A|S|A|P
ASSOCIATION OF STRATEGIC ALLIANCE PROFESSIONALS

Strategic Alliance Best Practice User Guide -- Contents --

I - INTRODUCTION: SUCCESSFUL ALLIANCES

Using this User Guide

Purpose of the User Guide

The purpose of this Strategic Alliance Best Practice User Guide is to enable you to design, form, and manage alliances in the most successful manner possible. The Alliance User Guide is the result of years of experience, analysis of successes and failures, and surveying of the most profitable approaches used by alliance experts among the top companies in America. The material contained in this User Guide reflects the learnings gleaned from well over 1,000 alliances, both domestic and international.

However, it is not the intent of this guide to provide you with a "cookbook" about alliances, with precise formulations and ingredients, because every alliance is different — one size will not fit all. Neither is it valuable to attempt to make users alliance "mechanics," because mechanics understand only the "nuts & bolts," but lack the designer's understanding of the vision, value proposition, and interactions between the systems — all capabilities possessed by an "architect." Every alliance is unique and must be customized to the alliance partner, the driving strategy, and the cultures of the alliance partners. Therefore, this User Guide should be viewed as a ***guidebook, not a cookbook.***

This User Guide is designed to prevent those involved in deal making from committing significant mistakes typical to business developers that are the cause of alliance failure. In particular: too much emphasis on legal agreements; too early a focus on structure without understanding and, the driving strategy or functional integration requirements; lacking a sense of continuity between the negotiating team and into the alliance operational planning and implementation.

Using this User Guide

Findings from Best Practices Benchmarking

The contents of this User Guide have evolved from benchmarking studies of the Best Practices used among the top corporations currently involved in alliance formation and management throughout the world. You will see many words of advice from seasoned veterans who have made many mistakes in the course of mastering their profession.

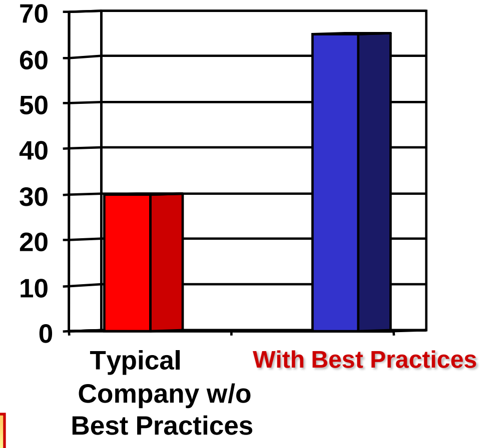
A Best Practice then results from comparing a number of different ways for achieving the same output. The "best way", or Best Practice, is the one that achieves a superior output in the most efficient way at the least possible "total" cost to the organization. Some examples are claims processing or distribution methods. An important consideration to remember is that a Best Practice today can be replaced with a "better" Best Practice tomorrow that improves upon the results of the output of the process being performed. Explicit in this definition are the importance of consistent quantitative measurements.

It is important to know that alliances that do not follow best practices have a very high likelihood of failure. But for those who diligently adhere to best practice usage, the rewards are enormous, resulting in much higher success rates as shown in *Figure A.*

With Best Process & Best Practices, the success rates go up to 65%

Figure A

Alliance Success & Failure Rates



Source: The Warren Company 1994-2001
Booz-Allen Hamilton, 2000
Brigham Young University-Wharton Study, 2001

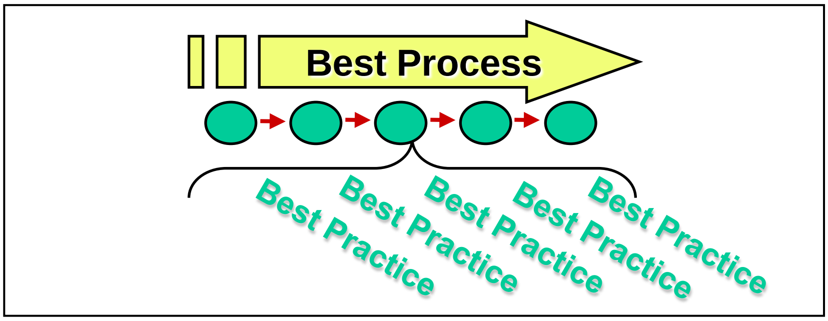
Using this User Guide

Best Process Framework

In addition to Best Practices, this User Guide provides the proper sequencing of best practices, which is the "Best Process" flow. In the compilation of the best practices, it has become clear that there is also a best process for alliance formation and management as depicted in *Figure B*

Figure B

A Best Process Is a Sequence and Flow of Best Practices.



By combining Best Process with Best Practices, the alliance professional or practitioner has the advantage of an extremely powerful methodology for alliance success. The Best Process model used throughout this book is depicted by the Alliance Framework outlined at the end of this section.

While the illustration above indicates that a Best Process is a collection of Best Practices, how would we recognize one if we were to see one. A Best Process is best thought of as a total systems solution of a problem. As an example, if we consider all of the steps required from receiving a claim form through responding to the claim we would have a number of Best Practices being applied throughout the steps involved. We would then consider all of these individual steps, using Best Practices, within the overall process being considered the Best Process.

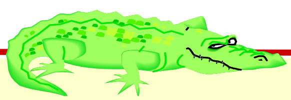
Alliance Definition

Definition

The term “alliance” is used by many organizations to encompass a broad spectrum of relationships. For the purpose of this User Guide, our definition of an alliance is **a close, collaborative relationship between two or more entities that share complementary assets and strengths to create increased value for their customers and their own organizations that could not be accomplished independently.**

Some characteristics of a typical successful alliance include:

- Synergy in the relationship contributing to a powerful value proposition;
- Mutually compatible goals that would be difficult for each to achieve alone;
- Expectations of sharing the rewards and risks inherent in the relationship;
- Terms of the alliance agreement are incomplete because of future uncertainties;
- A governance structure is established to conduct joint decision-making and to deal with conflict resolution;
- Each organization is looking out for the interest of the other organization and the alliance as a whole;
- Champions are designated by the involved organizations;
- Operational unit support is achieved and aligned at multiple levels;
- There is a long-term view to the relationship; and,
- Joint planning is used to innovate and evolve the relationship over time.



~TRAP~

Apply the term "Partnership“ Very Cautiously

Using the term "partnership" has very strong legal implications which link one firm's obligation to legally binding commitments on the part of the partner, and vice versa.

Recently, one very large US corporation had told one of its suppliers it wanted to engage in a cooperative partnership with its vendors. The supplier made major capital investments based on this commitment. When the market changed unexpectedly, the large corporation canceled its orders and the supplier sued based on the supposition that a partnership existed. Use the term “alliance” instead of “partnership.”

Alliance Definition

Alliance Characteristics

An alliance should embody the spirit and essence of the following characteristics to improve its likelihood of success. Any alliance missing these characteristics will likely be beset with problems. Use these characteristics as a checklist to assess current and prospective alliances. Any missing characteristic should be considered a danger sign.

- ✓ Synergistic (1+1>3)

  Powerful Value Proposition - Combining of organizational strengths is multiplicative, resulting in a far superior value proposition.

  Mutually Aligned Goals - Investments by both organizations result in greater returns when goals are aligned.

- ✓ Strategic - Affects long term destiny - determines whether relationship will be strategic, long lasting, or tactical, limited time period.
- ✓ Champion - A Senior leader is designated to support and promote the alliance.

  Operational Unit Support is assured by the Champion.

- ✓ Tight Operating Linkages - Governance Structure is put into place for joint decision making, problem solving, conflict resolution and planning.
- ✓ Interaction at Multiple Levels - while the champion will interface at the senior levels, all functional areas should have corresponding interfaces to ensure smooth operational implementation.

Alliance Definition

Alliance Characteristics (continued)

- ✓ **Collaborative**

  Win-Win is an expression used to imply that both organizations are committed to achieving above average results for the alliance as a whole. In so doing each organization will benefit to a greater degree than they would have if they had operated in their own best interests.

- ✓ **Reciprocal Relationships**

  Shared Assets

  Sharing Strengths & Information

  Shared Risk & Reward

- ✓ **Regenerative**

  Renewing contract

  Adapting Strategy to Competitive Environment

Why Alliances are Essential

Winning in Today's Competitive Environment

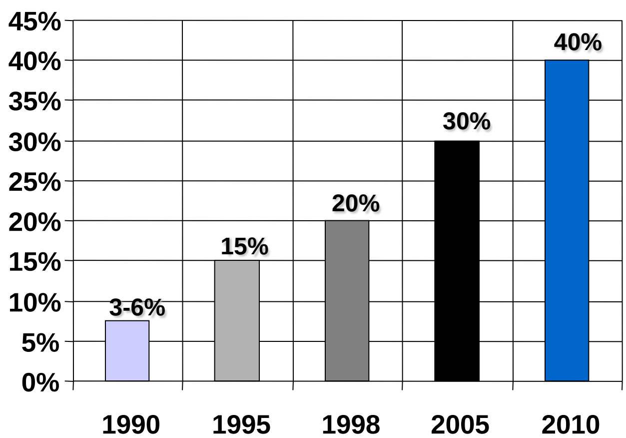
In today's world, companies must continually grow their core business and enter the fastest growing market segments.

In the rapidly changing world of global competition and technological invention, where state-of-the-art technology is sometimes superseded in a matter of weeks, the race may not go to the swiftest state-of-the-art new technology, nor to the largest behemoth corporation, nor to the fanciest marketeer. Rather, it will be won by the team delivering to the customer the highest value integrated solution.

Maintaining a competitive edge and marketing leadership is more than just a challenge, it is a necessity. For companies to remain strong during the 2000's, it is essential to find opportunities for leveraging and expanding their core competencies into leading edge markets.

Figure C

Alliances as Percentage of Revenue for Top 1,000 U.S. Public Corporations



Sources: Columbia University, European Trade Commission, Studies by BA&H, AC.1983-1987, 1988-1993, 1994-1996, 1999 EIU Global Executive Survey Andersen Consulting, Warren Comp.

Figure C illustrates the dramatic shift in usage of alliances for creating competitive advantage. The forces that have propelled this massive shift include globalization, the Internet, new competitive models that are reengineering the value chain, and the need to provide totally integrated solutions from participants throughout the value chain.

Why Alliances are Essential

Winning in Today's Competitive Environment

~ TIP ~

USE ALLIANCES to ADD or SUPPORT CORE COMPETENCIES

Enhance Performance in the Value Chain

1) Widens the Domain of Innovation
2) Capitalizes on Hidden Assets
3) Provides Potential Access to a Variety of Markets
4) Significantly Contributes to Perceived Customer Benefits
5) Difficult for Competitors to Imitate
6) Grows When Shared and Applied

~TIP~

Use Alliances to LEVERAGE CORE COMPETENCIES

"What We Are Good At"

Core Competencies are not simply our products, services or physical assets, but include:

- Embedded organizational knowledge
- Defines your company's unique capabilities to deliver value
- Involved complex integration
  - Harmonizing streams of technology and production skills
  - Specialized coordinative abilities
  - Unique technical capabilities
  - Integration of customer needs to technical possibilities

Why Alliances are Essential

Winning in Today's Competitive Environment *(continued)*

For many companies it is vital that these relationships be developed early in a market's evolution, which is more likely to ensure a long-term competitive position, and facilitate access to the best alliance partners.

