lecture 4

Cooperative strategy

Prof. Wojciech Czakon

Next discussion

- FIAT-Chrysler case
    - find information about each firm before the alliance
    - find information on how the alliance was designed and carried out
    - how does it differ from Daimler-Chrysler?

Learning objectives

- Define cooperative strategies and explain ***why*** firms use them.
- Discuss ***three types*** of strategic alliances
- Describe the use of ***business***-level cooperative strategies.
- Describe the use of ***corporate***-level cooperative strategies.
- Explain cooperative strategies ***risks***.
- Describe t***wo approaches*** used to manage strategic alliances.

Opening case

- **IBM** cooperative strategies:
  - chip manufacturing
  - business analytics
  - strategic change
  - alliance portfolio

Strategic alliances 1/3

- A ***cooperative strategy*** is a strategy in which firms work together in order to achieve a shared objective.
- A ***strategic alliance*** is a cooperative strategy in which firms combine some of their resources and capabilities to create a competitive advantage.

Strategic alliances 2/3

- There are three types of strategic alliances:
  - a ***joint venture*** is a strategic alliance in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage (GM-FIAT powertrain).

Strategic alliances 3/3

- an ***equity alliance*** is an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage (Nissan-Renault).
- a ***non-equity alliance*** is and alliance in which two or more firms develop a contractual relationship to share some of their unique resources and capabilities to create a competitive advantage (Pininfarina-Ferrari)

Reasons for developing strategic alliances 1/2

Table 10.1 Reasons for strategic alliances by market type

Market	Reason
Slow-Cycle	• Gain access to a restricted market • Establish a franchise in a new market • Maintain market stability (e.g., establishing standards)
Fast-Cycle	• Speed up development of new goods or services • Speed up new market entry • Maintain market leadership • From an industry technology standard • Share risky R&D expenses • Overcome uncertainty

Reasons for developing strategic alliances 2/2

Standard-Cycle	• Gain market power (reduce industry overcapacity) • Gain access to complementary resources • Establish better economies of scale • Overcome trade barriers • Meet competitive challenges from other competitors • Pool resources for very large capital projects • Learn new business techniques

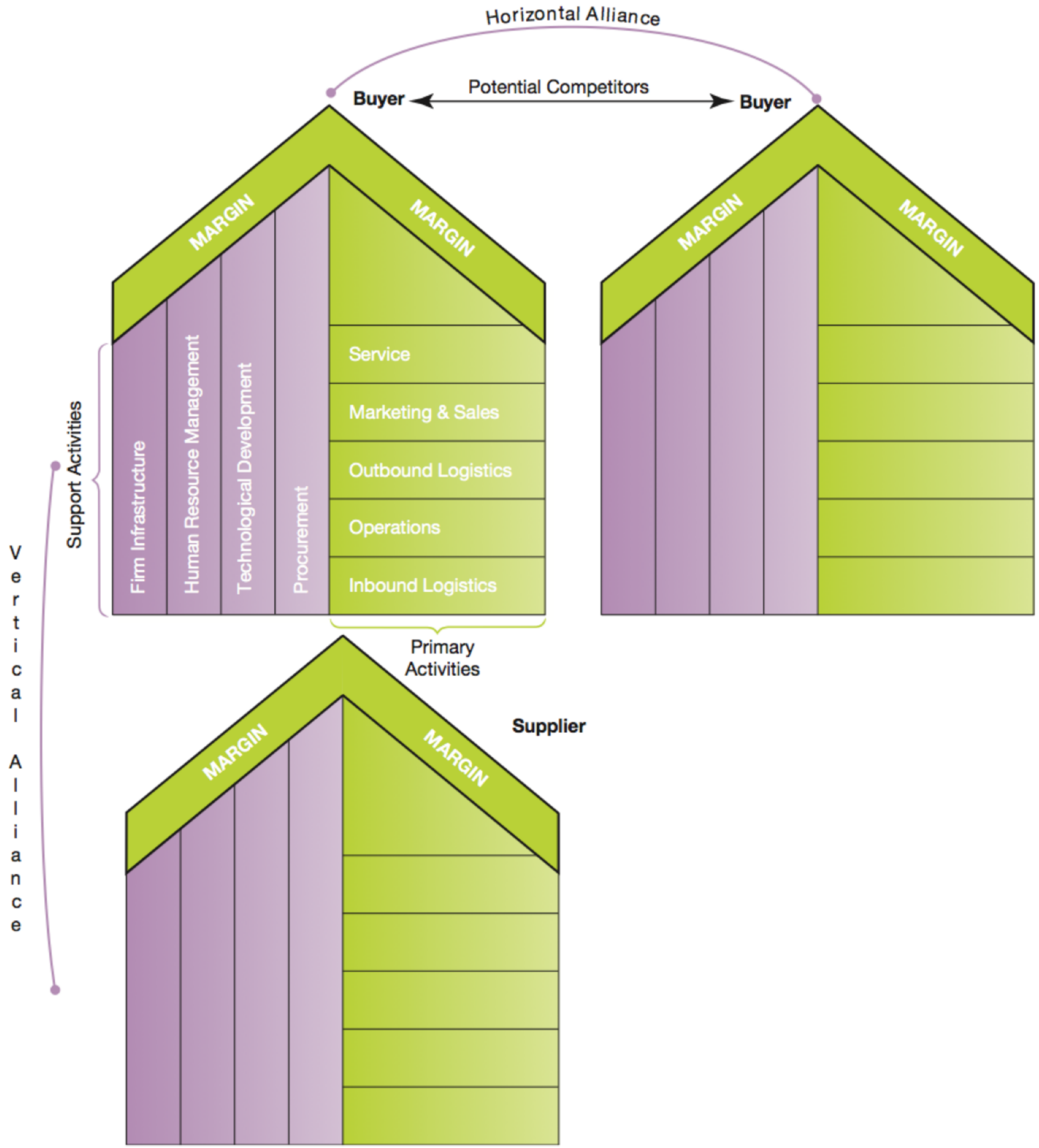
Business-level cooperative strategies 1/6

