Chapter # 5
Strategy and Competitive Advantage

Strategic Alliance:
A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. A company may enter into a strategic alliance to expand into a new market, enlarge its product line, or develop an edge over competitors. In some cases, strategic alliances can involve more than two companies.

Examples of Strategic Alliances

Strategic alliances can come in many sizes and forms. Some generic examples:

- An oil and natural gas company might form a strategic alliance with a research laboratory to develop more commercially viable recovery processes.
- A clothing retailer might form a strategic alliance with a single manufacturer to ensure consistent quality and sizing.
- A website could form a strategic alliance with an analytics company to improve its marketing efforts.

Types of Strategic Alliances

There are three primary forms of strategic alliances:

1. Joint Ventures
A joint venture occurs when two companies come together to create an entirely new, separate company that each of the existing companies becomes a parent to.

For example, in 2012, Microsoft and General Electric Healthcare signed a joint agreement to create a new, third company called Caradigm, with each of them owning 50%.2 Caradigm's mission was to develop and market an open healthcare intelligence platform. The idea behind the joint venture was that Microsoft had the technical capability of making such a platform work, while GE's healthcare IT division had the expertise on the healthcare side.

In 2016, GE Healthcare bought out Microsoft's share in the company. Then, in 2018, it sold the entirety of Caradigm to Inspirata.

2. Equity Strategic Alliances
An equity strategic alliance may have similar outcome goals as a joint venture. However, it is funded differently in that one company makes an equity investment into another.

For example, in 2010, Panasonic invested $30 million in the automaker Tesla by purchasing shares of Tesla common stock in a private placement. The investment was intended to build a stronger alliance between the two companies and to help expand Panasonic's footprint in the electric vehicle market. As one of the world's leading battery cell manufacturers, Panasonic's skill set blended strongly with Tesla's ambition to improve its battery packs and reduce its costs.

3. Non-Equity Strategic Alliances

In a non-equity strategic alliance, two entities come together without an exchange of equity. Each company simply brings its resources to the alliance for the mutual benefit of both. The relationship between Barnes & Noble and Starbucks is one highly visible example. Starbucks brews the coffee. Barnes & Noble stocks the books. Both companies do what they do best while sharing the costs of retail space to the mutual benefit.

How Strategic Alliances Can Create Value

There are many reasons that a company might choose to enter into a strategic alliance. They include:

- **Improving short-term finances.** Companies wanting to see immediate financial impacts may find it easiest to leverage another company's resources to improve their short-term position in the market.
- **Eliminating barriers to entry.** Companies may not have the capital on hand to enter certain markets. Instead, they can partner with companies that have already made those investments to gain access cheaper and faster.
- **Gaining better business insights.** Companies may have no idea how a certain business model will perform. Instead of having to build out an entire model and self-fund an experiment, companies can leverage strategic alliances to "test run" how certain situations may go and use that information for future decision making.
- **Sharing financial risk.** Should a business venture fail, both parties in a strategic alliance are likely to share the financial responsibility. Instead of single-handedly bearing the brunt for the failure, each party may receive assistance from the other as part of the alliance agreement.
- **Innovating beyond current capabilities.** In the Panasonic/Tesla alliance mentioned above, their partnership put some of the smartest experts in electric vehicles and batteries on the same team, enhancing the innovative capacity of both organizations.

How to Form a Strategic Alliance

Forming a strategic alliance requires creativity, forward thinking, and savvy business sense. Though strategic alliances can differ in many respects, most involve some common steps:

- **Brainstorm potential partners.** Often, strategic alliances unite companies in different industries. Consider other companies that may have a need for your services or have a weakness where your company has a strength. Conversely, consider the weaknesses of your own company and what types of entities could bring you the resources to help bridge the gap.
- **Outline alliance proposals.** Strategic alliances must make sense for both parties. A company that wants to initiate one needs to a propose a plan whose financial and strategic benefits to the other company are clear.
- **Mutually determine goals.** Both sides of a strategic alliance should have the opportunity to provide input on what the revenue and profit targets and operational strategy will be.

- **Finalize the plan.** Once both parties are on board, the strategic alliance can be formalized with the necessary legal documents, spelling out what is expected of each of them and what happens if one or the other fails to live up to its side of the bargain. This plan also acts as the roadmap for decision making in the future as the newly formed alliance moved forward.