Key Alliance Drivers

There are a number of reasons why alliances are formed. Below is a review of the typical objectives. It is important to be clear about the purpose and objectives of an alliance *before* seeking partners and entering into negotiations. Figure D demonstrates the wide variety of drivers which spawn alliances. Alliances are created for a number of reasons, including:

- Gain foothold in international marketplace
- Innovate in the industry
- Establish a unique position in the market
- Boost market presence
- Provide added value to customers
- Expand customer base
- Access knowledge & expertise beyond company borders
- Increase sales and profitability
- Reduce overhead through sharing costs or outsourcing completely
- Enhance R&D capability and to conduct R&D
- Strengthen reputation in the industry as a result of associating with world class organizations.
- Extend product offerings
- Speed entry into particular market
- Secure position as front runner in marketplace
- Provide marketing
- Establish advantageous Purchaser/Supplier relationships
- Set up Distribution Networks
- Augment selling effort
- Manufacture cost effectively
- Supply Customer Service
- Increase sales and profitability
- Reduce overhead through sharing costs or outsourcing completely
- Leverage assets to diversify into related businesses

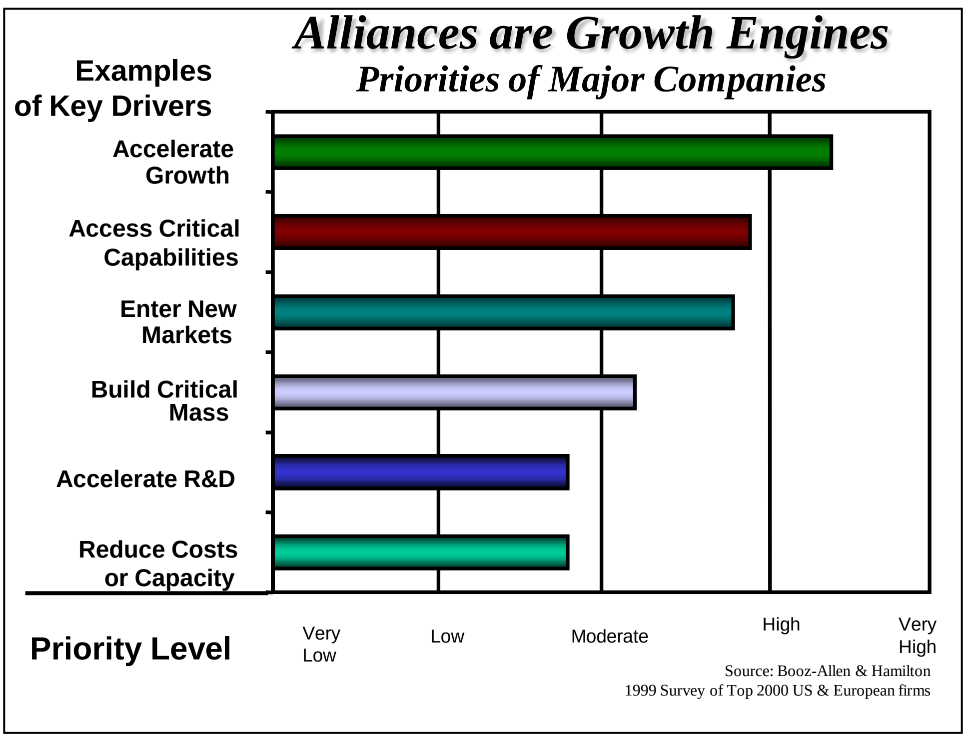
Why Alliances are Essential for

Key Alliance Drivers *(continued)*

The priorities placed on some of the key drivers by major companies are shown in Figure D.

Figure D

Key Drivers



Why Alliances are Essential

Increased Return on Investment

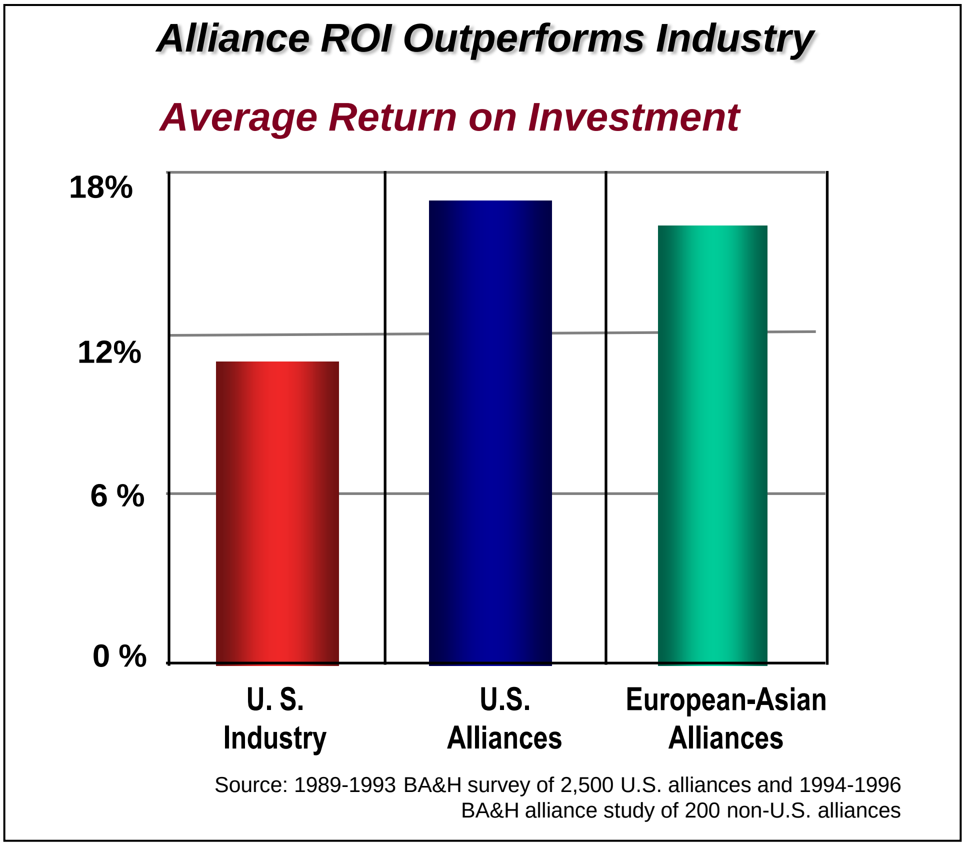
Alliances, when successful, outperform normal investments. This is because the alliance structure is able to capitalize on using the partner's assets, including:

- Other People's Assets (OPA)
- Other People's Baggage (past mistakes) (OPB)
- Other People's Capabilities & Competencies (OPCC)
- Other People's Time (OPT),
- Other People's Resources (OPR),
- Other People's Connections (OPC), and
- Other People's Knowledge (OPK)

Alliance organizations agree to share their complementary assets to create a "win-win-win" situation. That is increasing value for customers and increasing rewards for both entities. As a result, ROIs are increased for alliances as shown in Figure E.

Figure E

Demonstrates the impact of Alliances on ROI



Why Alliances are Essential

Increased Return on Investment *(continued)*

Coopetition

Coopetition is a term that was coined to describe alliance relationships between organizations that normally compete against one another in the same competitive space.

Ten years ago, competitors were considered "the enemy," to be dominated, defeated, and eliminated. In a dramatic turn of attitudes, 50% of all alliances today are between competitors. Often these alliances are driven by the need to reduce risks of developing new technologies, to open up new markets, or to supply a mutual customer with compatible products & services. Given the critical issues that naturally occur between competitors, it is essential to use the best practices in this guide.

Advantages of Alliances

There are numerous reasons for forming alliances, as described in Figure D. Some of the major shifts in market evolution include:

- To take advantage of economic disruptions in the market place, alliances provide a fast alternative to internal growth;
- Revenue in the market is shifting to services; and,
- Profit is increasingly derived from leveraging the core competencies of alliance partners by creating stronger integration of their unique strengths.

Developing synergies by matching your capabilities with potential alliance partners that share your objectives, basic values and strategic focus will be the key to success in this competitive world.

Given the proliferation of rapidly changing technologies, new delivery systems, vicious global competition, and difficulties in foreseeing every future possibility, a needed strategy for winning in a rapidly changing and highly uncertain environment is to have many options, opportunities, and avenues for creating value for the customer. This often will require multiple alliances in multiple markets, which will need to be managed using an alliance portfolio management system.

Why Alliances are Essential

Advantages of Alliances *(Continued)*

Maintaining *prominence as the leader in the industry* is only possible when our company creates the *greatest value* for its customers. This superior *value* is generated not solely from being technologically competent, but by combining a best solution with the best service, quality, distribution, integrated management systems, reliability, and the best relationships with alliance partners and customers.

You can achieve a *superior value-added position* in the market by *augmenting its own internal core competencies with the assets, competencies and human capital brought by alliances.* Alliances can be used to immediately enhance our position in: marketing, distribution, service, systems integration, product development, technology research, design innovation, *and solution sourcing.*

While alliances, mergers, and acquisitions each have their distinctive advantages in certain situations, some of the general advantages of alliances compared to mergers and acquisitions are shown in Figure F on the following page.

Why Alliances are Essential

Advantages of Alliances *(continued)*

Figure F

General Advantages of Alliances

Versus Mergers & Acquisitions

Strategic

- Increase Penetration into New Market Niches
- Expansion of Market Share
- Able to Meet More Customer Needs
- Higher Customer Satisfaction
- New/Broader Technical Capacity
- Quickly Become "Best in Class" Competitor
- Increase Barriers to Entry/Exit
- Access to Innovation
- Synergistic (1+1≥3)
- Quickly Introduce New Business Models

Economic

- Require Less Up-Front Cash
- Quicker Time to Market
- Increase Gross Profit Margins
- Decrease Marketing Costs on a Per/Unit Basis
- Don't Pay Premium for Acquisition
- Drain Fewer Resources from Sponsors
- No Cost for Unwanted Capabilities

Functional

- Quicker to Form
- More Flexible to Operate
- Less Risky
- Are Relatively Easily Established
- Enable Stretching of Financial, Managerial, & Technical Resources
- Easier to Dissolve

Why Alliances are Essential

Disadvantages of Alliances

Some of the more significant disadvantages of alliances are:

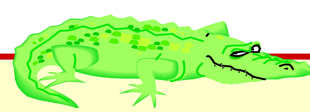
- Perceived lack of control;
- Lose exclusivity to technology;
- Inability to correct problems quickly; and,
- Possible legal conflicts.

Many managers perceive a lack of control as the largest disadvantage. However, alliances can be controlled, but the concept of control is very different from the classic style of control through hierarchical power and limitations of authority. Alliances exercise control through alignment, coordination, creative adaptations, governance structures, and designing empowering measurement systems.

Loss of exclusivity in any area is only a concern when you think that it is paramount to your core capability. If a technology is core, then plans should be made to acquire it at the outset of the agreement.

Correcting problems quickly is more a function of trust and chemistry as we shall see, than anything else. By ensuring peer – to-peer functional reviews and empowering employees closest to the problem, issues can be resolved quickly in alliances.

Legal conflicts arise when you lose trust in your partner. The old adage is, “If you have to pull the contract out of the drawer to resolve an issue, then the alliance is failing.”



~ TRAP ~

This deadly sin is the most frequent trap of all alliance killers

Best Practices Violated

Alliance disadvantages are normally due to an organization’s haste to create an agreement. The end result is considered a “deal”, rather than an alliance of equals. This occurs because in our haste to culminate an agreement we do not review all of the basic alliance principals that are outlined in this User Guide.

It is critical that alliance practitioners not ignore basic considerations, such as, core competency of each player, chemistry, operational styles, and the strategic direction that each organization has laid out for themselves.

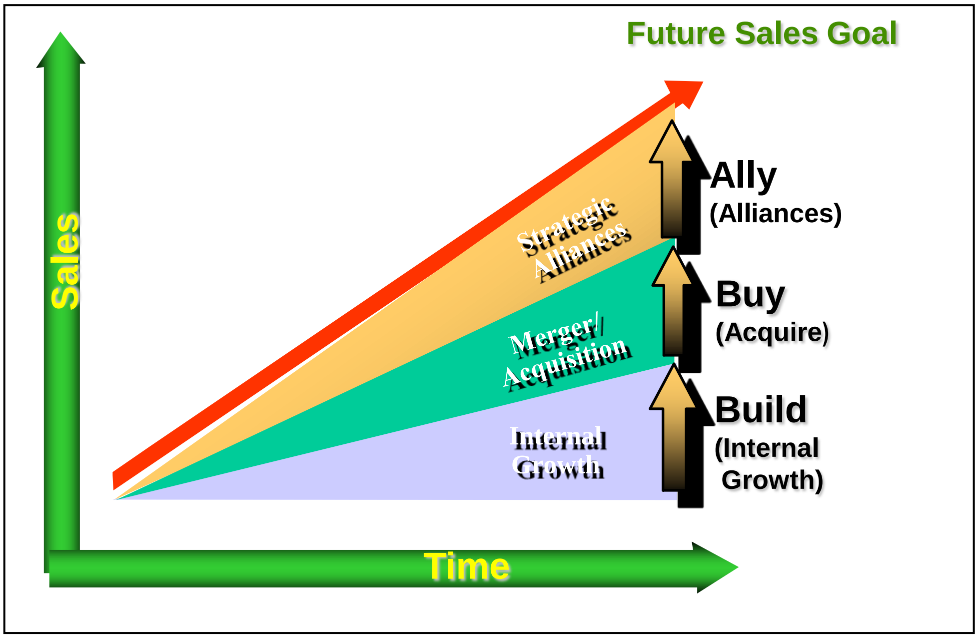
When to Create an Alliance

Growth Portfolio Options

Is an alliance the right approach to addressing your strategic goal or need? This is the most critical question any company can ask before embarking on an alliance journey. Consider first: "What is the best growth vehicle?" Fundamentally, there are only three ways to grow a company: Internal (organic) Growth, Mergers/Acquisitions, and Alliances. Every company should have a balanced strategic portfolio of these three approaches to growth and success. (See Figure G).

