



## **COMM 401 Notes**

### **External Environment**

The external environment consists of three parts:

1. The general environment
2. The competitor environment
3. The industry environment

An external analysis is “What might be done?”

*SWOT ANALYSIS* can be used to summarize internal and external analysis.

Opportunity: A condition in the general environment that, if exploited, helps a firm achieve a competitive advantage.

Threat: A condition in the general environment that may hinder a firm’s efforts to achieve competitive advantage.

Strengths + Weaknesses covered in *Internal Environment*.

### **General Business Environment**

Political/Legal:

- Competition, labour and taxation laws
- Education and government philosophies

Economic:

- Inflation and interest rates
- Personal and business saving rates
- Trade deficits
- GDP
- Recessions

Social/cultural:

- Women in the workforce
- Diversity
- Environmental concerns
- Work-life quality attitude
- Shift in preferences regarding product characteristics

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Technological:

- Product and process innovations
- Applications of knowledge
- Focus on private and government supported R&D
- New communication technologies

Demographic:

- Population size
- Age structure
- Ethnic mix
- Geographical distribution
- Income distribution
- Immigration

Physical Environment:

- Soil
- Water Supply
- Climate

Global:

- Important political events
- Critical global markets
- Newly industrialized countries
- Different cultures

## **Porters Five Forces**

Threats of new entrants:

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages (economies of scale)
- Government policy
- Expected retaliation

Bargaining power of suppliers:

- Supplier industry is dominated by a few firms
- Suppliers' products have few substitutes
- Buyer is not an important customer to the supplier
- Suppliers' product is an important input to the buyers product
- Suppliers' products are differentiated

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- Suppliers' products have high switching costs
- Supplier poses credible threat of forward integration

Overall powerful suppliers exert power in the industry by threatening to increase their prices or reduce the overall quality of their service. They can harm an industry's profitability if firms are not able to recover the cost increase.

Bargaining power of buyers:

- Buyers are concentrated or the purchases are large relative to the supplier's sales
- Purchases account for a significant amount of the industry's sales
- The products are undifferentiated
- Buyers face low switching costs
- Buyer presents a credible threat of backwards integration
- The quality of the product doesn't matter in the industry
- The buyer has full information

Powerful buyers exert their power in the industry by bargaining down prices, forcing higher quality and playing firms off of one another

Threat of substitutes:

- Substitutes are
  - Products or services that have similar functions, limiting the prices that firms can charge
  - Products that have improved price or performance tradeoffs relative to products currently offered in the industry. Ex: Air travel over cars
- Substitutes within an industry and across industry substitutes are different

Rivalry amongst competitors:

- How much are people battling for strategic position in the market
- How much price competition is being used
- The existence of advertising battles
- Increased consumer warranties and service
- Frequent new product introductions
- Existence of high exit barriers
  - Are there specialized assets that are hard to sell or fixed exit costs like labor agreements etc.

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An ***unattractive industry*** will have:

- Low entry barriers
- Strong supplier power
- Strong buyer power
- High threat of substitutes
- Intense rivalry amongst competitors

An ***attractive industry*** will have:

- High entry barriers
- Low supplier power
- Low buyer power
- Low threat of substitutes
- Moderate/low rivalry amongst competitors

## **Competition**

*Cutthroat competition* is likely to occur when there are numerous or equally balanced competitors, when it is a slow growth industry, when there are high fixed costs, when there are high storage costs, when there is lack of differentiation between the products or service, when there are high switching costs, when capacity is added in large amounts only and when there are high exit barriers.

A *strategic group* is a collection of firms that follow similar strategies along similar dimensions. Each industry is populated with different strategic groups. Competitive rivalry is greater within a strategic group than it is between different strategic groups.

Overall an **industry analysis** consists of six steps:

1. Define the industry
2. Evaluate each of the five forces (including identifying industry participants)
3. Determine overall industry structure
  - a. Profitability level, controlling forces, positioning of above average performers
4. Analyze recent and potential future changes for each force
5. Identify industry structure aspects that might be influenced by competitors, new entrants, or own firm

A **competitor environment** analysis consists of analyzing:

- What drives the competitor as shown by its future objectives
- What the competitor is doing and can do as revealed by its current strategy
- What the competitor believes about itself and the industry, as shown by its assumptions
- What the competitor may be able to do, as shown by its capabilities
- How will the competitor respond to our strategy

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The purpose of this **competitor analysis** is that it:

- Informs the firm about the objectives, strategies, assumptions, and capabilities of competitors
- Examines complementors that support a competitor's strategy and major networks or alliances in which competitors participate
- Attempts to identify and carefully monitor major actions taken by firms that have a poor performance.

### **Internal Environment**

**Resources** are the source of a firm's capabilities. They represent inputs into a firm's production process. Alone they do not create a competitive advantage or allow a firm to create value that results in above average returns.

#### **Tangible Resources**

*Financial:* The firm's borrowing capacity or ability to generate internal funds.

*Organizational:* The firm's financial reporting structure. Its formal planning, controlling and coordinating systems.

*Physical:* Location and sophistication of a firm's plant and equipment. A firm's access to raw materials.

