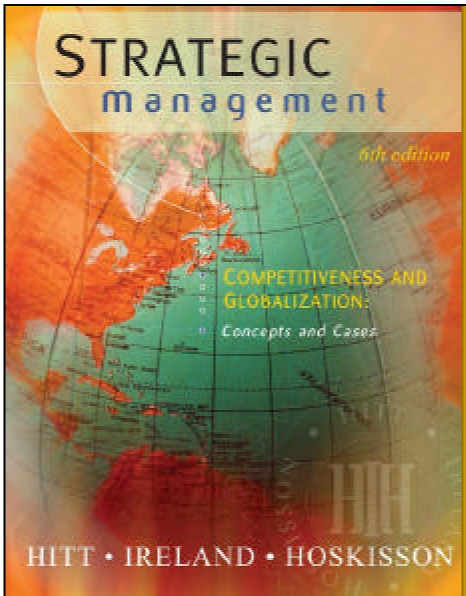
Slide 1



Chapter 8
Chapter 9

Cooperative Strategy

PowerPoint slides by:
R. Dennis Middlemist
Colorado State University

Slide 2

Cooperative Strategy

- **Cooperative Strategy**
  - A strategy in which firms work together to achieve a shared objective
- **Cooperating with other firms is a strategy that:**
  - Creates value for a customer
  - Exceeds the cost of constructing customer value in other ways
  - Establishes a favorable position relative to competitors

Slide 3

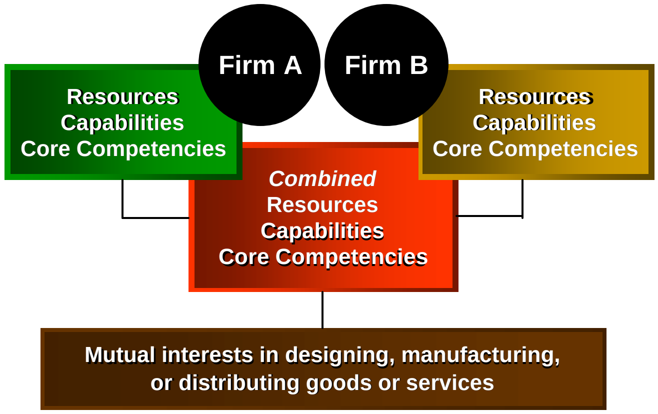
Types of Corporate & Grand Strategies

Concentrated Growth	Conglomerate Diversification
Market Development	Turnaround
Product Development	Divestiture
Innovation	Liquidation
Horizontal Integration	Bankruptcy
Vertical Integration	Joint Ventures
Concentric Diversification	Strategic Alliances

Consortia

Slide 4

Strategic Alliance



Slide 5

Three Types of Strategic Alliances

- **Joint Venture**
  - **Two or more firms create a legally independent company by sharing some of their resources and capabilities**
- **Equity Strategic Alliance**
  - **Partners who own different percentages of equity in a separate company they have formed**
- **Nonequity Strategic Alliance**
  - **Two or more firms develop a contractual relationship to share some of their unique resources and capabilities**

Slide 6

Reasons for Strategic Alliances

Market	Reason
Slow Cycle	• Gain access to a restricted market • Establish a franchise in a new market • Maintain market stability (e.g., establishing standards)

Slide 7

Reasons for Strategic Alliances (cont'd)

Market	Reason
Fast Cycle	• Speed up development of new goods or service • Speed up new market entry • Maintain market leadership • Form an industry technology standard • Share risky R&D expenses • Overcome uncertainty

Slide 8

Reasons for Strategic Alliances (cont'd)