Figure G

Alternative Growth Vehicles



Each approach has its own advantages and disadvantages -- no approach is inherently better than another. Every business opportunity should be thought through as to the best approach. Figure H illustrates some of the pros and cons of each growth option, and when to use each of the options.

When to Create an Alliance

Growth Portfolio Options *(continued)*

Figure H

Pros & Cons of Alternative Growth Approaches

	PROS	CONS
Build (Internal Growth)	+ Strengthen Internal Capabilities + Tailor Growth to Needs + Control Assets & Technology + Maintain Core Competencies	- Expensive - Time Consuming - Value Capture Delayed - Uncertain Success - Limited Expansion Growth - Competitive Disadvantages
Buy (Merge or Acquire)	+ Quick Entry into Similar Business/Geography + Proven Capability + Product Differentiation + Reduce Supply/Demand Interruptions + Expand Competencies	- Large Cash Outlay - Massive Integration Challenges - Uncertain Regulatory Approval - High Risk - Complex Deal Negotiations - Disruptions from Simultaneous Acquisitions
Ally (Strategic Alliance)	+ Quick Entry into New Business/Geography + Proven Capability + Shared Risk + No Acquisition Premium + Multiple Alliances Possible + Expand Competencies + Change Positioning + Value Chain Leverage	- Shared Reward - Governance Challenges - Must Define Performance - Lack of Attention - Portfolio Management Challenges - Control Difficulties

Certain *conditions* in the business environment will also have a major impact on when to use an alliance. The matrix in Figure G will provide guidance in determining what structure to use. For example, in situations with low risk, slow speeds of expansion, hand high resource availability, chose internal growth. But for situations of low resources, highly differentiated business types or cultures, and extensive changes in the environment, chose an alliance.

When to Create an Alliance

Growth Portfolio Options *(continued)*

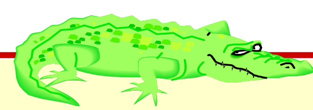
Figure I

Build, Buy or Ally Decision Matrix

IF → **THEN**

These Conditions | **Consider the Following Options**

Risk Level	Speed of Expansion Required	Resource Availability	Cultural Similarity	Change in the Environment	
Low	Slow	High	The Same	Slow or Predictable	Build
Low to Moderate	Moderate	High to Moderate	High Similarity	Moderate	Buy
High to Moderate	Fast	Moderate to Low	Different	Extensive or Unpredictable	Ally



~ TRAP ~

Faulty Assumptions

Executives fall into this trap by assuming that a good strategic "fit" implies a good operational "fit."

A strategic match conceived in heaven can end up in divorce.

Some executives want a deal so badly, they will do anything to get a signed document, rather than take the time to carefully write out an operations plan.

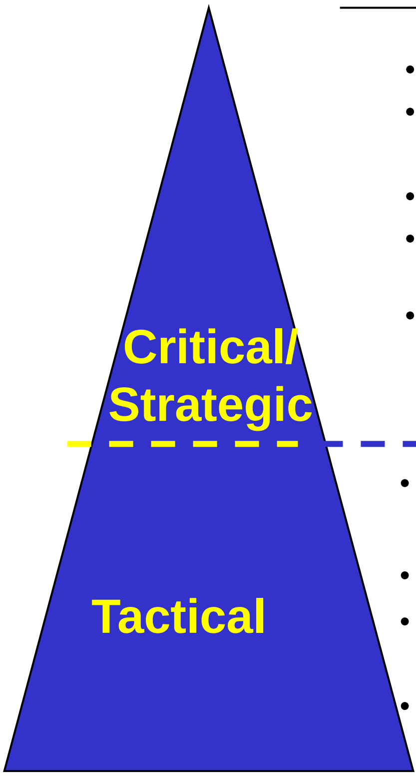
With the prescriptions in the following chapters, you will be able to avoid this problem with utmost certainty.

When to Create an Alliance

Growth Portfolio Options *(continued)*

Having determined that an alliance is needed, it is helpful to determine whether the alliance will be strategic or tactical. This determination is important in deciding who should be involved in the formation and management of the alliance, required approvals, and the extent of resources to be applied to the formation and management of the alliance.

Figure J



General Description	Examples
• Critical to core business • Potential to reshape company or industry • 1 to 6 deals • Affects 5 to 10% of revenues/profits/costs • Important in size and scope	• Large mergers or acquisitions[1] • Major joint ventures • Major outsourcing alliances
• Operational or enabling business arrangements • Complement existing assets • Necessary to provide base of products or services • Numerous deals	• Alliances with vendors or suppliers

1. Mergers and acquisitions are not technically considered alliances.

When to Create an Alliance

How to Create an Alliance

Once the organization has assessed the Build, Buy and Ally model and has decided upon allying our organization with another, the next step becomes the most important step in the overall development of the alliance. It is implementation of the Enterprise Alliance Framework or process. Not using this process could more than likely result in a deal making mentality. Consistently using our institutionalized alliance process will guide practitioners as they initiate the first steps in the alliance formation process.

Senior management begins by selecting a champion - an executive who is charged with making the specific strategic alliance take shape and become a reality.

The champion builds a cross-functional/multidisciplinary core alliance development team that will execute the relationship-building process - analyzing needs and potential partners and ultimately creating an operational team that will oversee the alliance relationship over the long-term. As the process proceeds, the core alliance development team grows and draws on the expertise of people from throughout the organization to create sub-teams to handle specific tasks.

The nature of the core team and sub-teams varies as the organization moves through the phases of the alliance process; the precise makeup of the team depends on the task at hand at any given time, on the nature of the business process being considered, and the organization's specific structure and needs.

The various teams involved in the alliance formation process are essentially temporary. They are assembled to perform specific tasks and then dissolved when the tasks are complete. As a result, executives must ensure that team members are familiar with the alliance concepts and processes and have enough time to devote to the effort.

Figure K depicts the worst practice methods for the creation of alliances. It is important to remember that another company utilizing a "Deal Mentality" will have to become educated in the way our organization will approach alliance relationships. If they are not amenable to this method, we may have to reconsider the relationship or treat it as a tactical one until a more appropriate organization comes along.

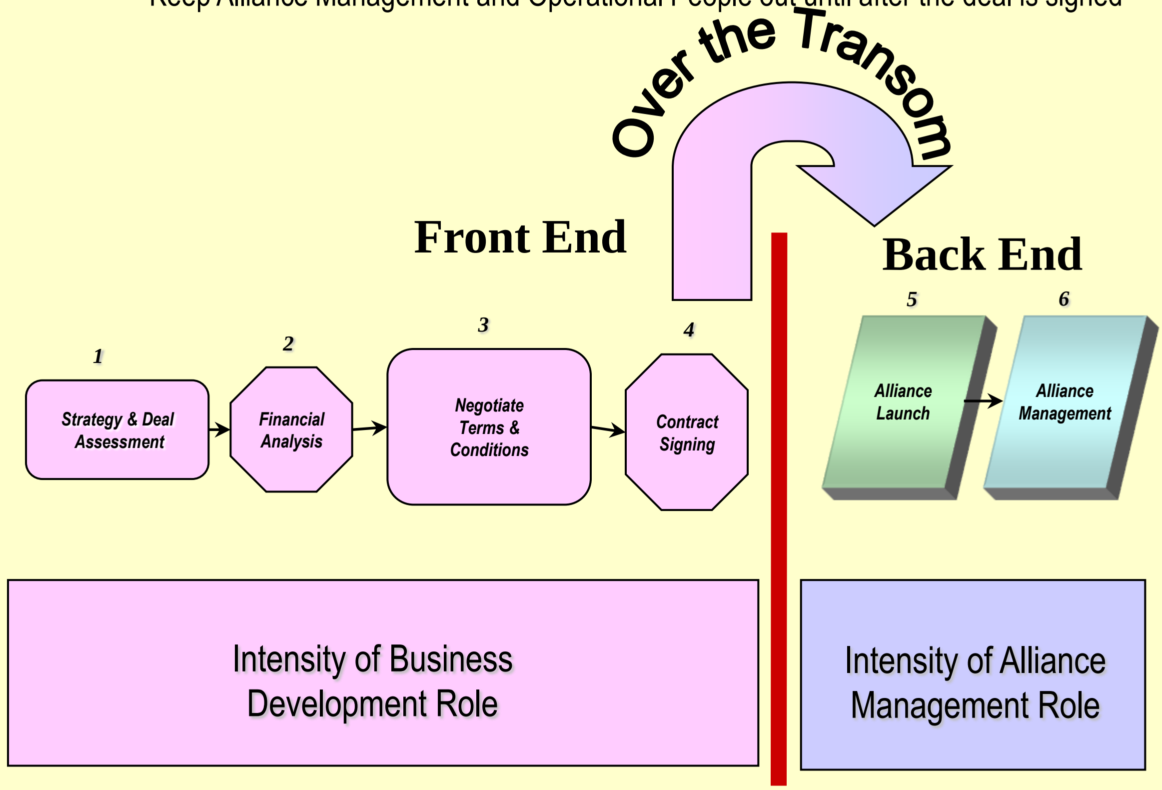
When to Create an Alliance

How to Create an Alliance

Figure K

Worst Practice Process

- Worst Practice Roles – (Often the Way Alliances are Done)
  - Assume an Alliance is just another Transaction or "Deal"
  - Reward the Deal Maker for the Number of Deals they close
  - Focus on Getting Contract Signed (Assume the Contract embodies the "agreement")
  - Keep those who will Manage the Alliance at bay until after the closing
  - Don't allow the Operational people to complicate the negotiations
  - Maximize Financial Impact of the Venture on Paper without examining areas where assumptions would increase Risks
  - Keep Alliance Management and Operational People out until after the deal is signed