*Technological:* A firm's stock of technology such as patents, copyrights, trademarks and trade secrets.

#### **Intangible Resources**

*Human:*

- Knowledge
- Trust
- Managerial capabilities
- Organizational routines

*Innovation:* Ideas, scientific capabilities, and capacity to innovate.

*Reputational:*

- Reputation with customers
- Brand name
- Perceptions of product quality, durability, and reliability
- Reputation with suppliers
- Efficient, effective and supportive mutually beneficial interactions and relationships

**Capabilities** emerge over time through complex interactions among tangible and intangible resources. They stem from employees and are often developed in specific functional areas. These unique skills and knowledge are activities through which the firm adds unique value to its goods and services over an extended period of time. Capabilities exist when resources have been purposely integrated to achieve a specific task or set of tasks.

**Table 4.4** Examples of Firms' Capabilities

Functional Areas	Capabilities	Examples of Firms
Supply Chain	Effective use of procurement techniques	Starbucks
Distribution	Effective use of logistics management techniques	Wal-Mart
Human Resources	Motivating, empowering, and retaining employees	Royal Bank of Canada
Management	Effective and efficient control of inventories through point-of-purchase data collection methods	Wal-Mart
Marketing	Effective promotion of brand-name products	Gillette McKinsey & Co.
	Effective Customer Service	Nordstrom
Management	Ability to envision the future of clothing	Gap, Inc.
	Effective organizational structure	PepsiCo
	Effective culture	WestJet
Manufacturing	Design and production skills yielding reliable products	Komatsu
	Product and design quality	Gap, Inc.
	Production of technologically sophisticated automobile engines	Mazda
	Miniaturization of components and products	Sony
Research & Development	Exceptional technological capability	Corning
	Development of sophisticated elevator control solutions	Motion Control
	Rapid transformation of technology into new products and processes	Chaparral Steel
	Deep knowledge of silver-halide materials	Kodak

**Competitive Advantage**

Valuable: Allows the firm to exploit opportunities or neutralize threats in its external environment.

Rare: They are possessed by only a few, if any, potential competitors.

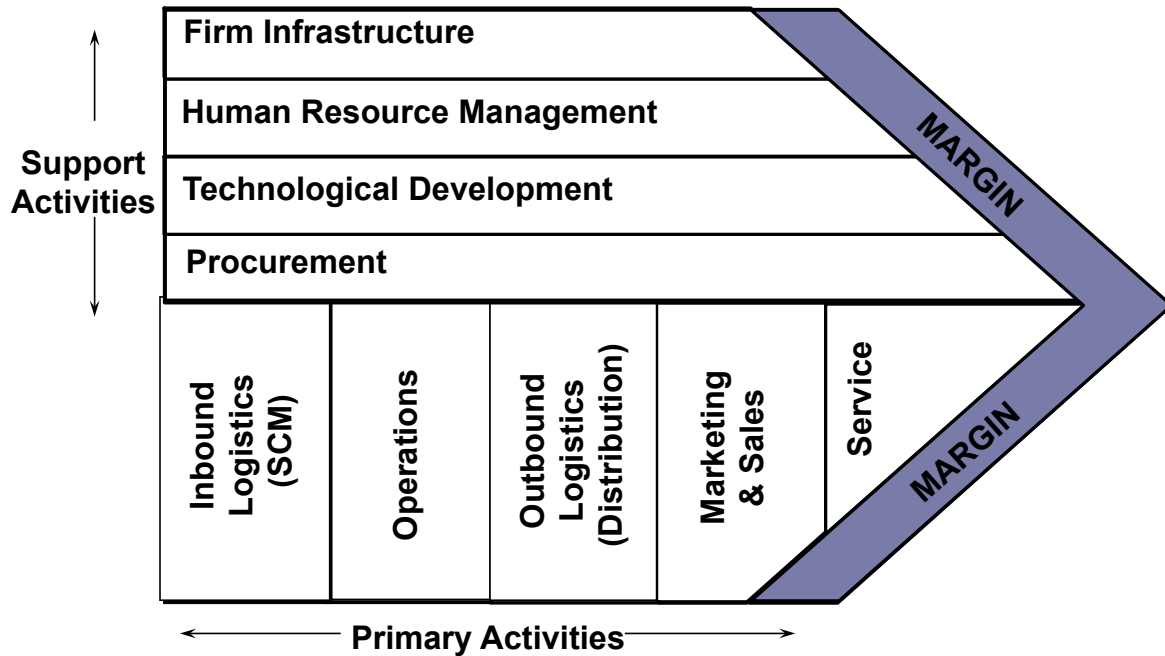
Imitable: Other firms cannot obtain it, or are only able to obtain it at a higher cost.

Non-substitutable: There are no equivalents to it.

