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Consider Alliances Prior To Acquisition

Corporate alliances have never been more popular. Their numbers have grown by more than 20 percent a year over the past two decades, while the way they are used has changed dramatically: the cross-border and technology agreements of the 1980s and the early 1990s have given rise to the much broader range of alliances seen today—outsourcing agreements, consolidation ventures, start-ups, channel partnerships, and other co-branding and co-marketing deals

At many companies, a quarter or more of all revenues now come from alliances, but the debate still focuses on whether they work instead of how to get more out of them. Those who favour alliances argue that they should be used broadly to gain access to the assets and capabilities of other companies without assuming the burden of an acquisition premium. The naysayers, countering that it is foolhardy not to keep full control of important ventures, relegate alliances to the corporate margins. The truth, of course, lies in between; not whether alliances are the right or wrong strategy, but that companies should take a more disciplined approach, integrated into corporate and business unit strategies. Although alliances are hardly the right way to organize every new venture, CEO’s should at least consider them as a potential solution. The choice in executing corporate strategy shouldn’t be "build, buy, or sell?" but rather "build, buy, ally, or sell?"

Companies must therefore stop pursuing alliances reactively, on a one-off basis, as many do now. Instead, managers should determine when alliances can be used to shape industry networks, to fill key gaps in technology and skills, to reduce the intensity of assets, or to exploit unique capabilities. With such priorities in mind, executives can pursue the three to five new deals that best meet these needs while also keeping an eye on how competitors are using alliances, in order to avoid missing out on important new opportunities and attractive partners.

Besides weaving alliances more fully into strategy, companies should manage the performance of their existing partnerships more closely: most of them are leaving too much value on the table after a deal has been struck, because alliances are managed less rigorously than internal initiatives. The truth is that important alliance partners warrant as much attention as key customers and suppliers. In our article, we show how best-in-class companies are beginning to manage the performance of their alliance portfolios.

All this amounts to a more robust approach to alliances than most companies have been accustomed to take. Such a strategy has potentially big payoffs: more value from individual alliances as well as a partner-of-choice reputation that generates a better deal flow and improves overall corporate performance. When senior management devotes as much attention to alliances as to wholly owned businesses of similar size, we will know that alliances are being treated in the manner they deserve.

Deshel can help provide the interim support that a company requires at all stages of alliance strategy and implementation
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