

ROOT CAUSES OF ALLIANCE FAILURE (II) – ALLIANCE MANAGEMENT

Strategic alliances are often critical to the successful execution of business strategies. Alliances tend to be smarter when they are driven by strategic reasons such as diversification of products, geography, and capabilities rather than simple consolidation and cost cutting. Nonetheless, companies find it increasingly difficult to get the maximum value from their key alliances; others find their alliances fail altogether. Here, we examine challenges of working together, where **weak alliance management may turn even promising alliances into costly failures.**

Management Challenges

A successful strategy helps companies build and improve their alliance management processes by integrating all aspects of alliance management, from linking alliances to overall strategy, to maximizing the performance of individual alliances, to optimizing and managing an entire alliance portfolio. There are three levels of alliance management that are critical to success:

Alliance Portfolios

- Adjusting the composition of the portfolio to maximize value
- Creating a tiered portfolio to prioritize the most effective alliances
- Capitalizing on synergies across alliances

Individual Alliances

- Setting governance structures and operating protocols
- Managing day-to-day relationships
- Using metrics to optimize performance

Alliance Management Capability

- Standardizing best practices through processes and tools
- Creating appropriate organizational structures
- Communicating the quality of alliances

Alliance Portfolios

Many companies find themselves with a collection of individual alliances but no notion of a portfolio. While this should also be addressed in the pre-deal period (“how does this new alliance fit into our overall strategy?”), managing alliances as a portfolio allows a company to ensure that individual alliances complement the company’s own strengths and each other. As market demands change, and a company’s strengths and weaknesses change throughout its life, **the mix of the portfolio should evolve.**

Effectively capitalizing on synergies across multiple alliance partners allows companies to get more value out of the portfolio. In some cases, a single partner may take over the function of managing several other alliance partners for the company. One company we know represents international manufacturers’ healthcare products in Greater China – in part by coordinating each of the alliance partners (marketing partners, distribution partners, retailers, etc.) to maximally promote each manufacturer’s products in the target markets.

All alliances are not created equal. Some alliances will be more effective and create greater value for the company than others. **Creating a tiered alliance portfolio** and treating each accordingly is an important part of alliance management. Marketers are just beginning to understand that customer loyalty alone is not sufficient, that they need to understand how to identify and reward those existing customers whose behavior can be influenced to provide a greater return on their investment. Similarly, savvy alliance managers will identify those partnerships that have the greatest potential to produce significant returns when appropriately influenced and managed.



Individual Alliances

Having too many alliance partners may distract management's attention from the core business. A company must be able to effectively focus sufficient day-to-day management resources on each individual alliance to enable cross-company alliance teams to work together and resolve complex issues. This usually requires the integrated thinking of a diverse group. **Complex issues across teams, cultures, and often borders require powerful facilitation of creative dialog, alignment of goals, clarity, and strong leadership.** Only then can the alliance effectively resolve inevitable conflict and promote teamwork to create constructive solutions.

Even alliances that are managed with a view toward day-to-day decision-making are at risk of missing the bigger picture: Companies frequently fail to properly set up a framework for success early on, by setting governance structures and accepted operating protocols. The results can prove deadly to the success of the alliance, with alliance teams operating under their own guidelines and risking moving increasingly away from accepted practices and priorities of each partner.

A critical part of pre-deal work involves deciding how an alliance will contribute to the overall company's strategy. As part of that effort, the alliance leadership team determines metrics based on which the alliance will be measured. During the implementation phase, those same metrics are used to optimize performance. Unless we measure, we don't know how we are doing against the laid-out objectives; **unless we manage performance to those metrics, chances are we won't optimize the results.**

Alliance Management Capability

Failure to execute on an alliance often starts with the lead executive disengaging once the deal is signed. Appointing a person and/or alliance team that is accountable for the success of the alliance is critical. The person or team should have **access to standardized best practices, defined processes, and effective tools** that allow the company to apply lessons learned from one alliance to others in the portfolio. This requires developing skills and creating the appropriate organizational structures to manage alliance and to share that expertise across the company.

Finally, a key management challenge is how to communicate the quality of an alliance to all stakeholders, internal and external. For example, **communication of brand-related issues can make or break a deal.** Inconsistent brand moves can confuse customers, discourage employees, and signal a lack of will and forethought to investors. Stakeholders' first impressions of an alliance are hard to change. Immediately following the recent public announcement of The Hershey Company's acquisition of the high-end, Berkeley-based chocolate manufacturer, Scharffen Berger Chocolate Maker, Inc., we overheard disappointed Scharffen Berger fans commenting on how the company had "sold out to big business." With this merging of two very differently positioned brands, Hershey's will be challenged to maintain the loyalty of the existing Scharffen Berger following.

Alliances are fraught with peril and require on-going, dedicated management attention. Even the most promising partnership can become a tremendously wasteful exercise in frustration with inattention or poor alliance management techniques. Yet no single organization is capable of mobilizing all the resources required to accomplish everything it needs to do. The challenge is to effectively manage the most promising alliances for greatest mutual success.

Authors: Karin Hollerbach and Schuyler Morgan bring financial and transaction expertise as well as real-world management experience to work with companies to complete successful financings, mergers & acquisitions, and strategic partnerships. To us, deals are not just financial and legal transactions; they are relationships among organizations powered by humans.

Karin Hollerbach, PhD
+1 510 482 3427 tel
karin@takugroup.com

J. Schuyler Morgan, PCC
+1 510 653 6868 tel
schuyler@takugroup.com