Is the Capability Valuable?	Is the Capability Rare?	Is the Capability Costly to Imitate?	Is the Capability Nonsubstitutable?	Competitive Consequences	Performance Implications
No	No	No	No	• Competitive disadvantage	• Below-average returns
Yes	No	No	Yes/no	• Competitive parity	• Average returns
Yes	Yes	No	Yes/no	• Temporary competitive advantage	• Average returns to above-average returns
Yes	Yes	Yes	Yes/no	• Sustainable competitive advantage	• Above-average returns

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The value chain is a useful tool to identify and understand internal sources of a competitive advantage:



**Outsourcing** is the purchase of value-creating or support functions from an external supplier. It is rare that a firm is superior in all aspects of the value chain. Outsourcing activities where a firm is lacking competence allows them to focus on the areas in which they create value. This frees resources from non-core activities and directs them to ones that serve customers more effectively. Overall outsourcing can lead to specialty suppliers performing the required tasks more efficiently as well as a sharing of risks allowing a firm to be flexible, dynamic, and better able to adapt to changing opportunities.

### **Business Level Strategy**

When discussing strategy, it can be broken down into business strategy and corporate strategy.

#### **Business Strategy**

- Participation Strategy: Which product markets do I compete in?
- Competitive Strategy: How can I serve existing customers?
- Organization Strategy: How do I mobilize my organization? What is the role and mix of my leadership team?

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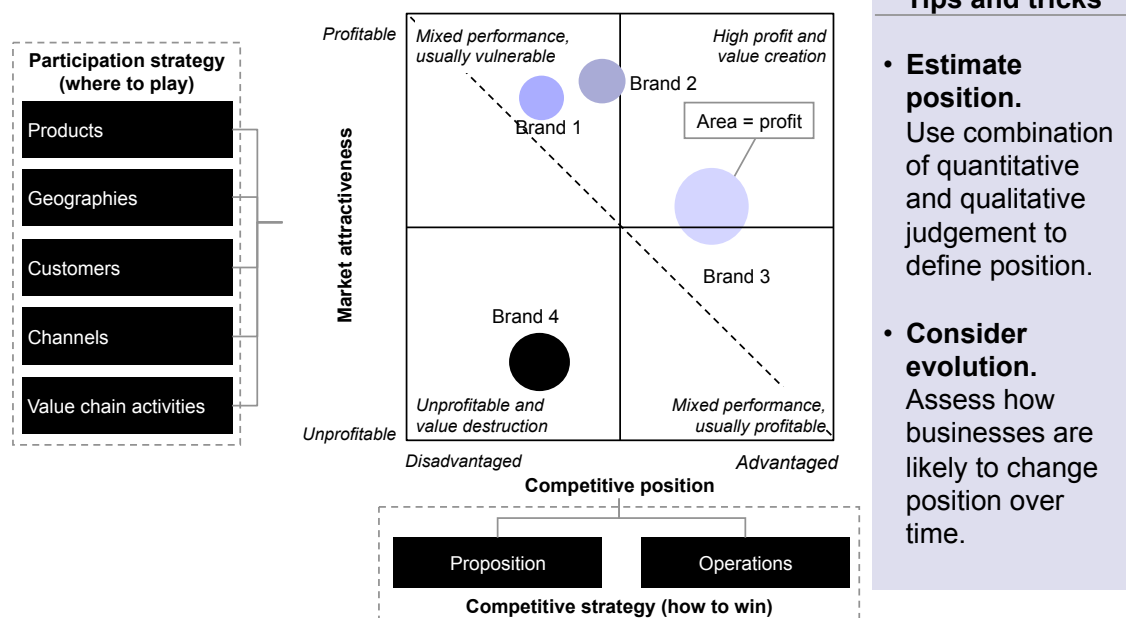
A good strategy makes real choices and trade-offs and creates distinctiveness by focusing on sources of profitability that competitors can't match. It links choices to how companies make money over time using their key assets and capabilities, ensures consistency across the business, and is executable with existing assets, capabilities and resources.

In creating a strategy, one must understand:

1. Where value is created or destroyed
2. Why value is created or destroyed (market attractiveness, competitive position)
3. What choices you can make to unlock value (business model)

Overall value can be managed. Better strategies lead to a better performance.

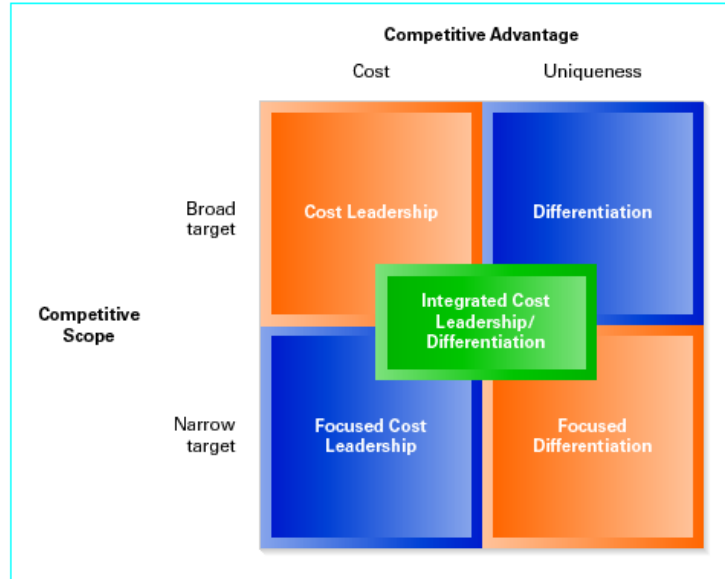
## Understanding what choices you can make to unlock value



### Customers

- Who does the company want to serve
- What are the needs of these target customers
- What is the target customer willing to pay to have these needs fulfilled
- How the company will satisfy these needs

Generic approaches consist of cost leadership, differentiation and focus.



