PART 2

STRATEGIC ACTIONS: STRATEGY FORMULATION

PowerPoint Presentation by Charlie Cook
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CHAPTER 9

Cooperative Strategic Management

Management of Strategy
Concepts and Cases

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Knowledge Objectives

Studying this chapter should provide you with the strategic management knowledge needed to:

1. Define cooperative strategies and explain why firms use them.
2. Define and discuss three types of strategic alliances.
3. Name the business-level cooperative strategies and describe their use.
4. Discuss the use of corporate-level cooperative strategies in diversified firms.
5. Understand the importance of cross-border strategic alliances as an international cooperative strategy.

KNOWLEDGE OBJECTIVES *(cont'd)*

Studying this chapter should provide you with the strategic management knowledge needed to:

6. Explain cooperative strategies' risks.
7. Describe two approaches used to manage cooperative strategies.

Cooperative Strategy

- Cooperative Strategy
  - A strategy in which firms work together to achieve a shared objective.
- Cooperating with other firms is a strategy that:
  - Creates value for a customer.
  - Exceeds the cost of constructing customer value in other ways.
  - Establishes a favorable position relative to competitors.

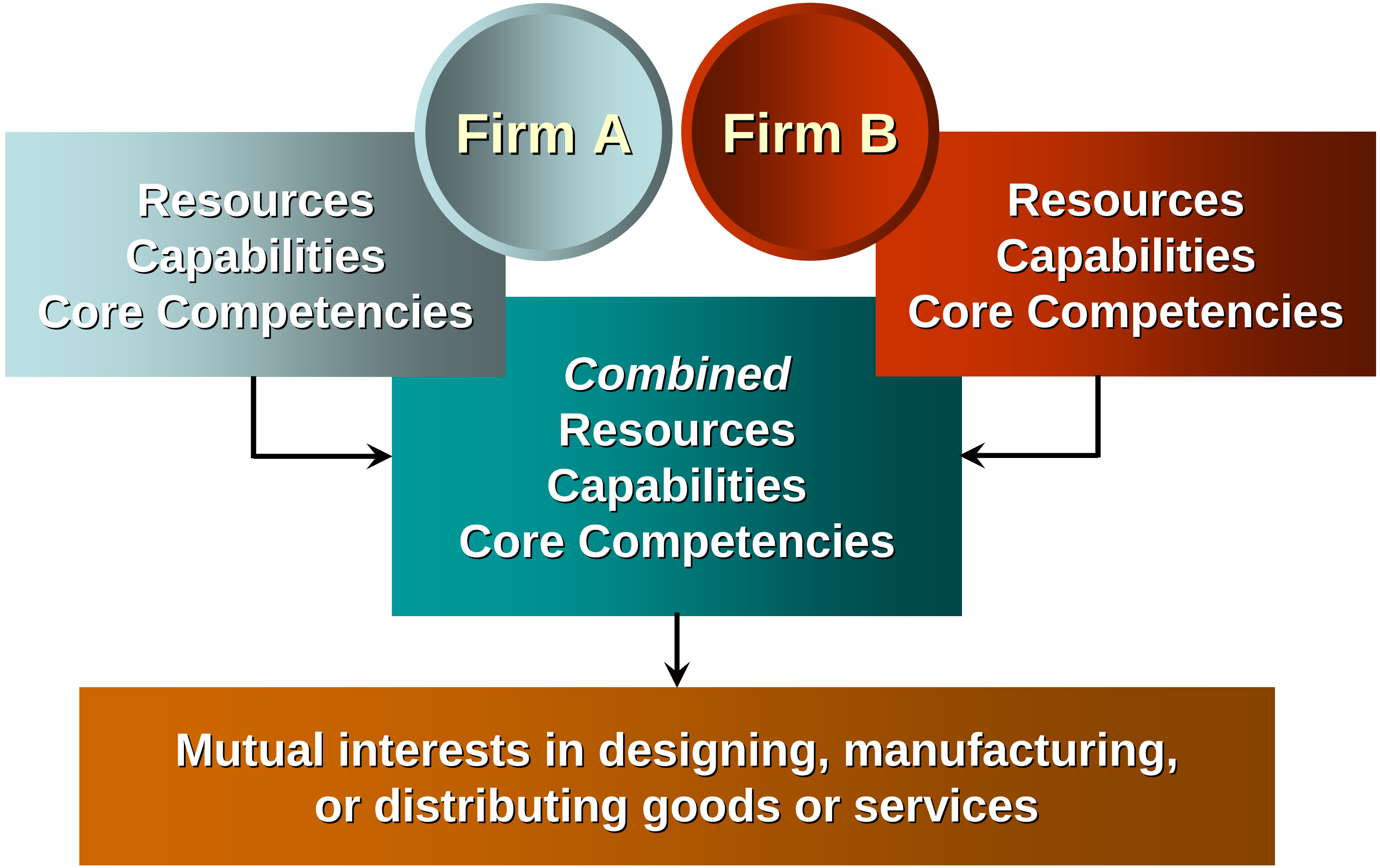
Strategic Alliance

- A primary type of cooperative strategy in which firms combine some of their resources and capabilities to create a mutual competitive advantage.
  - Involves the exchange and sharing of resources and capabilities to co-develop or distribute goods and services.
  - Requires cooperative behavior from all partners.

Strategic Alliance Behaviors

- Examples of cooperative behavior known to contribute to alliance success:
  - Actively solving problems.
  - Being trustworthy.
  - Consistently pursuing ways to combine partners' resources and capabilities to create value.
- Collaborative (Relational) Advantage
