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

**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
Strategic Alliance

Firm A
Resources
Capabilities
Core Competencies

Firm B
Resources
Capabilities
Core Competencies

Combined Resources
Capabilities
Core Competencies

Mutual interests in designing, manufacturing, or distributing goods or services

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

Reasons for Strategic Alliances

<table>
<thead>
<tr>
<th>Market</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slow Cycle</td>
<td>• Gain access to a restricted market</td>
</tr>
<tr>
<td></td>
<td>• Establish a franchise in a new market</td>
</tr>
<tr>
<td></td>
<td>• Maintain market stability (e.g., establishing standards)</td>
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</tbody>
</table>
### Reasons for Strategic Alliances (cont'd)

<table>
<thead>
<tr>
<th>Market</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Cycle</td>
<td>• Speed up development of new goods or service</td>
</tr>
<tr>
<td></td>
<td>• Speed up new market entry</td>
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<tr>
<td></td>
<td>• Maintain market leadership</td>
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<tr>
<td></td>
<td>• Form an industry technology standard</td>
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<tr>
<td></td>
<td>• Share risky R&amp;D expenses</td>
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<tr>
<td></td>
<td>• Overcome uncertainty</td>
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</tbody>
</table>

### Reasons for Strategic Alliances (cont'd)

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

### Business-Level Cooperative Strategies

- **Complementary strategic alliances**
  - Vertical
  - Horizontal
- **Competition response strategy**
- **Uncertainty reducing strategy**
- **Competition reducing strategy**
Business-Level Cooperative Strategies

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

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

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
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

Competition Response Strategy

- 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

Uncertainty Reducing Strategy

- 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
**Competition Reducing Strategy**

- Complementary 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)
- Competition Response Alliances
- Uncertainty Reducing Alliances
- Competition Reducing Alliances
  - **Tacit collusion**: when firms in an industry indirectly coordinate their production and pricing decisions by observing other firm’s actions and responses

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**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

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**Corporate-Level Cooperative Strategies**

- Diversifying strategic alliances
- Synergistic strategic alliances
- Franchising
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

Diversifying Strategic Alliances

- 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

Synergistic Strategic Alliances

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

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

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
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

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

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
Network Cooperative Strategies (cont’d)

- 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

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

Managing Risks in Cooperative Strategies

Figure 9.4
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

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### Grand Strategy Selection Matrix

**Overcome weaknesses**

<table>
<thead>
<tr>
<th>Internal (redirected resources within the firm)</th>
<th>Vertical integration</th>
<th>External (acquisition or merger for resource capability)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnaround or retrenchment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retrenchment</td>
<td></td>
<td></td>
</tr>
<tr>
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<tr>
<td>Concentrated growth</td>
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<td>Market development</td>
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</tr>
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<td>Innovation</td>
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</tbody>
</table>

**Maximize strengths**

<table>
<thead>
<tr>
<th>Concentric diversification</th>
<th>Horizontal integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conglomerate diversification</td>
<td>Joint venture</td>
</tr>
</tbody>
</table>

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### Model of Grand Strategy Clusters

**Rapid market growth**

1. Concentrated growth
2. Vertical integration
3. Concentric diversification

**Weak competitive position**

1. Turnaround or retrenchment
2. Concentric diversification
3. Conglomerate diversification
4. Divestiture
5. Liquidation

**Slow market growth**

1. Concentric diversification
2. Conglomerate diversification
3. Joint venture