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The new alliance game...

article by Dean van Leeuwen

In this article we share the results from interviewing over 30 senior executive managers and undertaking a broader global research study on the future of networks and alliances. The results are illuminating...

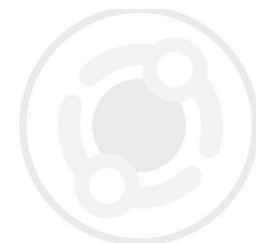


Article at a glance

Business world is facing the dawning of a new alliance age / revolution that will bring about a new business model more symbiotic and substantially different from the business model of today. A model where symbiosis is common place, a model where an entirely new set of rules, governances and structural design is created; a model that requires the mobilisation of every ounce of intelligence from the managers managing the relationships.

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CHALLENGING TIMES REQUIRE NEW ACTIONS

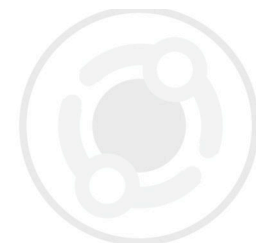
The competitive and market environment is growing increasingly volatile. Just this week (2 June 2008) information emerging from the United States suggests that unemployment is the highest in 22 years. Banks in the UK and around the world are announcing record losses, the housing market is taking a battering and consumer confidence is at a low.

How do companies need to compete in these tough times? Most companies have stripped out excess costs and as a result of practices like Six Sigma, Lean Sigma, outsourcing, right-sizing and downsizing have streamlined operations for most companies. As a result there are slim pickings left for competitive advantage in re-engineering department. The added problem is that companies are doing the same thing, they are selling the same products to the same customers and delivering more or less the same experience. So with a credit squeeze and consumer confidence ebbing, this article, in two parts, looks at what companies need to be doing to keep ahead.

One of our UK & European Directors, Dean van Leeuwen, has researched the opinions of over thirty Directors and MD's working for leading financial service companies and combined the results with our broader global research. The results are illuminating. They show that the business world is facing the dawning of a new alliance age/revolution that will bring about a new business model more symbiotic and substantially different from the business model of today. The competitive and changing economic landscape demands a new business model...one removed from the shareholder value model to one where value for all stakeholders is created. A model where symbiosis is common place, a model where an entirely new set of rules, governances and structural design/architecture is created; a model that makes joint ventures look antiquated and obsolete, a model that requires the mobilisation of every ounce of intelligence from the managers managing the relationships.

Thomas Malone in his HBR article - "The Dawn of the E-lance economy," takes a leap into the year 2022, the year of the Harvard Business Review will celebrate its centennial year of publishing. Predicting that many "may comment on the speed with which giant companies fragmented into the myriad micro-businesses that now dominate the economy. And they may wonder why, at the turn of the century, so few saw it coming" Malone is alluding here to the mushrooming of what he terms "elastic networks" as the dominant form of business, alluding to

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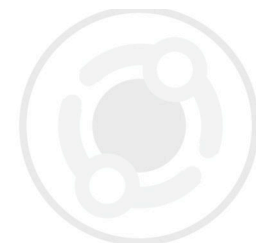
a new game of business.

Ash Vasudevan and Geert Duysters founding partners, NSI, take this thought process further and exemplify on what they call the alliance revolution. “The digital revolution...greatly facilitated by this alliance revolution has fundamentally changed the way companies acquire resources, build capabilities, develop core competencies, and seek ways to create, build and sustain their competitive advantage.” They continue, conferring that this leads to the creation of...“value webs” that integrate specialised resources, specialised capabilities to develop new rules, new ideas, new markets, and offer fundamentally new value propositions. These connections have led to the emergence of the network economy, profoundly impacting businesses in the process.”

Hence, network alliances are the buzz of the business world, particularly in the technology industry. Academics, economists and consultants talk about a move away from mergers and joint ventures towards multi-lateral alliances, eco-webs, Bio-economies, nodal positions, groups of competition - “Them vs. Us”, constellations, federations, elastic networks, etc. The list is endless, however, regardless of the terminology used they all appear to have a common theme: The business model of the future will be incredibly complex to manage and it will be built around multiple cooperative partnerships.

It is interesting to note that a few years ago alliances were viewed with scepticism and few companies made alliances the cornerstone of their strategies. Ironically, a decade of re-engineering has made many corporations more reliant than ever on strategic alliances. Hamel & Doz in their book Alliance Advantage purport that “Most management teams have addressed demands for greater shareholder value creation by a mix of refocusing around core competencies...reengineering, downsizing and de-layering (to an extent that) the self contained, vertically integrated companies of yesteryear are largely extinct’. And they continue saying that as a result of a decade of concentrating on core competencies and downsizing companies are now unable to deliver comprehensive value propositions without entering into alliances.

The problem however, is that recent studies suggest that only 30% of alliances achieve or exceed initial expectations, with the remainder destroying shareholder value and that in 70% of the cases, failure of the alliance is caused by:



- Breakdown in relationship
- Lack of structure to formulate and manage alliance.
- Lack of management skills to manage alliances.