- A firm uses a ***business-level*** cooperative strategy to grow and improve its performance in individual product markets.

FIGURE 10.1 Business-level cooperative strategies

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

FIGURE 10.2 Vertical and horizontal complementary strategic alliances



Business-level cooperative strategies 3/6

- In ***vertical*** strategic alliances firms share their resources and capabilities from different stages in the value chain (Nintendo-Electronic Arts)
- In ***horizontal*** strategic alliances firms share their resources and capabilities from the same stage in the value chain (GM-FIAT Powertrain)

Business-level cooperative strategies 4/6

- Competition response strategies are taken as a counter measure agains competitor actions (SkyTeam vs StarAlliance).
- Uncertainty reduction alliances are undertaken to reduce risk especially in fast-cycle markets.

Business-level cooperative strategies 5/6

- Competition-reducing alliances are ***explicit collusions*** whereby two or more firms negotiate directly with the intention of jointly agreeing about the amounts to produce and the prices to charge.
- ***Tacit collusions*** manifest through indirect coordination of irm's production and pricing decisions by observing each other's competitive action and response.

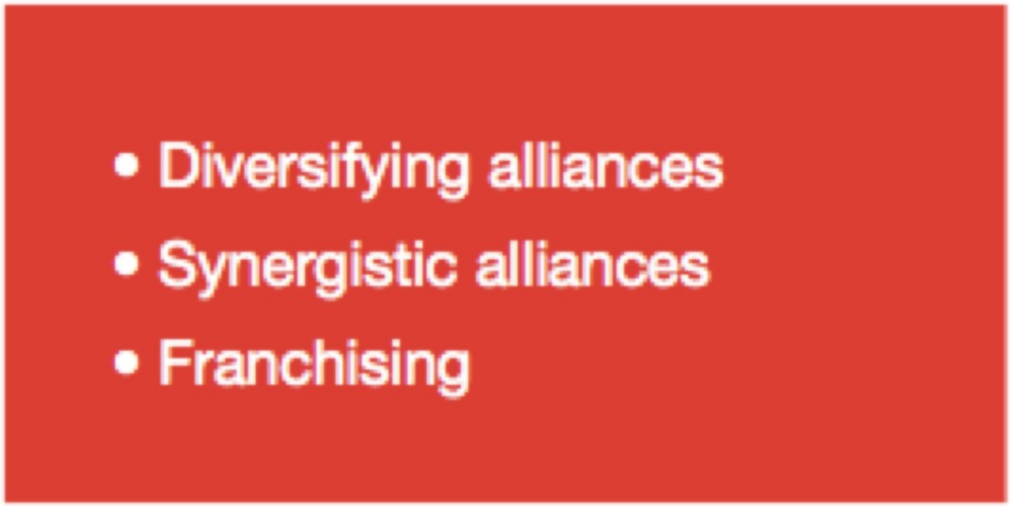
Business-level cooperative strategies 6/6

- Assessing business-level cooperative strategies:
  - vertical alliances have the greatest probability of creating a ***sustainable*** competitive advantage,
  - horizontal complementary alliances are sometimes ***difficult*** to maintain,
  - advantages acquired through response or risk-reduction cooperative strategies are often ***temporary***.

Corporate-level cooperative strategies 1/4

- A firm uses a corporate-level strategy to ***help it diversify*** in terms of products offered or markets served, or both.