  - A competitive advantage developed through a cooperative strategy.

Strategic Alliance



Three Types of Strategic Alliances

- Joint Venture
  - Two or more firms create a legally independent company by sharing some of their resources and capabilities.
- Equity Strategic Alliance
  - Partners who own different percentages of equity in a separate company they have formed.
- Nonequity Strategic Alliance
  - Two or more firms develop a contractual relationship to share some of their unique resources and capabilities.

Table 9.1 Reasons for Strategic Alliances by Market Type

Market	Reason
Slow-Cycle	• Gain access to a restricted market • Establish a franchise in a new market • Maintain market stability (e.g., establishing standards)
Fast-Cycle	• Speed up development of new goods or services • Speed up new market entry • Maintain market leadership • Form an industry technology standard • Share risky R&D expenses • Overcome uncertainty
Standard-Cycle	• Gain market power (reduce industry overcapacity) • Gain access to complementary resources • Establish better economies of scale • Overcome trade barriers • Meet competitive challenges from other competitors • Pool resources for very large capital projects • Learn new business techniques

Reasons for Strategic Alliances

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Reasons for Strategic Alliances (cont'd)

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Reasons for Strategic Alliances (cont'd)

Market	Reason
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FIGURE 9.1 Business-Level Cooperative Strategies

- Complementary strategic alliances
  - Vertical
  - Horizontal
- Competition response strategy
- Uncertainty reducing strategy
- Competition reducing strategy

Business-Level Cooperative Strategies

Complementary Alliances

- Combine partner firms' assets in complementary ways to create new value.
- Include distribution, supplier or outsourcing alliances where firms rely on upstream or downstream partners to build competitive advantage.

