Alliances

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Management concepts like core competence, outsourcing, business model risk, affiliate marketing, globalisation, time to market etc. lead to one common favourite approach – alliances. Advances in information technology, in particular the internet, have made alliances economical by cutting communication costs. Further, by extending the geographical spread of organizations, they have also made alliances unavoidable. It is difficult to imagine 21st century corporations without alliances.

Once upon a time, most alliances related to only technology (transferring knowhow) or markets (providing access). These were also **uni-directional**, in that the skills and knowledge would flow from one party to the other in return for a monetary consideration. *Such structures do not have any inbuilt mechanism to make the alliance stronger with time and experience.* Like TVS and Suzuki who recently parted ways, uni-directional alliances can be easily broken at an easily determinable price.

Loyalty and commitment to alliances would increase if both parties get something out of the alliance on a business plane (**bi-directional** value) – as distinct from just a monetary consideration for services. When the alliance affects the allies' businesses directly, then with time and experience the parties understand each other better and also get more dependent on each other. This ensures greater effort towards making the alliances work, rather than fail.

Alliances among competitors has come to be called *co-opetition* – co-operation between competitors. The recent example of Wockhardt and Ranbaxy choosing to work together for the US market is a typical example. So also handset manufacturers internationally getting together for 3G technology. Internet exchanges promoted jointly by automobile companies, fast moving consumer good companies etc, both in India and abroad, are prime examples of synergistic alliances, where *consolidated value offered by the alliance is more than the sum of parts.* Such alliances have the best chance of success.

Alliances with suppliers to ensure exclusive or committed access for a raw material or technology or service are common. The same uni-directional technology alliance could become bi-directional if the technology provider chooses to use the technology receiving company as a sourcing base. Then, the technology provider has got a greater incentive to ensure technology absorption and results.

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An example of an alliance between manufacturer and service provider is the arrangement between Mangalore Refineries & Petrochemicals Limited (MRPL) and Hindustan Petroleum Corporation Ltd (HPCL); or between Reliance Petroleum Ltd (RPL) and Indian Oil Corporation (IOC). In these cases, the service providers (offering distribution service through pipelines) were also competitors (refineries producing the same products). Such alliances can be extremely difficult to work, because of the multiple agendas – particularly if the service provider is in a near monopoly situation.

Alliances with customers are becoming increasingly popular. Apart from ensuring that the buyer becomes relationship-oriented rather than transaction-oriented, it also gives the manufacturer an excellent feel for the customers' business. This, together with the enhanced knowledge that the customer gets about the manufacturer, could lead to bi-directional alliances that can be significantly value enhancing. Recent press reports mention a prospective alliance between Larsen & Toubro (L&T) and Nuclear Power Corporation (NPC), which buys equipment from L&T.

For alliances to work, the following are necessary –

> The alliance should be a natural and serious business extension for the parties. Else, the relationship would not be taken seriously. Most alliances fail because the parties lose interest after signing the agreement.

> Mutual expectations and measurable performance goals need to be clearly enunciated. The process of setting these, prior to signing the agreement, would help both parties understand each other better.

> There has to be a balance between the value brought to the alliance and value taken out of the alliance, by the parties. For instance, Enron negotiated for itself an excellent deal in the Dabhol venture that implicitly had an element of a risk premium. When the country risks were mitigated, the deal looked too unfair to succeed.

> Chemistry of the people and value systems need to match. A good example here would be the split between management gurus, Al Ries and Jack Trout. The separation is believed to have been caused by Al Ries' insistence on promoting his daughter – a value system mismatch.

> Organisationally, there has to be a parallel line between the parties, independent of the functional departments and heads of organizations. May be a role of 'Head – Alliances'. This can even be a part time responsibility. Such a position ensures that there is a buffer between the functional departments of the allies (where differences are bound to crop up) and the organizational heads (where differences can become ego issues).