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

Slide 9

Business-Level Cooperative Strategies

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

Slide 10

Business-Level Cooperative Strategies

Business Level →

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

Figure 9.1

Slide 11

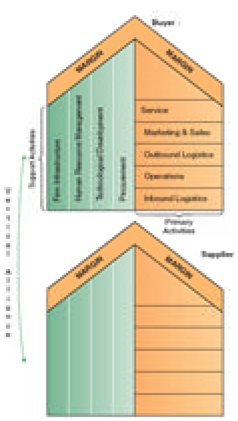
Business-Level Cooperative Strategies

Complementary Alliances

- **Combine partner firms' assets in complementary ways to create new value**
- **Include distribution, supplier or outsourcing alliances where firms rely on upstream or downstream partners to build competitive advantage**

Slide 12

Vertical Complementary Strategic Alliances

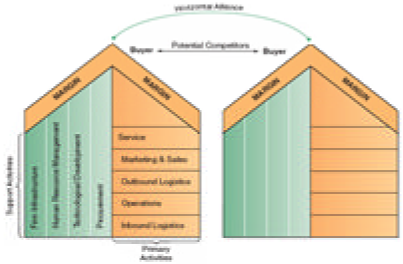


- Firms agree to use their skills and capabilities in different stages of the value chain to create value for both firms
- Outsourcing

Adapted from Figure 9.2

Slide 13

Horizontal Complementary Strategic Alliances



- Partners combine resources and skills to create value in the same stage of the value chain
- Focus is on long-term product development and distribution opportunities
- Partners may become competitors

Adapted from Figure 9.2

Slide 14

Competition Response Strategy

Complementary Alliances

Competition Response Alliances

- **Occur when firms join forces to respond to a strategic action of another competitor**
- **Because they can be difficult to reverse and expensive to operate, strategic alliances are primarily formed to respond to strategic rather than tactical actions**

Slide 15

Uncertainty Reducing Strategy

Complementary Alliances

Competition Response Alliances

Uncertainty Reducing Alliances

- **Are used to hedge against risk and uncertainty**
- **These alliances are most noticed in fast-cycle markets**
- **An alliance may be formed to reduce the uncertainty associated with developing new product or technology standards**

Slide 16

Competition Reducing Strategy

- Complementary Alliances
- Competition Response Alliances
- Uncertainty Reducing Alliances
- Competition Reducing Alliances

- Created to avoid destructive or excessive competition
- **Explicit collusion:** when firms directly negotiate production output and pricing agreements in order to reduce competition (illegal)
- **Tacit collusion:** when firms in an industry indirectly coordinate their production and pricing decisions by observing other firm's actions and responses

Slide 17

Assessment of Cooperative Strategies

- Complementary business-level strategic alliances, especially the vertical ones, have the greatest probability of creating a sustainable competitive advantage
- Horizontal complementary alliances are sometimes difficult to maintain because they are often between rival competitors
- Competitive advantages gained from competition and uncertainty reducing strategies tend to be temporary

Slide 18

Corporate-Level Cooperative Strategies

Figure 9.3

Slide 19

Corporate-Level Cooperative Strategy

- **Corporate-level strategies**
  - **Help the firm diversify in terms of:**
    - **Products offered to the market**
    - **The markets it serves**
  - **Require fewer resource commitments**
  - **Permit greater flexibility in terms of efforts to diversify partners' operations**

Slide 20

Diversifying Strategic Alliances

Diversifying Strategic Alliance

- **Expand into new product or market areas without completing a merger or an acquisition**
- **Synergistic benefits of a merger or acquisition**
  - **less risk**
  - **greater flexibility**
- **Assess benefits of future merger between the partners**

Slide 21

Synergistic Strategic Alliances

Diversifying Strategic Alliance

Synergistic Strategic Alliance

- **Joint economies of scope between two or more firms**
- **Synergy across multiple functions or multiple businesses between partner firms**

Slide 22

Franchising

- Diversifying Strategic Alliance
- Synergistic Strategic Alliance
- Franchising

- Spreads risks and uses resources, capabilities, and competencies without merger or acquisition
- A contractual relationship (the franchise) is developed between the franchisee and the franchisor
- Alternative to growth through mergers and acquisitions

