

## ROOT CAUSES OF ALLIANCE FAILURE (I) – PRE-DEAL CHOICES

In these challenging times for American business, it's easy to get trapped in an "everyone for themselves" mentality. Yet no single organization is capable of mobilizing all the resources required to accomplish everything it needs to do. High quality, strong alliances open the door to growth, new capabilities and new products. They are a flexible alternative to building organically. Smart partnerships with individuals, community groups, and other organizations are the key to success.

**Strategic alliances are also fraught with peril.** Few leaders have mastered the vital art of partnering. Fundamental choices made before a deal is signed may put the success of the deal at risk. In today's market, **quality outweighs quantity of alliances.** To be successful, companies need to approach prospective strategic relationships with greater discipline and answer the following questions:

- How does this alliance fit into our existing corporate strategy?
- With which alliance partners should we deepen our relationship?
- How do we measure the quality of our alliances?

### ***How Does This Alliance Fit into Our Existing Corporate Strategy?***

Alliances that are misaligned with corporate strategy arguably should not have been formed to begin with. **If an alliance does not support corporate strategy, management will find it increasingly difficult to focus on post-deal implementation challenges that take resources away from true corporate priorities.** The question, "how does this alliance fit into our existing corporate strategy?" must be answered well before any deal is signed. If the answer is not clear, the alliance is probably not going to be successful.

We see many young companies opportunistically seeking alliances to achieve short-term revenue benefits that may or may not have anything to do with long-term objectives. While short-term pressures to achieve stronger cash flow can be huge, these deals should be viewed in perspective: they are not strategic alliances. Some are costly ways of achieving short-term gain at the expense of long-term focus; others actually harm the company's strategic objectives.

### ***With Which Alliance Partners Should We Deepen Our Relationship?***

**An effective alliance strategy can be developed only after the corporate strategy is clear.** Lack of clarity at this stage is a frequent cause of failure. Once an alliance strategy is formed that fits within the corporate strategy framework, types of alliances may be identified that match the strategy. Only then can one answer the questions, "with which alliance partners should we deepen our relationship?" and "what are the defining characteristics of these partners?"

Similarly, **mismatched corporate styles and cultures should signal pre-deal warnings** of obstacles that may not be overcome despite complementary objectives and good intentions. An alliance is a relationship between two (or more) entities. Have you ever found someone who "on paper" seemed like a great match? Yet when you met in person, your personalities simply did not "click." The same mismatch can occur in corporate alliances – due to overall corporate culture, or even the style, personality and culture of the management team or key individuals. **These factors are generally not explicitly considered but can be deadly.**

We spoke with one company searching for an acquirer – one of the deepest types of corporate alliances – and heard the founder comment that while he did not personally care for or have a good interaction with the CEO of the target acquirer, he didn't think that was sufficient reason to walk away. It may well be! In an M&A situation, key executives will be spending most of their waking hours working side by side; if they cannot get along now, during their courtship phase, what happens after the deal is signed and after the honeymoon is over?



## **How Do We Measure Quality of Our Alliances?**

**Quality depends on the framework within which it is measured.** How can we determine what value we get out of an alliance, if we don't have a framework with which to measure it? For example, an alliance may allow our company to expand into the European market. Sounds great! But what if our corporate strategy says for the next 5 years our focus is on Asia-Pacific markets? Is this a high quality alliance? Servicing those European customers will take resources away from the main focus. **What value does it bring in furthering corporate priorities?**

What about our partner? **Not only must the alliance fit within our own company's strategy, it must also satisfy the equivalent needs of the partner.** If either partner is unclear, then how could one possibly evaluate whether each partner's objectives are true to their own strategies and simultaneously complementary to one another?

**How important is the alliance to our partner?** We see this frequently in the biotech world, where it is easy to identify the big gorillas in the market – many young startups jump on the idea that the bigger the partner, the better – hoping to gain access to deeper pockets, greater name recognition, and other desirable factors. Is that really the best partner? As a startup, you may have everything riding on the success of this partnership. Your partner, however, may have billions of dollars in revenues – and your product is just one bet among thousands. Is your alliance positioned in such a way that it will receive the attention you need it to? **Sometimes a partner who has a similarly large stake in the success of your product is more desirable.** Often, that means a smaller player in the market is a less obvious but better fit.

*“Coming together is a beginning. Keeping together is progress. Working together is success.”  
~Henry Ford~*

Henry Ford had the right idea – the final success of an alliance is measured in the results that come from working together. However, choices made before a deal is signed set the foundation for future success. Coming together with the right partner is not only a beginning, but is a critical first step. Successfully managing the right alliance is challenging enough. Trying to implement a working relationship in the context of a mismatched alliance is a draining and expensive exercise in frustration.

In Part II, we examine some of the critical factors in working together successfully – with the right partner.

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