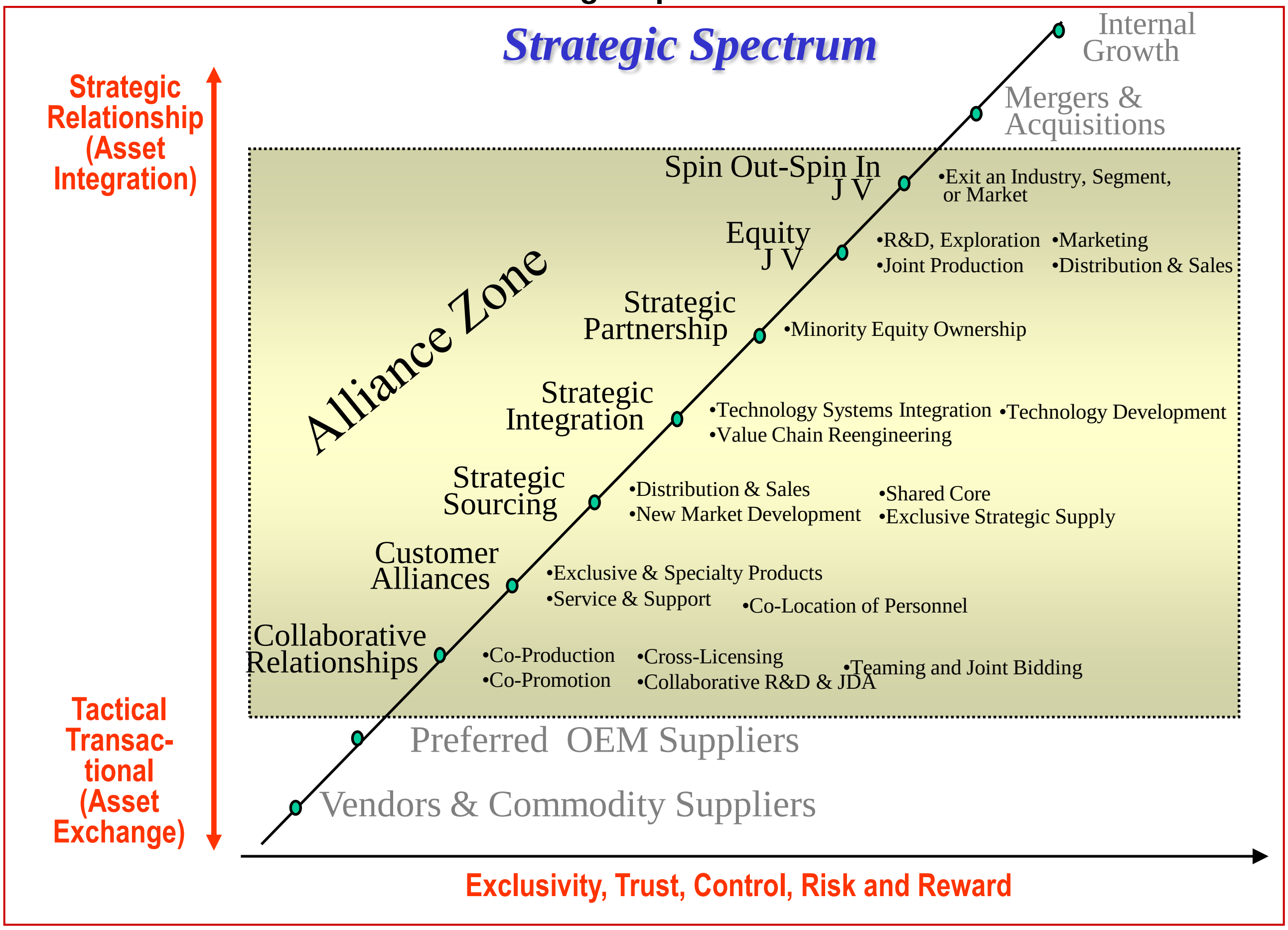
When to Create an Alliance

Alliance Strategic Spectrum

When deciding upon an alliance, one must first determine what organizational goals will be translated into the alliance. To select the right form of alliance you will need to consider customer needs, competitive advantages, and both short and long-term objectives. Figure L provides a spectrum of the types of alliances that may be considered.

Figure L

Strategic Spectrum



~ TIP ~

Regardless of the form the alliance takes,
the operational management principles are the same.

When to Create an Alliance

Alliance Strategic Spectrum *(continued)*

Joint Ventures

The definition of a joint venture alliance is quite straightforward:

Cooperative business entity formed by two or more separate organizations for strategic purposes that allocates ownership, operational responsibility, financial risks and rewards to each member, while preserving their separate corporate identity/autonomy.

Joint Ventures (JV) are formalized alliances which either unite two or more separate organizations into a freestanding new company or create a new, separate business entity which allocates ownership in the JV to each member, while preserving the separate identity and autonomy of each parent organization. The JV is staffed by a separate management team, and has its own Board of Directors. Ownership in a JV is typically a 50-50 relationship, but it can vary to anything the organizations think will represent their individual contributions.

If the equity relationship becomes significantly tilted towards one organization, than the organization with the smallest equity interest can consider their relationship one of an investment more than a sharing of interests.

When to Create an Alliance

Alliance Strategic Spectrum *(continued)*

Different types of business relationships can be described on a continuum representing differing degrees of collaboration, and the exchange (trading) or integration (merging) of corporate assets between participants. Strategic alliances constitute a spectrum of business relationships within this continuum, involving more integration than a simple buy/sell transaction, but less than that of a merger or acquisition.

Figure M depicts a general view of how different business relationships might be characterized on this continuum. The examples provided are neither absolute nor evolutionary, as each business relationship is unique.

Figure M

Characteristics of Various Supply Management Relationships

Strategic Spectrum for Types of Supply Management Relationships

FACTOR	VENDOR	PERFERRED SUPPLIER	ALLIANCE
Viewed As:	Replaceable Commodity	Unique Specialty	Integrated, Customized Specialty
Level of Integration	Low/Not Integrated	Loosely Integrated	Highly Integrated or Inseparable
Number of Suppliers	Many Suppliers	Several Suppliers	Very Few Suppliers
Distinguishing Features	Mainly Price Driven within min. Quality Standards.	Price plus unique offering (i.e. technology, service, etc)	Synergistic Value Proposition (i.e. mutual growth, etc)
Style of Interaction	Tactical Transaction	Preferred and/or Tactical Relationship	Strategic Synergy
Duration of Term	Short Term	Medium Term	Long Term
Value Proposition	Price and acceptable quality	Price, superior quality, and excellent service	Strategy, Cost, Quality, Reliability, Speed, Innovation, and more
Framework for Winning	Winning is essential for me, What happens to you is your business	A Win is essential for me, and I know I should let you win too if the relationship is to survive	A Win/Win is essential for both of us and is critical if the relationship is to thrive continually
Competitive Advantage	Low Competitive Advantage	Moderate Competitive Advantage	High Competitive Advantage
Make, Buy, or Ally Decision	Seldom produced internally (not a core competency)	Often Produced Internally (debatable core competency)	Frequently has been an integral part of the internal value chain
Trust Level	Distrust Prevalent (caveat emptor)	Trust is important to managing the relationship	Trust is essential to generating a continuous stream of new value
Difficulty of Exit	Low Impact, Excellent Ability to Switch Vendors quickly	Moderate Impact	High Impact, Switching may have detrimental impact due to disintegration of systems
Strategic Environment	Cost Driven Low Product Differentiation TCO is non-critical Relationships not important	R&D is a Distinguish Value Applications Focus Provider of Performance	Discontinuous Change in Buyer's Industry Fast Time To Market is Essential Innovation & Integration Essential

Alliance Architecture

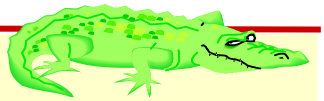
Basic Components of Alliance Architecture

Good Architecture Passes the Universal Test: The Test of Time - Long-Term Success

The architecture of alliances is composed of key laws, principles, practices, strategies, structure, systems design, management processes, frameworks and roles, interrelationships and interfaces, conceptual frameworks, critical issues, early warning signals, vital signs, and alternate pathways.

As an alliance professional, you will be called upon to design the architecture of a collaborative venture. This will not be a "cook-book" process, instead you will follow a set of principles, best processes, practices, and procedures that will greatly enhance your success.

All the principles, concepts, and frameworks addressed in the following chapters have been tested against standards for universal applicability. These approaches have been derived empirically by analyzing the successes and failures of scores of alliances. Their practical application in hundreds of cases has stood the test of time. As you begin developing an alliance, test its underlying assumptions.



~ TRAP ~

Avoidance of Fundamentals

Often this trap results from the avoidance of addressing the most basic business fundamentals, such as doing a thorough market segment analysis, looking into the financial condition of a partner, addressing exclusive marketing rights, and the like.

All too often the assumption is made that “my ally’s strength will mask all sins,” or “we’ll let the operational managers take care of the details.”

Alliance Architecture

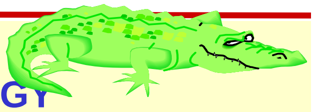
Creating Alliance Architecture

Given the scope of this User Guide, we cannot cover every detail of the alliance process. However this User Guide will help you develop skills as an Architect of Alliances. As an Alliance Architect, you will have an opportunity to develop and customize key issues for your unique alliance, including:

1. Best Principles, Practices, and Processes;
2. Strategies and Structures;
3. Successful Management;
4. Systems and Processes;
5. Critical Questions and Alternative Choices;
6. Key Guidelines and Measurable Criteria; and,
7. Early Warning Systems and Vital Signs.

It is not the purpose of this Guide to turn you into an alliance "mechanic." Every alliance is unique and must be customized to the alliance partner, the required strategy, and the cultures of the alliance partners. Therefore, this is a "guidebook", not a "cookbook".

The Tools and ideas presented throughout this User Guide are designed to assist you in asking the right questions; you are responsible for providing the answers.



~TRAP~
STRATEGIC SYNERGY

Be careful about how "strategic synergy" is evaluated.

Don't Overstate: In the excitement of creating deals, many managers have exaggerated the anticipated synergies to the extent that it distorted their better judgments.

For example, on the surface, two companies may appear to be selling similar, but non-competing product lines -- one may be a commodity product, the other a specialty product. However, the sales force and techniques for selling commodity items is so different from specialty selling as to make the two virtually incompatible.

Synergy is real, but it tends to create a narcotic euphoria. Like "hope," it can be a phantom, unless it can be measured.

Alliance Architecture

The Eight Essentials of Success:
Characteristics of a Well Structured Alliance

Regardless of the industry, a well conceived cooperative alliance, regardless of whether the partner is domestic or foreign, will have a set of common essential characteristics. These Eight Essentials are fundamental building blocks of all alliance architecture. Elimination or inadequate attention to any one or more of these factors will reduce the likelihood of a successful alliance.

#1 CRITICAL DRIVING FORCES: Every company is defined by its relationship to itself, its customers, and its competition. Critical forces compel the company to act, react, or not act at all. An effective alliance is when the driving forces (strategic and operational) for both companies are complementary.

#2 STRATEGIC SYNERGY: Complementary strengths will yield strategic synergy. The two allies should have more strength when combined than they would have independently. Mathematically stated: "$1+1\geq3$." Mutual advantage must exist. Remember, if there is no synergy then the partner selection process was flawed and you should review your partner candidates.

#3 GREAT CHEMISTRY: Your company must have the managerial ability to cooperate efficiently and effectively with another company, and they must have an equally cooperative spirit. Chemistry is the result of positive, team-oriented, trust-filled relationships between key sponsors.

#4 WIN-WIN: The operation, risks, and rewards must be fairly apportioned. Allies must be willing to address new risks, be committed to flexibility and creativity, and be ready to transform the alliance structure. The alliance should also provide greater value to our customers.

#5 OPERATIONAL INTERGRATION: The style of operations and methods of management should be compatible. Companies with similar goals, rewards, methods of operations, and corporate cultures tend to make better partners.

Alliance Architecture

The Eight Essentials of Success: *(continued)*
Characteristics of a Well Structured Alliance

#6 GROWTH OPPORTUNITY: The alliance by its very nature should create opportunities for positioning your company and its alliance partners in a leadership or growth condition to sell a new product or service or to secure access to technology or services. This typically will create an excellent reward/risk ratio. With an ally, the likelihood of success must be significantly higher. If the chance of success in achieving growth is only marginally higher, and the risk only slightly less, an alliance may not be worth the additional complexity it requires.

#7 SHARP FOCUS: Excellent clarity of purpose is one of the most frequently cited reasons for the success of an alliance. Alliances with specific, concrete objectives, timetables, clear lines of responsibility, and measurable results are best positioned for potential success.

#8 COMMITMENT AND SUPPORT: Leadership is essential. Without top level support, middle managers devote their energies to other priorities which they believe may lead to their promotion. There must be a corporate alignment at the enterprise and sector levels. All management and leadership levels must ensure that the proper attitude filters down throughout the organization. Middle management’s support and involvement are vital, because “people support what they help create.” Further, support must be backed up by the commitment of resources necessary to get the job done.

Alliance Architecture

Success and Failure Factors

The most important reasons for success or failure in alliances have been well documented over the last decade. This list, Figure N, while not inclusive of every factor, highlights the most important factors:

Figure N

10 Key Success/Failure Factors

Success	Failure
1. Excellent strategic fit (strategic alignment and offsetting strengths and weaknesses) 2. Maintenance of excellent chemistry. 3. Selection of right partner with compatible culture 4. Creation of best value in customer's eyes 5. Commitment to long-term win - win relationship and results	1. Low commitment (no champion, minimal executive support) 2. Poor operational planning/integration 3. Strategic weakness (diverging strategies/under-developed value-added proposition, unclear strategic return on investment) 4. Rigidity/poor adaptability 5. Focus on internal alliance issues, and not the customer mission

Details on how to address these success and failure factors are found in this User Guide.