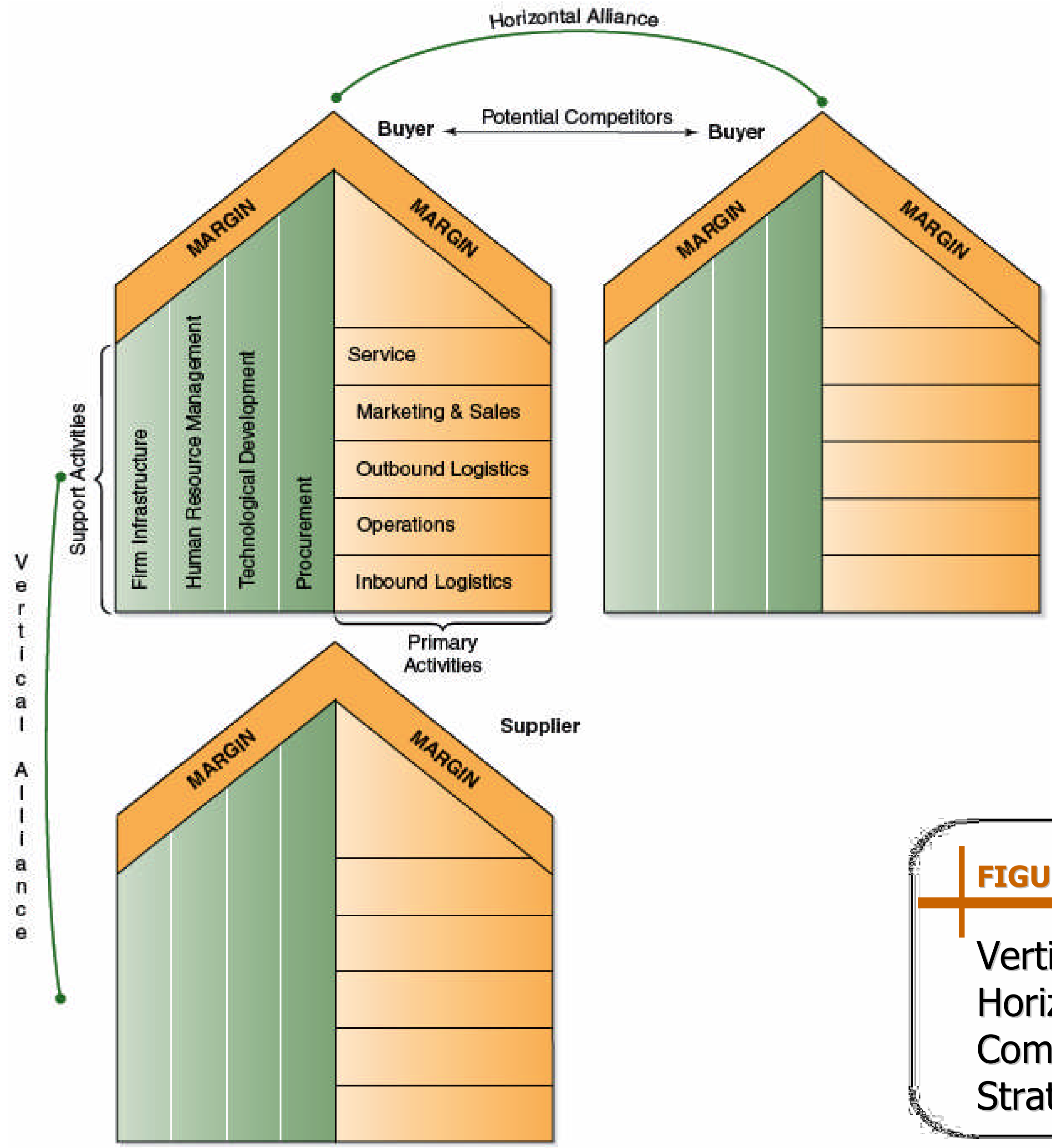

FIGURE 9.2

Vertical and Horizontal Complementary Strategic Alliances

Complementary Strategic Alliances

- Vertical Complementary Strategic Alliance
  - Formed between firms that agree to use their skills and capabilities in different stages of the value chain to create value for both firms.
    - Outsourcing is one example of this type of alliance.
- Horizontal Complementary Strategic Alliance
  - Formed when partners who agree to combine their resources and skills to create value in the same stage of the value chain.
    - Focus is on long-term product development and distribution opportunities.
    - The partners may become competitors which requires a great deal of trust between the partners.

Competition Response Strategy

Complementary Alliances

Competition Response Alliances

- Occur when firms join forces to respond to a strategic action of another competitor.
- Because they can be difficult to reverse and expensive to operate, strategic alliances are primarily formed to respond to strategic rather than tactical actions.

Uncertainty-Reducing Strategy

- **Complementary Alliances**
- **Competition Response Alliances**
- **Uncertainty Reducing Alliances**

- Are used to hedge against risk and uncertainty.
- These alliances are most noticed in fast-cycle markets
- An alliance may be formed to reduce the uncertainty associated with developing new product or technology standards.

Competition-Reducing Strategy

- Complementary Alliances
- Competition Response Alliances
- Uncertainty Reducing Alliances
- **Competition Reducing Alliances**

- Created to avoid destructive or excessive competition
- Explicit collusion: when firms directly negotiate production output and pricing agreements in order to reduce competition (illegal).
- Tacit collusion: when firms in an industry indirectly coordinate their production and pricing decisions by observing other firm's actions and responses.

Assessment of Cooperative Strategies

- Complementary business-level strategic alliances, especially the vertical ones, have the greatest probability of creating a sustainable competitive advantage.
- Horizontal complementary alliances are sometimes difficult to maintain because they are often between rival competitors.
- Competitive advantages gained from competition and uncertainty reducing strategies tend to be temporary.