## Cost Strategy

When trying to obtain a cost advantage, it can be very useful to:

- Standardize the product
- Determine and control the cost driver and configure the value chain to focus on efficiency.

Risks of using a cost strategy include:

- Loss of competitive advantage to newer technologies
- Failure to detect changes in customer needs
- Competitors ability to imitate the cost advantage through their own unique strategic actions

## Differentiation Strategy

A differentiation strategy offers products or services with unique features for which customers are willing to pay a premium price. This can be done by raising the performance of the product or service or by increasing a customer's unwillingness to switch to a non-unique product.

A differentiation advantage can also be obtained by raising the willingness for a customer to pay a premium with only a slight increase in costs. This involves configuring the value chain/activity system accordingly.

Risk of using a differentiation strategy include:

- Customers decide that the differentiation isn't worth a higher price
- Competitors offer similar products at a lower cost
- Counterfeiters offer knock offs of the product

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## Dual Advantage

To achieve a dual advantage, one must provide a low cost with valued differentiation features. Primary and support activities need to be used to produce differentiated products at a relatively low cost.

Critical success factors for DA can include TQM, information networks and flexible manufacturing systems.

Risks in achieving this type of competitive advantage include:

- Products or services that lack sufficient low cost or differentiation
- To be stuck in the middle which causes the lack of a strong commitment to either strategy

## Corporate Level Strategy

### Corporate Strategy

- Portfolio Strategy: What is the right size and mix of my portfolio of businesses? Which businesses will drive growth? Which businesses will fund growth?
- Value-added Strategies: What synergies can I capture across businesses (shared assets and capabilities) that will deliver more value than the sum of the parts?
- Management Model: How do I manage my portfolio of businesses structure, processes? What is the role of the center?
- Capital Model: How do I allocate capital and other (scarce resources).

Corporate-level strategy's value is ultimately determined by the degree to which "the businesses in the portfolio are worth more under the management of the company than they would be under any other ownership"

Paths to grow include:

Market development: Moving into different geographic markets

Product development: Developing new products or significantly improving existing ones

Horizontal integration: Acquisition of competitors, horizontal movement at the same point in the value chain

Vertical integration: Becoming your own supplier or distributor through acquisition; vertical movement up or down the value chain

### **Diversification Considerations**

- What can our company do better than any of its current competitors?
- What strategic assets are needed to succeed in the new market?
- Can we catch up to competitors in the new market?
- Will diversification break up strategies that need to be kept together?
- Will we be simply a player in the new market or a leader?
- What can we learn by diversifying and are we structured to learn it?

### 3 reasons to diversify

1. Value creating diversification (economies of scope, financial economies)
2. Value-neutral diversification (tax laws, uncertain future cash flows)
3. Value-reducing diversification (diversify managerial employment risk, increase managerial compensation)

Reason number one is what really drives diversification. The two main ways diversification strategies create value are through operational and corporate relatedness.

### **Related Diversification**

Activity sharing and skills transfer are key success factors for related diversification.

-It is important to understand business interrelationships, value chains, and drivers for competitive advantage

-Sharing activities can lower costs

- Achieve economies of scale
- Increase capacity utilization
- Move down the learning curve

-Requirements

- Existence of strong corporate identity
- Corporate mission that emphasizes the importance of integrating business units
- Reward system that emphasizes more than just business unit performance