Overview: Alliance Mindset and Spirit

"Synergy" is the elusive but alluring theme song of alliances. Its archetypal attraction is bound in its possibility of creating something more than the sum of its parts. Synergy captivates all, escapes most, briefly visits some, and for the blessed few, bestows enormous wealth and success.

What then is the magic of synergy? Or is it magic at all? The quest of every alliance professional is to find this holy grail -- the formula or architecture that will manifest this gallant goddess with singular regularity; to unveil synergy's secrets like Edison revealed the power of electricity or the Wright brothers manifested flight.

The Illusion -- What's Missing?

Not understanding the spirit and soul of the alliance and the need to create synergy results in comments like these:

> *"We know how to create alliances, but don't know how to manage them!"* reflected one American top executive, who lamented the lack of success in achieving his alliance's primary goals.
>
> *"It looked great on paper, but it was a terrible fit in reality. Our cultures clashed on every issue from decision-making processes to rewarding our sales force;"* stated a dejected alliance manager in the pharmaceutical industry.
>
> *"During negotiations, the deal makers poisoned the well, and we haven't yet recovered. We had to undo all the damage caused by the adversarial legal jargon;"* was the battle-weary response of the president of a multi-billion dollar international joint venture.
>
> *"Alliances are an unnatural act for us. They are extremely difficult to manage; we'd prefer to do acquisitions;"* complained a senior vice president of a large German chemical manufacturer. Later, he noted that 30% of his revenues and nearly 50% of his division's profits came from alliances, but *" we spend only 5% of our management time on them."* For some inexplicable reason he failed to allocate management resources to the highest profit generator in his business.

Alliance Architecture

The Illusion -- What's Missing? *(continued)*

Alliances are a very different form of business genre than managing an internal business unit. Fundamentally, executives who have been managing in traditional hierarchical command and control companies are befuddled when given an alliance assignment. The synergy they seek from the alliance remains elusive; cultural differences become insurmountable obstacles; project management turns into problem management; and the bureaucracies of the two parent organizations become a quagmire of politics.

Secrets of Synergy

Not every alliance must face these impasses.

"I am amazed how well our two companies are working together. We are actually ahead of schedule, and have had relatively few difficulties;" was the delighted comment from the alliance manager of a strategic alliance venture composed of a European food service company with an American partner.

"After only 6 weeks of working together, it's hard to tell the difference between the employees of their company and ours;" explained the director of an international mining company, commenting about his alliance with an electronics firm.

These alliance managers achieved success because they insisted their joint teams spend ample time understanding the unique aspects of alliances, building cross-cultural teamwork, and establishing processes and skills to access and embrace the unique value of the alliance and their alliance partner.

Experience has proven that there are invaluable beliefs and skills which are often overlooked that enable alliance managers to produce high performance results: skills at managing differences, breakthroughs, speed, and transformation.

Alliance Architecture

The Sources of Alliance Mastery

The fundamental reason why alliances are formed is to access a capability within another company, thus finding the magical synergy, the 1+1 ≥ 3. However, this means capturing the value of differences.

Lying within these inherent differences is the promise of the alliance to create bold new futures, or conversely, to implode upon itself as differences turn destructive.

Traditional approaches to managing cultural differences have focused on becoming sensitive to differences, cross-cultural training, understanding linguistic nuances, and acculturation. While these methods have their worth, we have found a number of very essential elements are often overlooked that distinguish successful alliances (each element will be explored in detail in the following pages):

- Power of Shared Vision
- Synergy of Compatible Differences
- Commitment to Mutual Benefit
- Trust Building & Integrity
- Commitments & Camaraderie
- Sharing Expands Possibilities
- Conflict Transcendence
- Transformational Flexibility

The Power of Shared Vision

The universal vitality of focusing on a powerful common vision, backed up by a dynamic and inspiring value proposition that speaks to the customer shows no cultural boundaries.

For example, take this typical vision for alliances:

“We will be the leaders in our industry.”

It presents a “vision vacuum” by saying nothing, containing no commitments, and inspiring neither the alliance partners nor the customers. Devoid of a powerful vision, everything defaults to politics, manifesting as cultural differences, which then divide the alliance partners against themselves.

Alliance Architecture

The Power of Shared Vision *(continued)*

As the old adage from Alice in Wonderland states: “If you don’t know where you are going, any road will get you there.” And that road will be fraught with in-fighting, subversion, despair, and confusion, all of which will ultimately lead to the ruin of the alliance.

Contrast the weakness of a faulty vision with the motivational force of a more commanding perspective:

> *“Our alliance will create 10 new innovations each year that will reduce the costs to our customers by 25%, while accelerating their throughput by 50%.”*

By having a powerful central vision and value proposition such as this, alliance partners focus differences on how to achieve the joint goal, rather than arguing amongst themselves as to whose way is the “right way.” A shared vision helps ensure synchronicity.

Powerful visions are all founded on belief in the ability to discover the unknown, accomplish the seemingly impossible, and overcome the apparently unattainable. Therefore, strong alliance leadership must be present to build such a vision and to unify and align the alliance’s differences for a common purpose.

~ EXAMPLE ~

Baseball’s Famed Double Play

Infielders executing a “double play” is a perfect example of synergy and synchronicity. All players have the same shared vision and guiding principles, innate trust in their teammates, commitment to precision of execution, and very clear roles and responsibilities.

Timing is essential. A split second spent to “think about the play” is enough to ensure failure.

Alliance Architecture

Synergy of Compatible Differences

Synergy does not just occur as a natural byproduct of alliance formation, nor from a tough legal agreement, nor by means of a dream.

Rather, it must be designed with architectural assurance. But more, synergy must be activated by a powerful set of actions founded upon the understanding of how differentials produce the $1+1 \geq 3$ effect.

"*If two people in the same room think alike, one is unnecessary;"* commented the philosopher Ernest Holmes.

The eminent psychologist, Carl Gustav Jung foresaw the potential of alliances when he said: "*The greater the contrast, the greater the potential. Great energy only comes from a correspondingly great tension between opposites."*

Joel Barker, in his groundbreaking work on paradigms, recognized that new paradigms originate from outsiders who think differently, not from insiders who see their world from an old and tired perspective.

Each of these men understood the profound impact differences can have on the co-creation of bold new futures.

Invariably, however, ethnocentric or business culture attempts to enforce its mighty hand. Some alliance members may begin by making judgments regarding the other side's culture, branding it as strange, wrong, inefficient, bad, or unproductive. As soon as this begins, fear, uncertainty, doubt, and distrust begin to fester, and then the alliance begins to unravel. This calls for strong action.

Adept alliance managers, leveraging the vision for the alliance, will call for creating a "synergy of compatible differences" in which differences are respected as source of innovation, cherished for their ability to break paradigms, and expected to produce creative solutions. The manager's ability to create this new "super-ordinate" culture within the alliance enables the alliance to produce at higher performance levels than either parent company can achieve alone.

Because alliances cannot be commanded, the mechanisms for leadership and control are dramatically different compared with most conventional organizations. Great alliance managers tend to be "integrators," possessing outstanding skills in bridging differences through their ability to translate across cultural boundaries. The greater the differential between cultures, the greater the need for highly skilled integrators.

Alliance Architecture

Synergy of Compatible Differences *(continued)*

Often the effective alliance manager will develop principles and values for the alliance that forge unity of vision and purpose. Integrators empower those around them by recognizing that "people support what they help create." Thus, they use techniques to unify alliance members, rather than divide them, to bring out the best in others.

Commitment to Mutual Benefit

Win - Win is the oft-trumpeted rallying call for alliances. But win - win can mean very different things to different people. Consider these statements, all of which represent win-win:

Weak

- *I will fight to win, and you must fight to win, and somewhere in the middle we will strike a balance;*
- *I must protect my interests, and, inasmuch as they are protected, you can take what is left or what is in your interests;*

Good

- *We must both be willing to strike compromises and make concessions if we are to achieve win-win;*
- *I will let you win because I know win-win is good for alliances;*
- *I am committed to you winning as long as you are committed to me winning;*
- *We both have a common goal, so we should work together to achieve the goal together;*

Strong

- *I will defend your interests from an attack or an infringement from people on my own team because you are my partner and my ally and because we have established firm Rules of Engagement which I will not let my own side violate – I am committed to retaining our trust;*
- *We augment each other's strengths and weaknesses, therefore together we are greater than we are apart;*
- *Our Vision is the same, Our Values are Compatible, Let's Dance*
- *We will create a whole new world together with an inspired vision of the future that expands our potential, and lets the Customer win too.*

For synergy to manifest itself, the alliance must be championed by people willing to make strong commitments to a powerful win-win.

Alliance Architecture

Trust Building and Integrity

Ask any alliance manager about the value of trust in an alliance, and they will wax eloquently about its impact on success. Without trust, alliances fail! Trust is the foundation of all cooperative enterprises.

Trust is the hallmark of the personal relationships between the people who constitute the alliance. Without this trust, no legal agreement, no strategy, no structure, and no process can achieve its objectives. These personal relationships distinguish alliance professionals from their transactional cousins specializing in acquisitions.

Trust is the glue that binds personal relationships and the grease that prevents frictional differences from becoming contentious.

Trust and integrity are the threads of the alliance fabric. Integrity is more than just being honest or trustworthy. Integrity means being true to oneself, to one's deepest values; and the benefits are ultimately both a divine blessing and a liberating freedom.

> *Integrity resides in the ability to constitute yourself as your word. As such it is a home, an anchor, a self-generated and continuing commitment to honor your word -- despite contrary thoughts and feelings if need be. It is a consistency of being, speaking and acting that shapes who you are -- to yourself and to others.*
>
> Anonymous

Integrity becomes a divine gift by enabling us to touch the deepest yearnings of others around us, thus creating a new set of possibilities filled with hope and inspiration. Integrity is thus expansive, allowing us to become more than ourselves, to create with others, to empower others.

Alliance Architecture

Trust Building and Integrity *(continued)*

For Gerry Dehkes, an alliance champion at Lucent,

> *"Integrity includes setting expectations and consistently meeting them. Doing both is important. Making sure that your counterparts will know (and be able to trust) that you will act in a certain way in a given situation. Then meet or beat that expectation consistently. This extends beyond the individual to the rest of the people in the alliance partners organizations. Or better, in an old Minnesota expression: 'Underpromise. Over Deliver.' View problems or barriers, especially early on, as opportunities to show your trustworthiness, meeting the expectations you've set with your partners. These have strong impact beyond the decision of the moment. They engender trust that later on you will indeed act that way, thus inviting reciprocal actions."*

Integrity marvelously liberates us to live our alliances forward into the future, enabling us to experience the present moment cleanly and without fear that our past will undermine us, corrode our vision, and erode our energy.

The lack of integrity inevitably forces one to look back over one's shoulder, haunted by a past filled with historic baggage which will harbor tomorrow's illness, or threaten to destroy one's false illusions that were invented to disguise the sordid realities of a troubled life.

In a fast moving world, trust and integrity thus spawn a massive competitive advantage, because together they enable the alliance to make rapid decisions without the need for a legal contract every time someone tries to make a decision. What's more, trust and integrity enhance creativity, build teamwork, reduce unnecessary transactional costs (such as memos to protect oneself), and make the alliance more fun, thereby building human energy.

Alliance Architecture

Commitment and Camaraderie

Building trust in alliances comes not from golf games and dining together. It's built in the heart, and on the field of deeds; it's held the commitment to transform values and beliefs into concrete actions, it's founded on the commitments to the integrity of one's word.

Trust and Integrity are but hollow concepts until vigorous commitments are put into place. For it is with commitment we transform promise into reality by words that reflect intentions, and actions which speak louder than words.

Commitment is:

- making the time when there is none;
- the daily triumph of vision over skepticism, of conviction over fear, of cohesiveness in the face of adversity
- the willingness to take risks, even when past experience calls for caution;
- crossing the chasm of fear and danger to meet the needs and hopes of your partner;
- the willingness to look from the past into future possibilities;
- the willingness to move enough to release anger and hurt to enable our rising to a higher level, seeking to turn breakdowns into breakthroughs;
- the power to transform the reality of relationships;
- the willingness to take the leap of faith when there is little justifying evidence, because one believes in the other's values and integrity.