Slide 23

Assessment of Corporate-Level Cooperative Strategies

- **Compared to business-level strategies**
  - Broader in scope
  - More complex
  - More costly
- **Can lead to competitive advantage and value when:**
  - Successful alliance experiences are internalized
  - The firm uses such strategies to develop useful knowledge about how to succeed in the future

Slide 24

International Cooperative Strategies

- **Cross-border Strategic Alliance**
  - A strategy in which firms with headquarters in different nations combine their resources and capabilities to create a competitive advantage
  - A firm may form cross-border strategic alliances to leverage core competencies that are the foundation of its domestic success to expand into international markets

Slide 25

International Cooperative Strategies (cont'd)

- **Synergistic Strategic Alliance**
  - **Allows risk sharing by reducing financial investment**
  - **Host partner knows local market and customs**
  - **International alliances can be difficult to manage due to differences in management styles, cultures or regulatory constraints**
  - **Must gauge partner's strategic intent such that the partner does not gain access to important technology and become a competitor**

Slide 26

Network Cooperative Strategy

- **A cooperative strategy wherein several firms agree to form multiple partnerships to achieve shared objectives**
  - **Stable alliance network**
  - **Dynamic alliance network**
- **Keys to a successful network cooperative strategy**
  - **Effective social relationships**
  - **Interactions among partners**

Slide 27

Network Cooperative Strategies (cont'd)

Stable Alliance Network

- **Long term relationships**
  - **mature industries where demand is**
  - **relatively constant**
  - **predictable**
- **Stable networks *exploit* economies (scale and/or scope) available between the firms**

Slide 28

Network Cooperative Strategies (cont'd)

Stable Alliance Network

Dynamic Alliance Network

- **Evolve in industries with rapid technological change leading to short product life cycles**
- **Primarily used to stimulate rapid, value-creating product innovation and subsequent successful market entries**
- **Purpose is often *exploration* of new ideas**

Slide 29

Competitive Risks of Cooperative Strategies

- **Partners may act opportunistically**
- **Partners may misrepresent competencies brought to the partnership**
- **Partners fail to make committed resources and capabilities available to other partners**
- **One partner may make investments that are specific to the alliance while its partner does not**

Slide 30

Managing Risks in Cooperative Strategies

Figure 9.4

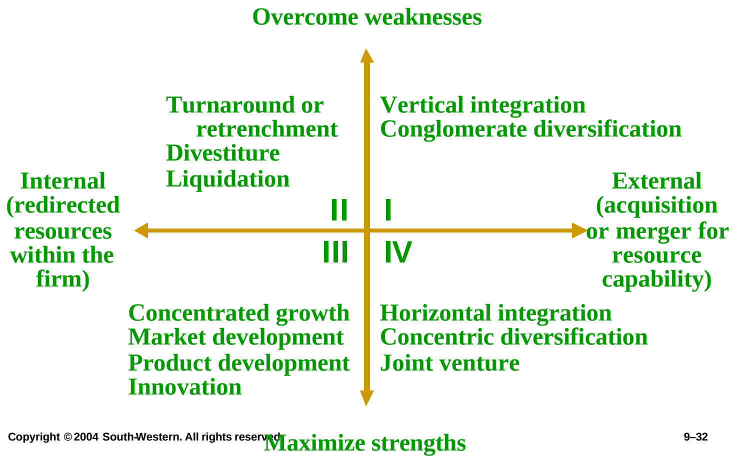
Slide 31

Managing Cooperative Strategies

- **Cost minimization management approach**
  - Formal contracts with partners
  - Specify
    - How strategy is to be monitored
    - How partner behavior is to be controlled
  - Goals that minimize costs and prevent opportunistic behavior by partners
- **Opportunity maximization approach**
  - Maximize partnership’s value-creation opportunities
  - learn from each other
  - explore additional marketplace possibilities
  - less formal contracts, fewer constraints

Slide 32

Grand Strategy Selection Matrix



Slide 33

Model of Grand Strategy Clusters