THE NEW ALLIANCE GAME

Most alliances are set up as joint ventures, structured and clearly defined. However, we now live in an economic environment that is non-linear, discontinuous, and changing at an extraordinary rate. In one industry after another, we are seeing the entry of new firms from unusual and hitherto unexpected directions, bringing in new thinking, new technologies, new attitudes, new market-shaping concepts, and most importantly radically new price/performance capabilities for products and services. Now more than ever, firms are faced with the critical and daunting challenge of maintaining the cutting edge of their core competencies while simultaneously striving to maintain the feverish pace at which they must develop and introduce a slew of new products and services. These changes represent the parameters of the new game with its new players and its new rules.

Through our research and work with companies we've identified five traits, which can be viewed as the source of the new rules:

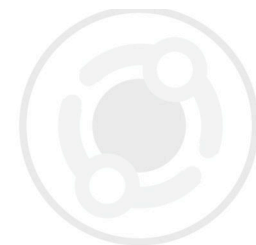
New alliances face greater uncertainty, they push the leading edge of new technologies and bring together emerging and rapidly evolving skills.

1. STRATEGIC ALLIANCES NEED TO BE CENTRAL TO THE FIRM'S STRATEGY: Alliances of old rarely made the cornerstone of corporate strategy. Typically alliances are formed to exploit specific opportunities that are somewhat peripheral to the strategic priorities of the firm.

2. ALLIANCES NEED TO BE FLEXIBLE AND CAPABLE OF WORKING OUTSIDE OF THE FORMAL LINES: New alliances face greater uncertainty, they push the leading edge of new technologies and bring together emerging and rapidly evolving skills.

3. NEW ALLIANCES INVOLVE MULTIPLE AND DIVERSE PARTNERS. Alliances of the past were generally bi-lateral in nature.

4. ALLIANCES ARE NOW FORGED TO DEVELOP COMPLEX SYSTEMS AND SOLUTIONS that require resources of many partners. The old model of alliances generally resulted in the co-production of a single product. New alliances require a readiness



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to collaborate in areas of new exploration as well as areas core to the business.

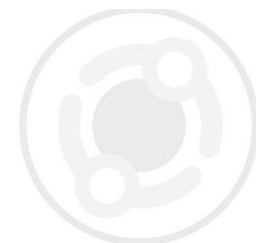
5. NEW ALLIANCES ARE INHERENTLY MORE DIFFICULT TO MANAGE. As a result of less stable and more fluid evolving markets, resources and skills required are not necessarily known from the outset. They require a stronger concentration on the softer elements of business, culture, greater human connection and leadership skills.

The development and refinement of these five new alliance traits appear to be challenging conventional alliance thinking. To be successful in the new alliance game companies will have to embrace the following elements:

- The corporate DNA will need to be reinvented, leaders must invent the future-innovate-rather than pursue the proven norm.
- Conventional wisdom must to be challenged.
- The “excellent company” does not exist in isolation. Downsizing and concentration on core competencies has resulted in an inability to deliver excellence without the collaboration of best-of-breed partners.
- A fluid structure that responds adapts and evolves in response to today’s non-linear discontinuous and rapid changing economic environment is required.
- The new alliance model involves multiple interconnected partners. • Alliances of the past were generally bi-lateral in nature, new alliances are multifaceted, face greater uncertainty, they push the leading edge of new technologies and leadership skills.
- As a result of growing complexities the notion of centralised control is dead. Interdependence is at the heart of the new-networked company.
- Development of a “meta-capability” in collaboration and innovation is crucial.
- Stellar leadership is required as the new alliance model will tax management capabilities.

TO NETWORK OR NOT TO NETWORK...?

Whilst collaboration and innovation are important, they are also difficult skills to master. The question therefore is, do



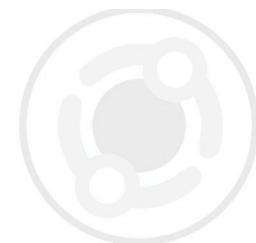
It is not however, the alliance deals per se that are strategically flawed. Rather management needs to be in a position to learn and evolve the necessary skills required for a complex network model.

companies have the capabilities for multi-lateral collaboration? Our research study in the shows that 45% of the respondents strongly believe that their companies do not have the managerial skills, resources or appetite necessary to enter into multiple alliances. With most respondents believing that multiple network model is too complex to manage.

Indeed senior management's concern about the pros and cons of the new alliance game is warranted. Alliances represent a difficult and often uncharted management model and although alliances have become inevitable, few live up to their early billing and can also become black holes for management time and resources.

Thus the management of network alliances would appear to be the major stumbling block in developing network alliance. On one hand though management is seeking the fluidity and uniqueness of collaborative partnerships yet in the other they are concerned with the loss of absolute control.

It would appear as if management is stuck between a rock and a hard place. On the one hand they understand that multi-lateral network alliances offer the ability to orchestrate value propositions necessary in today's highly competitive environment. But, on the other they are concerned with the management complexities of the network model and therefore prefer to manage and follow the simpler joint venture model or "go it alone", even though it may not provide the necessary competitive value propositions in the long run. It is not however, the alliance deals per se that are strategically flawed. Rather management needs to be in a position to learn and evolve the necessary skills required for a complex network model. Partners need to learn how to creatively manoeuvre their alliances through the thickets of uncertainties, changing priorities, organizational frictions and competitive surprise. Companies who identify the new alliance game will need to pay attention to its fluidity and more ambiguous evolution.



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