Alliance Architecture

Commitment and Camaraderie *(continued)*

Alliance champions always remark that they are accused of being traitors to their companies when they stand tall and strong for their alliance partners. Brian Ferrar, alliance champion at Compaq recognizes how this bonding impacts the relationship between champions:

"An alliance manager and his counterpart at the partner company are often closer than each may be to many of their co-workers because of the trust it takes to form the alliance."

However, this bonding across organizational boundaries can be quite disconcerting to many insiders who see this as a serious breach of loyalty. It is from this loyalty, commitment, and integrity that alliance champions build a camaraderie that lasts for years.

Sharing Expands Possibilities

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1 \geq 3$ proposition. The only way to attain such gain is through co-creative sharing. Alliances are built on the fundamental premise that sharing of risks and resources will expand the possibilities and rewards available to all.

Sharing Expands Possibilities

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1 \geq 3$ proposition. The only way to attain such gain is through co-creative sharing. Alliances are built on the fundamental premise that sharing of risks and resources will expand the possibilities and rewards available to all.

Alliance Architecture

Unfortunately, in a world where certain resources may have been scarce, hording of resources has been a common practice, based on the belief that hording will control resources and maximize returns.

One must distinguish between *expendable* resources that disappear upon sale or consumption (such as oil, food, minerals, etc) and *expandable* resources that multiply the more they are used (such as creativity, cooperation, and teamwork).

Expendable resources are depleted and decrease upon usage. Expandable resources regenerate and increase when used.

For example, software is an expandable resource. Using it daily does not diminish its size or impact. To the contrary, using software creates more value every time it is used. Therefore it expands. It is best used when shared, transferred and transmitted. Using this resource brings it to life.

Unlike expendables, which adhere to the universal price laws of supply and demand, expandables are not limited by supply, and demand does not increase their price, but does increase their value.

We must be able to distinguish between expendables and expandables when negotiating alliances. To treat each with the same principles limits possibilities of expanding the realm of the alliance. This type of thinking is often reflected in contracts for intellectual property, where negotiators tussle for months and even years over ownership rights, when, if sharing of intellectual property rights occurred, both sides would create more new ideas and command a better mutual competitive advantage.

The economic Laws of Expendables run counter to the Laws of Expandables, but both are true and both mutually exist in our world. The problem is usually that we don't acknowledge the latter.

Alliance Architecture

Accessing the expansive possibility of sharing begins with the mutual belief that “the more you give, the more you’re going to get.” When both partners hold this belief, it manifests. The general rule for the Law of Expandables is

Sharing Expands, Hording Contracts

Roy Rogers, commenting on his long marriage to Dale Evans, remarked that a great marriage is not a 50-50 arrangement. Both partners have to give at least 100%. Rogers said both Dale and he were always willing to go beyond: giving 120%. The Law of Expandables creates its own “regenerative energy,” this is what we call “synergy.”

Ask yourself the question: “What kind of relationship will emerge if sharing is not a fundamental value?”

Alliance Architecture

Conflict Transcendence

Whenever disagreement arises (and it will, for wherever there is change, heir will be disagreement and conflict), great alliance practitioners are careful to focus on ideas and issues, steering clear of ego entrapment games, such as “who's right or wrong,” or “what's good or bad” that will rapidly descend into the pits of defensive self-righteousness and difficult conflict.

Conflict is the inevitable by-product of all change, and any proposition of new ideas will generate some amount of conflict. The objective is to prevent the conflict from degenerating into blind fear and inflexible rigidity. As one champion in our focus groups articulated it:

> *“Without conflict there will probably be no buy-in. I just have to be careful I do not take conflict personally as an attack on myself. Conflict is just a tool to get people talking and debating an issue from one side or another. It promotes the kind of understanding necessary to be successful in this business.”*

Alliances exist in a world of constant flux, and therefore need frequent and continual adjustment. If those responsible for the alliance use win-lose negotiating techniques, always angling for self-interested advantage, then each side will lose synergy potential. But worse, this approach will then generate conflict, which will soon become unmanageable as trust and commitment rapidly evaporate in an enflamed atmosphere of fear and protection.

The alliance spirit has an internal compass that points to synergy in lieu of conflict. This does not mean disagreements and breakdowns do not occur. But rather that these circumstances are opportunities for improvement, situations for turning breakdowns into breakthrough, conditions for shifting to higher orders of thinking.

Disagreement does not naturally gravitate to conflict, but becomes a transcendent experience to turn the passion of argument into the passion of creation. Instead of taking “positions” on issues – a certain sign that conflict is brewing – the effective leader seeks to find mutual interest, joint advantage, shared vision, common values, and combined strength to stake out a new future and a shift in thinking.

Alliance Architecture

Conflict Transcendence *(continued)*

The alliance champion will not be a great compromiser between the diverse elements, however, unless every other avenue has been explored. A compromise is usually seen as a poor second choice, the forsaking of a dream. Forging a new unity from seemingly diverse values and thinking will be the champion 's first choice. This unity becomes a new order of interaction, better than the original, thereby creating a *super-ordinate* culture for the alliance.

Negotiating styles that are overly legalistic, win-lose, or adversarial in any way will be highly detrimental to the overall health of the alliance in an environment of frequent repositioning.

Transformational Flexibility

A fast moving world causes the strategic driving forces that formed the essence of the alliance to be in a constant state of flux, serving as a major destabilizing factor, like a rogue wave trying to capsize a boat. Thus, alliances are in constant need of transformation.

Alliance managers must be monitoring the shifts in the strategic environment regularly, and repositioning their parents and partners to align with these shifts.

Because the alliance must transform itself frequently or lose its competitive edge, alliance managers must establish a culture of visioning, breakthroughs, and co-creation as a foundation for their re-negotiations. As one telecom executive said of his alliance in Poland: “No one knows what the future will look like. But if we don’t talk about it, we will end up someplace else.”

Flexibility is essential to making alliances work over the long haul, because benefits to each party are seldom equal at any one point in time. Each alliance partner can expect to see benefits unequal for short periods of time, but without flexibility to re-write an agreement, failure is lurking.

Alliance Architecture

Transformational Flexibility *(continued)*

For example, in the alliance between British Airways (BA) and USAir, both airlines gained significant new passengers and made commensurate investment. However, the benefits eventually saw BA gaining over a 100% increase in revenues, while struggling USAir gained only 40%. This situation called for a readjustment of the division of profits, which, when it did not occur, created friction and eventual dissolution of the alliance. BA's later alliance with American Airlines embraced a distribution of revenues based on passengers attributable to the alliance.

The legal definition of an alliance is straightforward:

> *Cooperative business entity, formed by two or more separate organizations, for strategic purposes, that allocates:*
>
> – *ownership,*
> – *operational responsibility,*
> – *financial risks and rewards to each member,*
>
> *while preserving their separate corporate identity/autonomy*

It always seems to surprise lawyers that if one designs an alliance to this specification, one does not create a successful alliance.

What is missing in this definition are those elements of the alliance spirit that bond people and organizations together, and give them the flexibility to make adjustments as the world around them changes.

Successful alliance managers proclaim that if you ever have to look at the legal contract, the alliance has failed. Alliances exist not in the contract but in the soul and spirit of those who create and manage them.

Alliance Architecture

Mastery as Alliance Architects

Seldom does synergy happen by accident. It manifests because people believe it is possible; it is so often a self-fulfilling prophesy. To so many of us, our work in strategic alliances is not just a business profession, but a mission with its roots solidly set in the "architecture of cooperation“.

Our mission is to transcend divergent points of view, thus co-generating bold new futures where differences become the ever-renewable source of creative energy, the essence of innovation, the dynamism of new possibilities. Ours is a noble endeavor - designing the synergy of compatible differences. Daily we must use honor and integrity to build the trust that is essential to all our alliances.

Held within the seed of the architecture of cooperation is the power to let us bring a new insight, a new pathway, a new hope, a new spirit, and a new power to our world.

Each day, when we use or invent best practices for alliances, we are contributing to the creation of that higher order of experience and action that makes our workplace a better place to live. Daily we are honing the skills and transmitting the abilities and multiplying the possibilities to spawn a better world around us. As our corporations globalize, we can use these proficiencies in a multitude of applications to engender not just better companies, but better relationships, better teams, better families, and better communities.

In the large span of things, step by step, alliance by alliance, we will have created a better world for all of us. The Spirit and Soul of the Alliance can help make that happen.

Alliance Architecture

Assembling the Right Team

If the Business Development Process leads to a decision to proceed with the Strategic Alliance Process, assembling the right teams is a critical factor. Senior management begins by selecting a champion - an executive who is charged with making the strategic relationship take shape and become a reality.

The champion builds a cross-functional/multidisciplinary core alliance development team that will execute the relationship-building process - analyzing needs and potential partners and ultimately creating an operational team that will oversee the alliance relationship over the long-term. As the process proceeds, the core alliance development team grows and draws on the expertise of people from throughout the organization to create sub-teams to handle specific tasks.

The nature of the core team and sub-teams varies as the organization moves through the six phases of the Strategic Alliance Process; the precise makeup of the teams depends on the task at hand at any given time, on the nature of the business relationship being considered, and on the organization's specific structure and needs.

The various teams involved in the Strategic Alliance Process are essentially temporary. They are assembled to perform specific tasks and then dissolved when the tasks are completed (with the exception of the operational team, which is created to manage the alliance on an ongoing basis). As a result, executives must ensure that team members are familiar with the alliance concepts and processes, and have enough time to devote to the effort. Typically, that means relieving individuals of some of their normal workload so that they can focus on the alliance process.

Alliance Architecture

Roles and Responsibilities

Strategy Phase

The Strategy Team is, generally, an executive-level group that concerns itself with corporate strategic alliance questions. This team is responsible for appointing a champion for the strategic relationship to be formed, assembling a core alliance development team, and providing input into the overall Enterprise plan.

The Strategy Team handles six action steps:

1. Identify the products, services, technology etc.to be considered for a strategic relationship;
2. Tentatively determine which type of alliance strategy relationship is appropriate;
3. Assess organizational readiness;
4. Develop and document a preliminary *Alliance Mission, Strategy and Goals* (AMSAG) statement;
5. Identify and train champions and the core alliance development team;
6. Reach a team consensus on and gain management approval of the final AMSAG statement and alliance relationship plan.

Analysis and Selection Phase

This team identifies, screens, and initiates contact with prospective alliance partners. Team members should be individuals who have excellent business skills and an understanding of the corporate strategic plan, who are knowledgeable in the business issues that require an alliance to be formed, and who can evaluate the financial health, technical capabilities, and operational skills of the potential partners.

The team essentially establishes the boundaries of the proposed agreement that will be the basis for later Co-Creation and Structuring meetings between the organizations.

The Analysis and Selection Team handles 11 action steps:

1. Outline tentative performance goals for the business requirements that require an alliance partner;
2. Establish preliminary requirements and measures;
3. Gather internal and external benchmarking data;

Alliance Architecture

Roles and Responsibilities *(continued)*

4. Develop a summary of specific performance objectives, operating requirements and measurement criteria to be used in the alliance process;

5. Develop an ideal-partner profile;

6. Create an initial list of candidates;

7. Establish and communicate the partner-selection procedure;

8. Check the references of candidates;

9. Conduct interviews with candidates;

10. Perform due diligence; and,

11. Pick the provider(s).

Value Creating Negotiations Phase

This team called the Co-Creation team is a small, focused group, formed at the beginning of the phase works closely with our potential ally to develop a Memorandum of Understanding and Principles that describes the broad goals and nature of the relationship.

Because this effort requires excellent communication and business skills, the members need to be experienced professionals. They also should have demonstrated skills in the business issues that have justified pursuing an alliance and have been involved previously in other strategic alliance relationships.

The Co-Creation team handles three action steps:

1. Plan the Co-Creation approach;
2. Conduct joint exploration and design of the venture; and,
3. Create a Memorandum of Understanding and Principles.