-Examples

- Sharing of distribution network and sales force

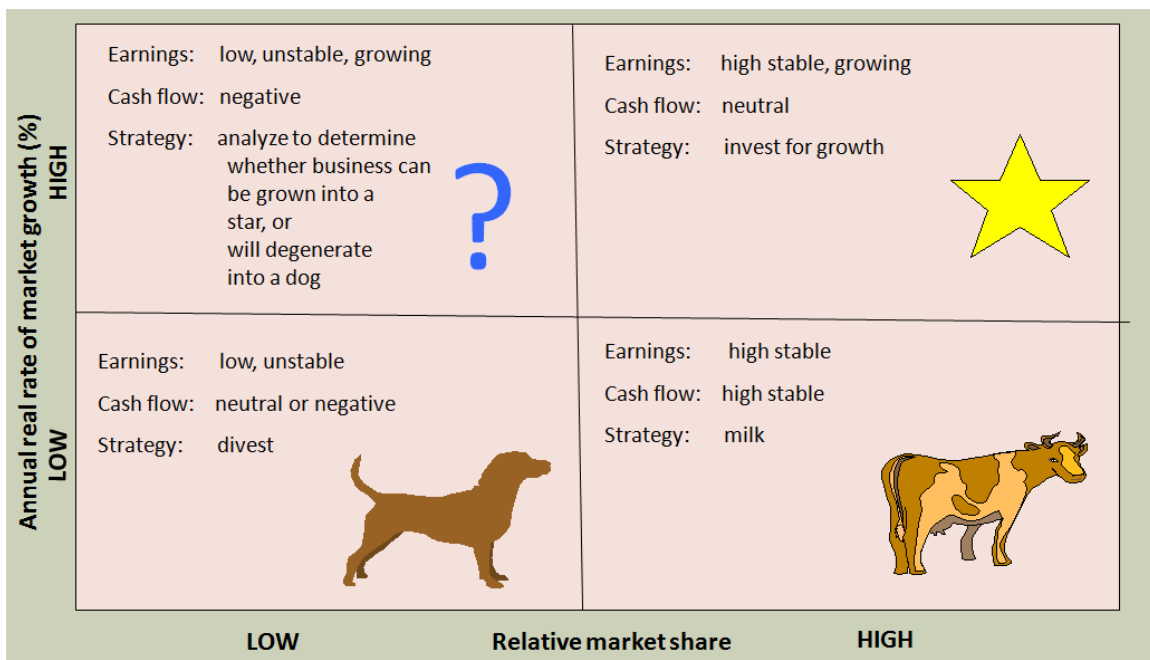
### **Unrelated Diversification**

- Need to acquire sound and attractive companies
- Businesses are autonomous
- Acquiring corporations supplies needed capital
- Add professional management/control to the businesses

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- Business unit managers' compensation should be based on unit results
- Key success factors
  - Managers have more detailed knowledge of firm relative to outside investors
  - Firm can reduce risk by allocating resources among diversified businesses, although shareholders can generally diversify more economically on their own

## PORTFOLIO PLANNING MODELS: THE BCG GROWTH-SHARE MATRIX



### Mergers and Acquisitions

- They can be used because of uncertainty in the competitive landscape
- They
  - Increase market power because of competitive threat
  - Spread risk due to uncertain environment
  - Shift core business into different markets

-Firms use M&A strategies to create value for all stakeholders, however M&A value creating is challenging

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## **Reasons for Acquisition**

Increased market power: Acquisitions can bolster market power and leapfrog the acquirer into a position of leadership through economies of scale/scope, market share or five forces related competitive advantage.

Overcoming entry barriers: Through cross border acquisitions.

Cost of new product development and increased speed to market: Gain access to new and current products.

Lower risk compared to developing new products: Less costly and more predictable than internal product development.

Increased diversification: It is the quickest and easiest way for a business to change its portfolio.

Reshaping the firm's competitive scope: Acquisitions can reduce the negative effect of an intense rivalry on a firm's financial performance and can reduce a firm's dependence on one or more products or markets.

Learning and developing new capabilities: When acquiring firms with different but related capabilities, they can build their own knowledge base.

## **Problems with acquisitions**

- Integration difficulties
- Too large
- Inadequate target evaluation
- Managers overly focused on acquisitions
- Large debt
- Too much diversification
- Inability to achieve synergy
- Melding two different corporate cultures
- Linking different financial and control systems
- Building effective working relationships
- Resolving problems regarding status of the two firms executives
- Loss of key personnel weakening the acquired firms capabilities and reducing its value

-Only 20% are successful, 60% are disappointing and 20% are clear failures

-Greater success comes from being able to select the right target, avoiding paying to high a premium, integrating the operations of the two companies effectively and retaining the firms human capital.

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## **Evaluating the Target**

Must perform proper due diligence: The process of evaluating a target firm for acquisition

-Ineffective due diligence may result in paying too much of a premium on the acquisition

Evaluating the target consists of:

- The financing of the intended transaction
- The different cultures between the firms
- The tax consequences of the transaction
- Actions necessary to meld the two workforces
- Both the accuracy of the financial position and accounting standards used and the quality of the strategic fit
- The ability of the acquiring firm to effectively integrate the target

## **Risky debt types**

Junk bonds: Financing options where risky acquisitions are financed with money that provides a large potential return to lenders.

-High debt and junk bonds can increase the likelihood of bankruptcy, lead to a downgrade of the firm's credit rating, and preclude investment in activities that contribute to the firm's long term success.

**Synergies** are when assets are worth more when used in conjunction with each other than when they are used separately

-Synergy is created by the efficiencies derived from economies of scale and economies of scope and by sharing resources across the businesses in the merged firm

-Failure to achieve synergies can come from transaction costs related to acquisition strategies as well as the tendency for firms to underestimate indirect costs when evaluating a potential acquisition

It is possible to over diversify. When this happens, firms can be required to process too much information. This can lead to focusing on the short term rather than the long term. Acquisitions can also become substitutes for innovation. Over diversification can also lead to a decline in performance. Even when a firm is not over-diversified, a high level of diversification can have a negative impact on the long-term performance.