FIGURE 9.3 Corporate-Level Cooperative Strategies

- Diversifying alliances
- Synergistic alliances
- Franchising

Corporate-Level Cooperative Strategy

- Corporate-level Strategies
  - Help the firm diversify in terms of:
    - Products offered to the market
    - The markets it serves
  - Require fewer resource commitments.
  - Permit greater flexibility in terms of efforts to diversify partners' operations.

Diversifying Strategic Alliances

Diversifying Strategic Alliance

- Allows a firm to expand into new product or market areas without completing a merger or an acquisition.
- Provides some of the potential synergistic benefits of a merger or acquisition, but with less risk and greater levels of flexibility.
- Permits a "test" of whether a future merger between the partners would benefit both parties.

Synergistic Strategic Alliances

Diversifying Strategic Alliance
Synergistic Strategic Alliance

- Creates joint economies of scope between two or more firms.
- Creates synergy across multiple functions or multiple businesses between partner firms.

Franchising

- Diversifying Strategic Alliance
- Synergistic Strategic Alliance
- **Franchising**
  - Spreads risks and uses resources, capabilities, and competencies without merging or acquiring another company.
  - A contractual relationship (the franchise) is developed between two parties, the franchisee and the franchisor.
  - An alternative to pursuing growth through mergers and acquisitions.

Assessment of Corporate-Level Cooperative Strategies

- Compared to business-level strategies
  - Broader in scope
  - More complex
  - More costly
- Can lead to competitive advantage and value when:
  - Successful alliance experiences are internalized.
  - The firm uses such strategies to develop useful knowledge about how to succeed in the future.

International Cooperative Strategies

- Cross-border Strategic Alliance
  - A strategy in which firms with headquarters in different nations combine their resources and capabilities to create a competitive advantage.
  - A firm may form cross-border strategic alliances to leverage core competencies that are the foundation of its domestic success to expand into international markets.

International Cooperative Strategies (cont'd)

- Synergistic Strategic Alliance
  - Allows risk sharing by reducing financial investment.
  - Host partner knows local market and customs.
  - International alliances can be difficult to manage due to differences in management styles, cultures or regulatory constraints.
  - Must gauge partner's strategic intent such that the partner does not gain access to important technology and become a competitor.

Network Cooperative Strategy

- A cooperative strategy wherein several firms agree to form multiple partnerships to achieve shared objectives.
  - Stable alliance network
  - Dynamic alliance network
- Effective social relationships and interactions among partners are keys to a successful network cooperative strategy.

Network Cooperative Strategies (cont'd)

Stable Alliance Network

- Long term relationships that often appear in mature industries where demand is relatively constant and predictable
- Stable networks are built for *exploitation* of the economies (scale and/or scope) available between the firms

Network Cooperative Strategies (cont'd)

Stable Alliance Network

Dynamic Alliance Network

- Arrangements that evolve in industries with rapid technological change leading to short product life cycles.
- Primarily used to stimulate rapid, value-creating product innovation and subsequent successful market entries.
- Purpose is often *exploration* of new ideas

Competitive Risks of Cooperative Strategies

- Partners may act opportunistically.
- Partners may misrepresent competencies brought to the partnership.
- Partners fail to make committed resources and capabilities available to other partners.
- One partner may make investments that are specific to the alliance while its partner does not.

FIGURE 9.4 Managing Competitive Risks in Cooperative Strategies

Managing Risks in Cooperative Strategies

Competitive Risks

- Inadequate contracts
- Misrepresentation of competencies
- Partners fail to use their complementary resources
- Holding alliance partner's specific investments hostage

Risk and Asset Management Approaches

- Detailed contracts and management
- Developing trusting relationships

Desired Outcome

- Creating value

Managing Cooperative Strategies

- Cost Minimization Management Approach
  - Have formal contracts with partners.
  - Specify how strategy is to be monitored.
  - Specify how partner behavior is to be controlled.
  - Set goals that minimize costs and to prevent opportunistic behavior by partners.

Managing Cooperative Strategies (cont'd)

- Opportunity Maximization Approach
  - Maximize partnership's value-creation opportunities
  - Learn from each other
  - Explore additional marketplace possibilities
  - Maintain less formal contracts, fewer constraints