FIGURE 10.3 Corporate-level cooperative strategies



Corporate-level cooperative strategies 2/4

- A ***diversifying strategic alliance*** is a corporate level cooperative strategy in which firms share some of their resources and capabilities to diversify into new product or market areas.
- A ***synergistic strategic alliance*** is a corporate level strategy in which firms share some of their resources and capabilities to create economies of scope.

Corporate-level cooperative strategies 3/4

- *Franchising* is a corporate level cooperative strategy in which the firm (franchisor) uses a franchise as contractual relationship to describe and control the sharing of its resources and capabilities with partners (franchisees). eg. McDonald's.

Corporate-level cooperative strategies 4/4

- Costs incurred in corporate level cooperative strategies are important.
- Successful if firm can internalize prior alliance experience.

International cooperative strategy 1/2

- A ***cross-border strategic alliance*** is an international cooperative strategy in which firms with headquarters in different countries decide to combine some of their resources and capabilities in order to create a competitive advantage.

International cooperative strategy 2/2

- Several ***reasons justify*** international alliances:
  - generally multinational corporations outperform domestic-only firms,
  - limited domestic growth opportunities,
  - foreign government economic policies,
  - operational information about local markets,
- These strategies are generally ***more risky*** as compared to domestic alliances.

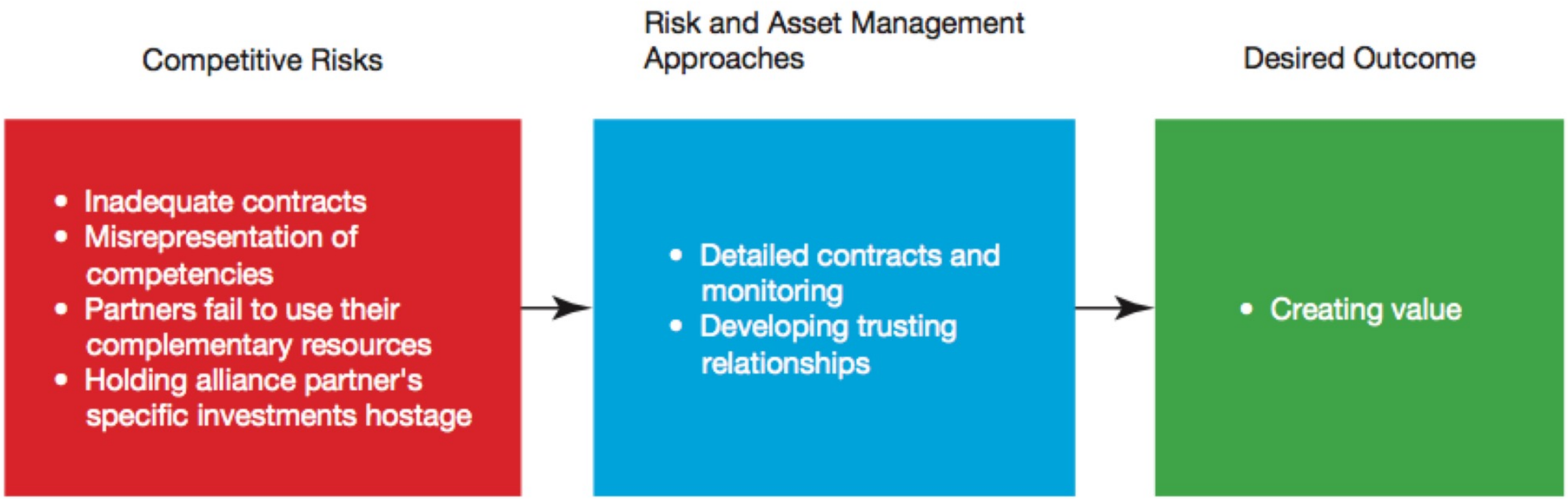
Network cooperative strategies

- Are strategies wherein several firms agree to form multiple partnerships to achieve shared objectives.
  - ***stable alliance networks*** are formed in mature industries where demand is relatively constant and predictable.
  - ***dynamic alliance networks*** are used in industries characterized by frequent product innovations and short product life cycles.

Managing competitive risks 1/2

- Many cooperative strategies (ca. 50%) fail.
- There are risks that need to be carefully addressed.

FIGURE 10.4 Managing competitive risks in cooperative strategies



Managing competitive risks 2/2

- Two primary approaches are used to manage competitive risks (TNK-BP):
  - ***cost minimization*** through detailed formal contracts with partner firms,
  - ***opportunity maximization*** through value creation flexible activities.

Summary

- Cooperation is working ***together*** to achieve a shared objective.
- The ***reasons*** firms use cooperative strategies vary by market conditions.
- ***Four*** business-level cooperative strategies are used.
- ***Three*** corporate level cooperative strategies are used.
- Cooperation is risky and calls for ***careful*** management.