Alliance Architecture

Roles and Responsibilities *(continued)*

Operational Planning Phase

In the Operational Planning phase, the partner organizations develop detailed plans for implementing and maintaining the alliance relationship. The core alliance development team creates an operational team, drawing on people with the functional expertise needed to complement our partner's capabilities and strengths. This operational team creates an operational plan describing how the services outlined in the Memorandum of Understanding and Principles will be provided. Members of the Operational Team will remain in place during the launch and ongoing operation of the alliance in order to represent our organization and provide the expertise needed to manage the relationship over time. The Operational Planning team handles two action steps:

1. Create an operational plan; and,
2. Develop an operational launch plan.

Alliance Structuring Phase

In the Alliance Structuring phase, the legal and organizational frameworks of the upcoming relationship are created - frameworks that allow both parties to share fairly in risks and rewards. Therefore, in this phase the alliance team should include individuals with financial, administrative and legal expertise, as well as people with communication skills and the relationship-building and management experience needed to create a win-win arrangement.

The team must also involve senior managers, such as the alliance manager and the champion, to ensure a focus on strategic goals and collaboration in developing a contract.

The team involved in this phase handles eight action steps:

1. Prepare an organizational structure chart;
2. Prepare a summary of the governance structure and control mechanisms;
3. Agree on performance objectives and operating measures;
4. Agree on financial, legal and ownership matters;
5. Evaluate all structural elements for balance and a win - win approach;
6. Draft the contract;
7. Obtain final senior management approvals; and,
8. Sign the contract.

Alliance Architecture

Roles and Responsibilities *(continued)*

Manage, Innovate, and Transform Phase

The Manage, Innovate, and Transform Phase encompasses the implementation of the plans created in the Operational Planning Phase. In this phase, all parties work to ensure a smooth implementation of the operational aspects of the relationship. The phase also is directed towards those elements that will ensure that the relationship continues to grow and evolve in order to provide benefits as the business environment changes.

The members of the operational team, with ongoing responsibility for managing the relationship, work with the Joint Governance Board to ensure that issues are handled in a timely manner. Therefore, this team must have a clear understanding of the business processes in question and of the nature and expected benefits of the relationship.

At the same time, team members should have strong communication and problem-solving skills that will allow the partner organizations to work together to find new approaches and breakthroughs beyond those spelled out in the original agreement.

Enablers of the Alliance Framework

The relationship management component is critical to the successful formation and management of alliances and essentially has no beginning and no ending during the life cycle of an alliance relationship. An enterprise competency representing the ability to effectively cultivate and maintain highly productive relationships internally and externally must be developed within all business sectors. This is a critical success factor to ensure the alliance process is optimized and yields the expected business benefits.

Relationship management is the foundation on which to build alliances/partnerships. Relationship management is the sum total of all the interactions that occur throughout the strategic alliance framework. It is the ability to build and maintain trusted relationships. Relationship management focuses on the intangible and qualitative components of the business relationship.

The knowledge management component of the framework encompasses the ability to create and maintain a searchable knowledge base of alliance information (e.g. alliance specific information, frameworks, processes, tools, enterprise competency, development information, contact information, etc.) to ensure alliance information is readily accessible across the enterprise, consistent and credible.

Roles and Responsibilities

Who's on the team?

The following table shows which executive levels, and functional areas are typically involved in the core team, and various sub-teams in each of the six phases of the Strategic Alliance Process.

Phase	Core Alliance Development Team Members	Members as Required
Alliance Specific Strategy	CEO/Executive VP VP Business Development VP Finance VP Human Resources VP Administration Business Analyst	Chief Information Officer Chief Technologist Staff Support
Analysis & Selection	Champion/Initiator Business Analyst Marketing Human Resources Contract Management	Technical Legal Manufacturing Business Proc. Analyst IT Ops. Mgmt.
Value Creating Negotiations	Champion Alliance Manager Operational Support Marketing Human Resources	Legal Procurement Administration Manufacturing Technical
Operational Planning	Champion Business Process Experts Human Resources Alliance Manager	Administration Logistics Technical Support Service Support
Alliance Structuring	Champion Alliance Manager Legal/Contract Management Administration	Finance Marketing Technical
Manage, Innovate, & Transform	Alliance Manager Operational Functions Administration	Human Resources Technical Legal

Roles and Responsibilities

Assignment of Roles and Responsibilities

Figure O below illustrates how you can assign Roles and Responsibilities for each of the activities within each phase. A blank format that can be used as a guide when developing the roles and responsibilities for a specific alliance can be found on the following page.

Figure O – For Illustrative Purposes Only

Sample Responsibility Chart

Task	**Alliance Mgmt Team**	**Alliance Company**	**Your Company**
Develop Operations Plan	R	S	S
Develop Service Strategy	L	S	R
Selection & Contract with Solution Providers	S	Input	R
Establish Program Budget	A	---	R
Manufacture the Product	Input	Info	R
Pricing the Solution	R	S	S
Budget	Info	---	R
Establish Sales Quotas/ Composition Input	R	Info	
Train Sales Reps	Info	Support	Support
Design Literature	L	R	Input

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

Roles and Responsibilities

Assignment of Roles and Responsibilities

In each of the three blank columns, indicate which role each of these groups has. Remember, only one column can have an "R" (responsible) for each task.

Figure P

Tasks/Major Activities	**Alliance Mgmt. Team**	**Ally Company**	**Our Company**
Phase 1 - Areas for Alliance opportunities - Identify and train champions and core alliance team -Prepare Alliance Mission, Strategy & Goals Statements. - Obtain appropriate approvals to proceed			
Phase 2 - Outline performance goals - Establish preliminary requirements and measures - Gather internal and external benchmarking data			

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

Roles and Responsibilities

Assignment of Roles & Responsibilities

Tasks/Major Activities	**Alliance Mgmt. Team**	**Ally Company**	**Our Company**
Phase 2 (continued) - Develop a summary of specific performance objectives, operating requirements and measurement criteria - Develop and ideal partner profile - Create an initial list of candidates - Perform due diligence - Select the partner			
Phase 3 - Plan the negotiation approach			

Task Responsibility Charting

KEY:

Leadership = **L**
Informed = **Info**
Input = **Input**

Support = **S**
Approval Power = **A**
Responsible = **R**

Roles and Responsibilities

Assignment of Roles and Responsibilities

Tasks/Major Activities	**Alliance Mgmt. Team**	**Ally Company**	**Our Company**
- Conduct joint discussions to explore the design of the alliance. - Create MOUP			
Phase 4 - Identify and form operational teams. - Create an operational plan - Develop an operational launch plan.			
Phase 5 - Prepare organizational charts - Summarize governance structure and control mechanisms.			

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

Roles and Responsibilities

Assignment of Roles and Responsibilities

Tasks/Major Activities	Alliance Mgmt. Team	Ally Company	Our Company
- Agree on performance objectives and operating measures. - Agree on financial, legal and ownership matters. - Draft contract - Sign Contract			
Phase 6 - Hold implementation meeting - Monitor performance - Identify new opportunities - Maintain morale - Identify and adjust to changing market conditions. - Renew agreement.			

Task Responsibility Charting

KEY:

Leadership = **L**	Support = **S**
Informed = **Info**	Approval Power = **A**
Input = **Input**	Responsible = **R**

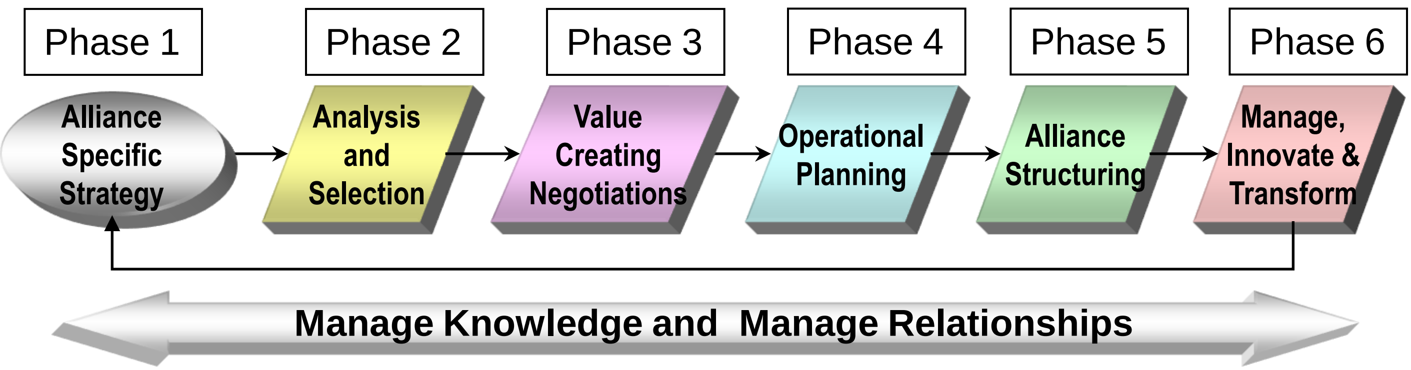
Alliance Framework

Alliance Framework Overview

Best Process-Best Practices Framework Ensures Success

As a result of the Best Process/Practice analysis, the Alliance Framework has been created as a system to delineate a simple, six-phase map of the process of forming alliances. This Alliance Framework helps to guide the alliance architect through the basic steps of creating and maintaining a successful strategic relationship. (see FigureQ)

Figure Q



~TIP~

Every alliance architect will have a natural tendency to want to "structure a deal" fairly early in the negotiations. Beware! All seasoned alliance veterans have learned the difficulties this will cause in the long run. Follow this principle religiously.

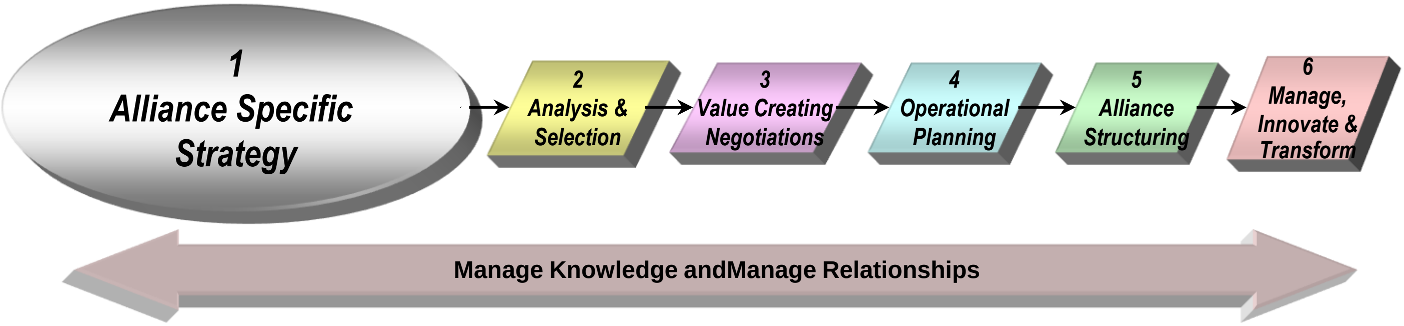
Remember this Alliance Framework is a guide. As a practitioner of the Framework we will have to decide how much or how little of it is applicable to a given alliance scenario.

The following pages provide a high level overview of each phase of the Alliance Framework.

Alliance Framework

Alliance Framework Overview

Alliance Specific Strategy - Phase 1



Alliances are the result of understanding our corporate business strategy. In today's environment our organization needs to be quick to respond to market and governmental changes. How to do that becomes a crucial question.

Our growth can come through internal development, acquisitions or through alliances with other organizations. Once we have a clear vision as to our requirements and what we want from an alliance then we can formulate our value proposition for the success of the alliance.

Key to the success of any alliance will be the involvement of our executive committee and key individuals within our organization that will come to share the vision of our alliance strategy.