### Too large

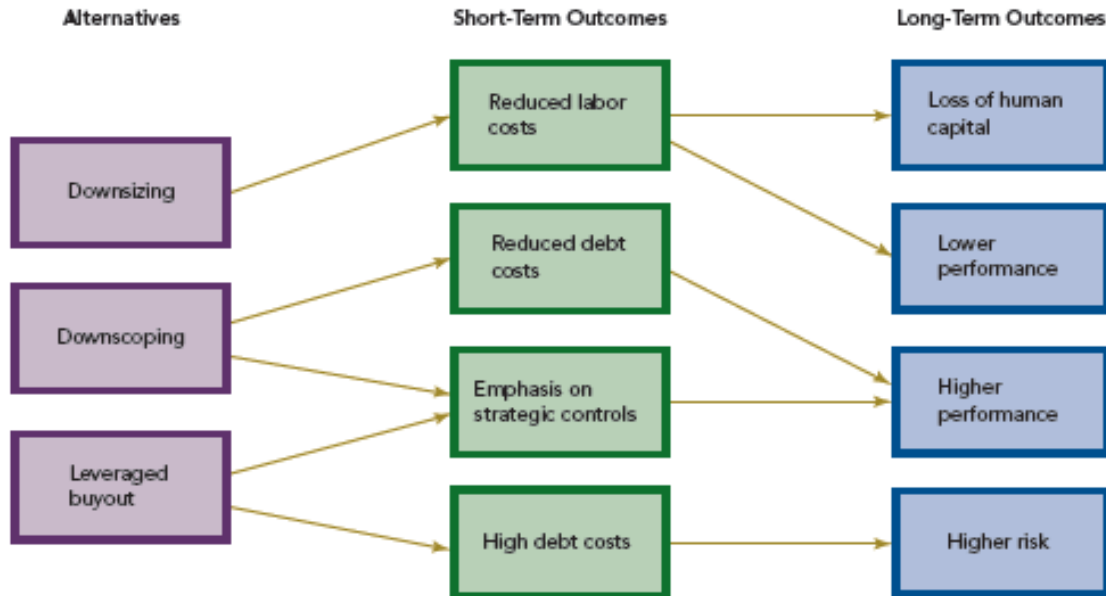
Additional costs and complexities of management can exceed the economies of scale and additional market power, creating diseconomies of scope.

The firm should implement formal rules and policies to ensure consistency among different decisions. This can lead to standardized managerial behavior. Overall being too large can lead to less innovation.

Attributes	Results
1. Acquired firm has assets or resources that are complementary to the acquiring firm's core business	1. High probability of synergy and competitive advantage by maintaining strengths
2. Acquisition is friendly	2. Faster and more effective integration and possibly lower premiums
3. Acquiring firm conducts effective due diligence to select target firms and evaluate the target firm's health (financial, cultural, and human resources)	3. Firms with strongest complementarities are acquired and overpayment is avoided
4. Acquiring firm has financial slack (cash or a favorable debt position)	4. Financing (debt or equity) is easier and less costly to obtain
5. Merged firm maintains low to moderate debt position	5. Lower financing cost, lower risk (e.g., of bankruptcy), and avoidance of trade-offs that are associated with high debt
6. Acquiring firm has sustained and consistent emphasis on R&D and innovation	6. Maintain long-term competitive advantage in markets
7. Acquiring firm manages change well and is flexible and adaptable	7. Faster and more effective integration facilitates achievement of synergy

### Three solutions after an acquisition failure

1. Downsizing: Reduction in the number of a firm's employees and in the number of its operating units. This does not change the essence of the business. It is tactical for the short-term.
2. Downscoping: Refers to divestiture, spinoff or some other means of eliminating businesses that are unrelated to a firm's core businesses. Strategic for long-term
3. Leveraged buyout: A party buys all of the assets of a business, financed largely with debt, and takes the firm private. Protection against varying financial markets.



## International Strategy

### *Domestic Markets*

- Stable
- Predictable
- Less complex
- Globalization is reducing the number of domestic-only markets

### *Global Markets*

- Unstable
- Unpredictable
- Complex and risky
- Globalization is enabling global markets

Going global has many benefits such as extending a products life cycle, gaining easier access to raw materials, opportunities to integrate operations on a global scale, opportunities to use rapidly developing technologies, and gaining access to consumers in emerging markets.

Basic benefits include:

1. **Increase market size:** The domestic market may lack the size to support efficient scale manufacturing facilities (larger international markets can offer higher returns).
2. **Economies of scale and learning:** Expanding the size and scope of markets helps achieve economies of scale in manufacturing, as well as marketing,

R&D and distribution. Resource and knowledge sharing between country units can also act as a multiplier for the firm's core competencies.

3. **Location advantages:** Access to low cost labor, critical resources (like raw materials and energy) and a new and potentially lucrative customer base.

Domestic resources and capabilities are the building blocks for international capabilities and core competencies.

- **Germany** - the excellent technical training system fosters a strong emphasis on continuous product and process improvements
- **Japan** - unusual cooperative and competitive systems facilitate the cross-functional management of complex assembly operations
- **Italy** - the national pride of the country's designers spawns strong industries in shoes, sports cars, fashion apparel, and furniture
- **U.S.** - Competition among computer manufacturers and software producers accelerates development in these industries

### Three corporate level international strategies

#### 1. *Multi-domestic strategy:*

- Strategy and operating decisions are decentralized to strategic business units in each country
- Products and services are tailored to the local market
- The business units in each country are independent
- This strategy assumes markets differ by country or region
- Prominent strategy among European firms due to broad variety of cultures and markets
- This strategy results in less knowledge sharing for the corporation as a whole

