed to change over time but were not addressed clearly at the later

date. Again, clear understandings and careful nurturing of the working relationship's communications will help avoid this problem.

Seventh, do not be surprised that the success of the alliance varies over time. In fact, plan for it. Look especially for the six-to-twelve-month time window to show early results that are better than those of the first six months. Consider carefully how long to extend the alliance, and examine any resulting need to modify commitments, and objectives, ~~and understandings.~~

Eighth, and finally, when measuring success, focus first on increases in revenues, as this is the most likely high-priority outcome of an effective alliance. ~~While~~ Though other positive outcomes may result as well, aim to make revenue increase the key objective, and regard the other objectives as desirable, yet not central, to measuring the success of the alliance.

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STRATEGIES FOR SUCCESSFUL ALLIANCES

No Background

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Exhibits

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Is this right?

to the AT&T brand name, the larger firm's customer service expertise, and its financial and technological strengths.

2. Critical Success Factors

In terms of partnership success factors, some observers say that it is best to aim for "high-stakes" partnerships: Larger stakes, it is argued, will drive the partners to work harder for success. Others counsel firms to "start small" with limited-scope partnerships.

Also, some say, aim to ensure that both partners are critical to one another's success in the venture—that it is not a one-sided alliance.

There is general agreement that it is also important to alliance success that the interface between the companies, their communications and working relationship, be very strong. Some argue that the strength of the working relationship can be enhanced by consciously aiming to place the alliance's communications and management structure somewhat outside either firm's existing business practices and rules. This is particularly important when the communications and management structure are culturally very different between the firms. Included in managing the relationship are agreements about expected outcomes, time horizons, and mechanisms for coordination, communication, and conflict resolution.

Finally, some argue that *only* long-term partnerships, those expected to last more than five to seven years, are worth the effort required for a successful strategic alliance.

B

Experience with Partnerships

Exhibit III-1 details the experience of interviewees' firms with different types of partnerships. Almost all of those interviewed have had experience with four key types:

- Product-based partnerships, in which the product or products of one or more partners are sold to customers as part of the alliance agreement
- Subcontractor relationships, in which one partner owns the prime contract with one or more customers and the other functions in the subcontractor role

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9. Define Financial Rewards

As always, money is a key factor. For compensation, each partner must be happy with the money being made: Fair, win/win deals and ongoing working relationships should be the watchwords, as discussed earlier. This includes careful sorting out of profit sharing that accrues from sales generated by the alliance, and may require an attitude that one interviewee reported communicating to the team: "Sharing the money is better than no work at all." It also means that money going out (i.e., expenses) must be funded adequately, which means dedicating sufficient resources from the start; this fits with earlier advice about matched corporate commitments, including financial commitments. As noted earlier, an "investment mentality" regarding the expenses of the alliance is advised.

10. Start With Limited-Scope Projects

Finally, sever[illegible]dvise starting with small or limited-scope projects at fir[illegible]arting slowly, perhaps with just one project or a f[illegible] narrow scope for the partnership that can be clearl[illegible]ul. Within the alliance agreement's boundaries, [illegible] to try to regard each opportunity on its own merits.

B
Alliance Objectives

Wrong

One clear conclusion from the findings presented above is that alliance objectives are a very critical success factor. As Exhibit IV-4 shows, several types of objectives for alliance partnerships have been met most effectively by the firms interviewed.

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