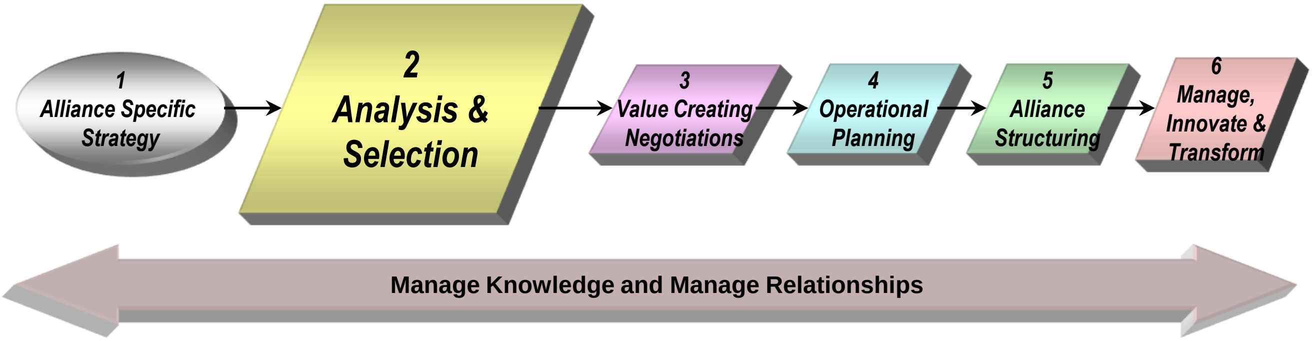
Phase 1 of the Alliance Framework will address the strategic questions and identify key individuals that will participate in the alliance development process. Some activities addressed during this phase include:

- *Identify Strategic Gaps and prepare a list of strategic needs and assets*
- *Alliance requirements are aligned with corporate strategy*
- *Development of Value Proposition and map of value migration*
- *Champion and teams identified*
- *Engage in internal planning , assessment and alignments*

Alliance Framework

Alliance Framework Overview

Analysis and Selection - Phase 2



The Analysis and Selection phase begins the job of finding a partner who can meet all of the requirements set out in the strategy phase. We cannot under estimate the importance of this phase to the ultimate success of the partnership.

As we will learn, selecting an appropriate partner requires more than viewing financial results. It will require learning about the structure of the organization and how they function. What is their organizational culture? How will it fit within our structure? Can we ultimately take an organization that thinks differently then we do, close the differences between our organizations and arrive at a successful relationship.

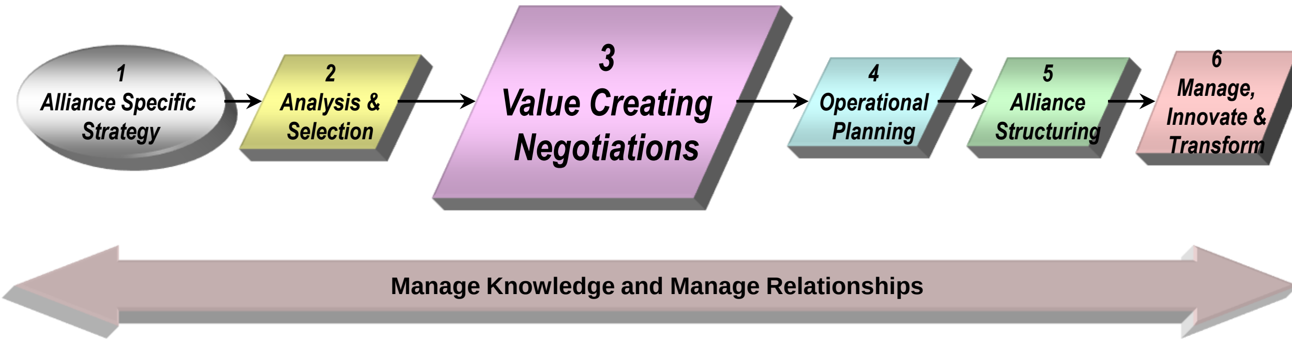
To assist us in this phase we will learn a number of new terms and utilize new tools unique to the alliance process. When we ultimately select our partner we will be comfortable that this alliance will succeed. Typical activities include:

- *Screening of Potential Partners*
- *Quantification of the size of the opportunity and impacts*
- *Value and Risk Assessment*
- *Stakeholder Impact Assessment*
- *Business Case Prepared*
- *Metrics Identified*

Alliance Framework

Alliance Framework Overview

Value Creating Negotiations - Phase 3



Value Creating Negotiations will provide us with a different methodology in which to engage our prospective alliance partners. Rather than engaging in a deal making mentality, as many alliances are formulated, we will be utilizing a co-creative strategy. An approach that will permit both partners to realize their strategic vision in a way that will add value to each partners' organization and the alliance as a whole.

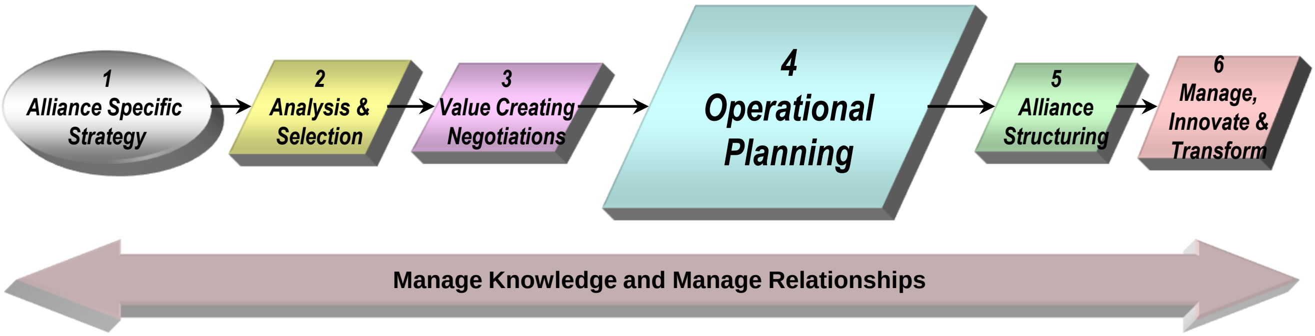
The end result of this phase will be a Memorandum of Understanding and Principles (MOUP). This document, jointly created, will lay the foundation for the operational plans to follow and the final contract. Examples of activities involved during this phase include:

- *Validation of Strategic and Chemistry Fit.*
- *Ensure a Shared Vision exists*
- *Negotiations Team Selected*
- *Preliminary Legal Protections Identified*
- *Define key capabilities and resources needed for each partner*
- *Confirmation of compatibility of partners' objectives and goals*
- *MOUP Written*

Alliance Framework

Alliance Framework Overview

Operational Planning - Phase 4



The Operational Planning phase will be crucial to the success of the alliance. It is here that we will sit down with functional groups from our potential ally. At this time we will identify all of the operational issues that may occur, either during launch or implementation. Any potential problems that are identified then can be addressed.

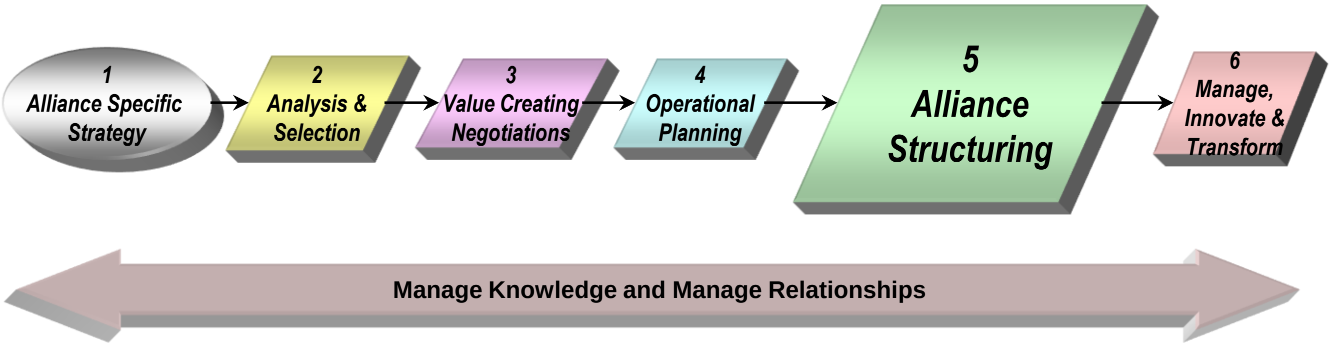
In the Operational Planning phase, our organization and our future partner will jointly establish a day-to-day operational plan. We will create a detailed manual that describes how the business processes will operate. In addition the plans will establish preliminary designs for control systems, reporting systems and the interfaces that link customers and the providers of the business processes. The creation of these plans should be viewed as a pilot project that provides a “reality check” on the assumptions and projections made during the Value Creating Negotiation phase. Typical activities during this phase include:

- *Co-Created Business Plan*
- *Roles and Responsibilities identified*
- *Functional and Cultural Integration Occurs*
- *Resource Requirements Identified*
- *Metrics validated*
- *Implementation planning with all key constituents to get alliance off to fast start is conducted*

Alliance Framework

Alliance Framework Overview

Alliance Structuring - Phase 5



The Alliance Structuring phase focuses on creating legal and organizational frameworks for the strategic alliance relationship, on finalizing operational plans, ensuring that leaders and key managers are in place, and establishing a risk-and-reward formula that motivates both parties to make the relationship succeed. Structuring culminates in the signing of the contract.

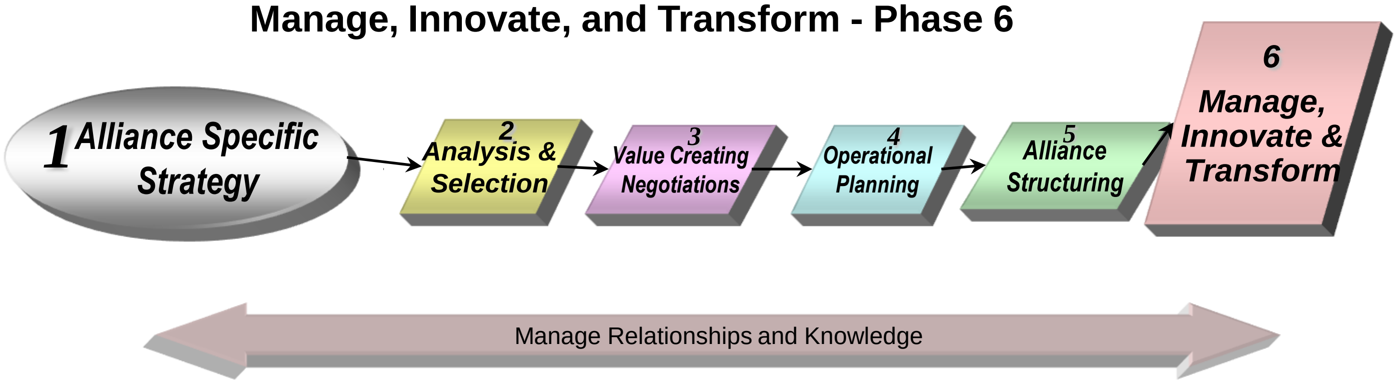
The Alliance Structuring phase builds on the broad objectives and goals described in the Memorandum of Understanding & Principles, and the detailed review of the Operational Plan to create a framework that reflects the collaborative spirit of those two documents.

- *Organizational Structure developed*
- *Governance Structure implemented*
- *Leadership Structure is in place*
- *Financial Structure is in place*
- *Relationship is finalized*

Alliance Framework

Alliance Framework Overview

Manage, Innovate, and Transform - Phase 6



In the Manage, Innovate, and Transform phase, the agreement established in the Alliance Structuring phase is implemented and managed over time.

This phase will involve the Operational Team and the Joint Governance Board (JGB). The JGB will include executives from both companies. Their role will be to guide policy, review the relationships performance, and is generally responsible for keeping the relationship "healthy" and focused on continuous improvement.

The Operational Team (OP) is responsible for ensuring that the alliance agreement is implemented and managed. This team also works with the JGB to ensure that the issues are handled in a timely manner.

A significant aspect of this ongoing phase will be the continuous renewal of the alliance. The Team will be responsible for identifying new opportunities as well as adjusting the requirements of the existing ones. As market conditions change the alliance, to stay vibrant and healthy, will have to be proactive in changing with changing strategic drivers.

- *Monitoring of Performance to achieve Results*
- *Innovate new products, services, and processes*
- *Management of Relationships and Trust*
- *Organizational Learning and Management of Knowledge from Learnings*
- *Collaborative Culture Created*
- *Evolution in response to Strategic Drivers*