#### 2. *Global Strategy*

- Firms offer a standardized product across different countries with the overall competitive strategy being dictated by the home office
- Strategic and operating decisions are made at the home office
- It involves interdependent SBUs operating in each country
- The home office attempts to achieve integration across the different SBUs which adds management complexity
- Produces a lower risk
- Emphasizes economies of scale
- It requires resource sharing and coordination across borders which can be hard to manage

3. *Transnational strategy*

- This strategy seeks to achieve both global efficiency and local responsiveness
- It requires centralization (global coordination and control) and decentralization (local flexibility)
- A global competitive landscape fosters intense competition, which pressures to reduce costs, while at the same time information has increased the desire for differentiated, customized and specialized products
- Firms must pursue organizational learning in order to achieve a competitive advantage
- This strategy is challenging but has become more necessary in order to compete in international markets
- It is becoming more and more popular as a strategy

**Methods of entering international markets**

Exporting: This is when the firm sends products it produces to international markets. It involves low expenses to establish operations in a host country. It involves high transportation costs and often involves contractual agreements. There is low control over marketing and distribution. A negative factor is that tariffs may be imposed.

Licensing: This is an agreement that allows a foreign company to purchase the right to manufacture and sell a firm's products within a host country's market or set of markets. This involves a low cost to expand internationally and allows the licensee to absorb some of the risks. There is low control over marketing and manufacturing and there is a risk the licensee might imitate the technology and product.

Strategic Alliance: This is a collaboration with a partner firm for international market entry. It involves shared risks of resources and facilitates the development of core competencies. It involves fewer resources and costs required for entry and may involve incompatibility, conflict or the lack of trust with a partner. Overall it can be difficult to manage.

Cross border acquisition: This is when a firm from one country acquires a stake or purchases 100% of a firm located in another country. It allows for quick access to the market and involves possible integration difficulties. It can be costly due to debt financing and it has complex negotiations and transaction requirements.

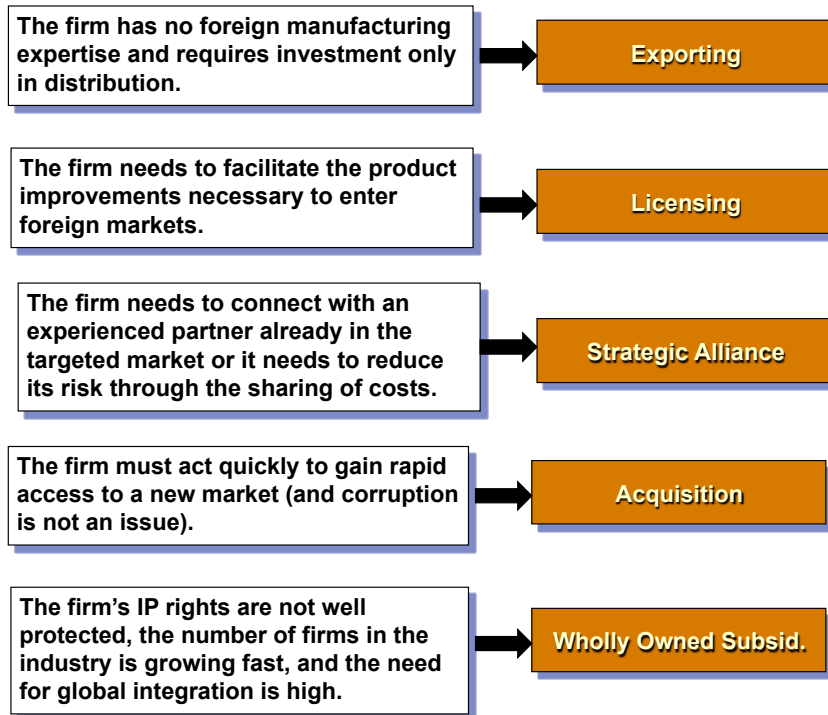
New wholly owned subsidiary: This is when a firm invests directly in another country or market by establishing a new wholly owned subsidiary. It is costly and involves complex processes. It allows for maximum control and has the highest potential returns. It carries high risk.

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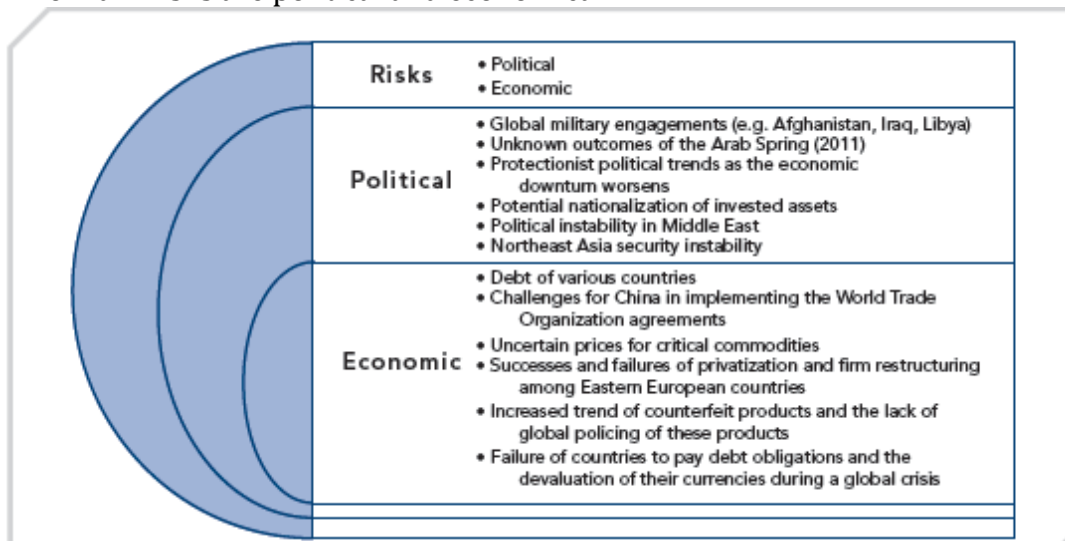
-Exporting, licensing and strategic alliance are good tactics for early market development. A strategic alliance is used in more uncertain situations.

-A wholly owned subsidiary may be preferred if intellectual property rights in an emerging economy are not well protected, if the number of firms in the industry is accelerating and if the need for global integration is high.

-Acquisitions or wholly owned subsidiaries secure a stronger presence in international markets.



Two main risks are political and economical:



## Cooperative Strategy

There are three alternative growth and expansion models being internal development, strategic alliances and mergers and acquisitions.

### Collaborate

-Firms collaborate for the purpose of working together to meet a shared objective

-Cooperating with another firm creates value for customers

-It exceeds the cost of constructing customer value in other ways and establishes a favorable position relative to competitors

Reasons for collaborating in different market types are:

Slow cycle markets: A competitive advantage is shielded here from imitation for long periods of time and imitation is costly. Collaborating would therefore allow a firm to gain access to a restricted market, establish a franchise in a new market and maintain market stability. It is rare today.

Fast cycle markets: A competitive advantage is not shielded here, preventing long-term sustainability. Collaborating here would allow a firm to speed up product or service development, speed up new market entry, maintain market leadership, form an industry technology standard, and overcome uncertainty.

Standard cycle markets: A competitive advantage is moderately shielded from imitation here. Collaborating would allow a firm to gain market power over reducing overcapacity, gain access to complementary resources, establish scale economies, overcome trade barriers, and pool resources for large capital expenditure projects.

**Strategic Alliances** are the main way to engage in collaborating strategies. This is a cooperative strategy in which firms combine resources and capabilities to create a competitive advantage. There are three types of strategic alliances being joint ventures, equity strategic alliances, and non-equity strategic alliances (licensing agreements, distribution agreements, supply contracts and outsourcing commitments).

*Joint Venture:* This is when two or more firms create a legally independent company to share resources and capabilities to develop a competitive advantage. It is optimal for firms combining resources and capabilities to create a competitive advantage that is different from individual advantages.

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*Equity Strategic Alliance:* This is when two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities for the purpose of creating a competitive advantage.

*Non-equity Strategic Alliance:* This is when two or more firms develop a contractual relationship to share some of their unique resources and capabilities to create a competitive advantage. A separate independent company is not established here therefore there are no equity positions.

Business level cooperation strategy: When firms combine resources and capabilities to create a competitive advantage by competing in one or more product markets.

- Complementary strategic alliances: can be vertical (different stages of the value chain) or horizontal (same stage of the value chain)
- Competition response strategy: alliances formed to take strategic action against competitors moving into their territory and taking share of the market
- Uncertainty-reducing strategy: hedge risk and uncertainty, especially in fast-cycle markets
- Competition-reducing strategies: usually in the form of collusion (illegal, whether explicit or tacit)

Corporate level cooperation strategy: Firms combine their resources and capabilities for the purpose of expanding their operations.

- Diversifying alliances: sharing resources and capabilities in order to penetrate new product/service or geographic markets
- Synergistic alliances: focus here is on creating economies of scope through sharing of resources and capabilities
- Franchising: where a firm (franchisor) uses a franchise as a contractual relationship to describe and control the sharing of resources and capabilities with its partners (franchisees)

### **Reasons why alliances fail**

- Environment
  - Failure to anticipate changing conditions in tastes, technology, economy
  - Failure to consider differences in national culture, institutions, government regulations

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- Strategy
  - Poor partner selection
  - Changed partner goals and strategy
  - Achievement of partner's strategic goals
- Structure
  - Form does not match purpose
  - Lack of flexibility in contract
  - Unclear goals
- Behavior
  - Organizational or national cultures mismatch
  - Failure to adapt and adjust to changing circumstances
  - Poor implementation
  - Lack of top visible management commitment
  - Poor systems for information sharing, conflict resolution, and control
  - Lack of trust between organizations

Before entering into a strategic alliance, it needs to be asked do we really need one, does it fit with our strategic goals, what are the transaction and opportunity costs vs payoffs etc. The partners must be assessed and an agreement must be negotiated. Creating the venture consists of creating synergies, having objective measures of performance and having a periodic reevaluation. There constantly needs to be managing and adapting (working through conflict), managing the alliance network (avoid competitive grid-locks) and preparing for the future (continuation, acquisition, termination).