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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

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Types of Corporate & Grand Strategies

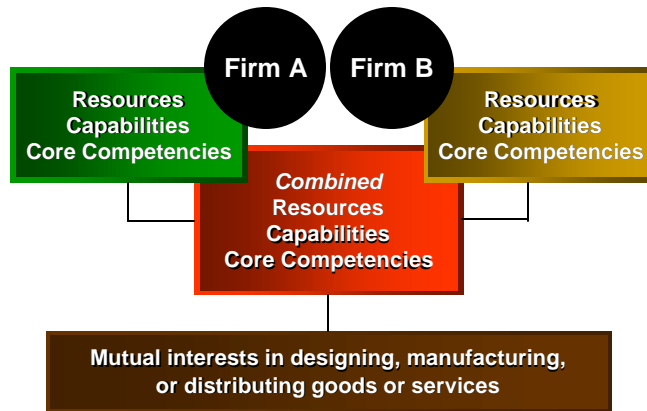


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Strategic Alliance



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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

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Reasons for Strategic Alliances

Market	Reason
Slow Cycle	<ul style="list-style-type: none">• Gain access to a restricted market• Establish a franchise in a new market• Maintain market stability (e.g., establishing standards)

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Reasons for Strategic Alliances (cont'd)

Market	Reason
Fast Cycle	<ul style="list-style-type: none">• 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

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Reasons for Strategic Alliances (cont'd)

Market	Reason
Standard Cycle	<ul style="list-style-type: none">• 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

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Business-Level Cooperative Strategies

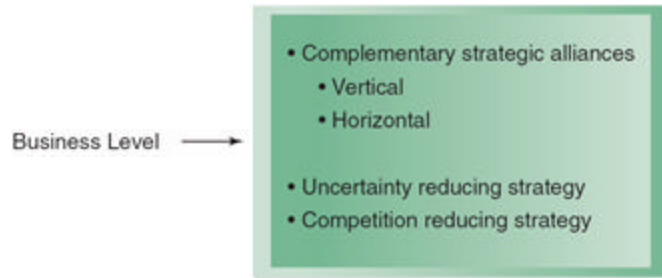
- **Complementary strategic alliances**
 - Vertical
 - Horizontal
- **Competition response strategy**
- **Uncertainty reducing strategy**
- **Competition reducing strategy**

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Business-Level Cooperative Strategies

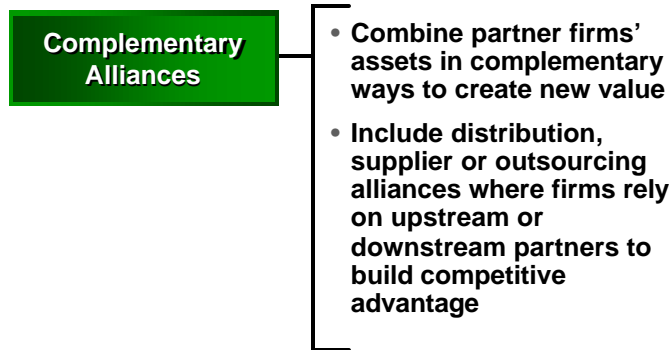


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Figure 9.1
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Business-Level Cooperative Strategies

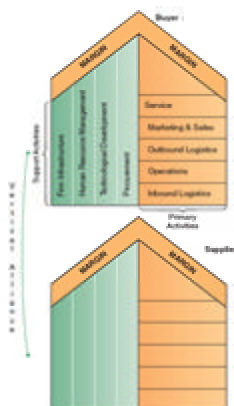


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Vertical Complementary Strategic Alliances



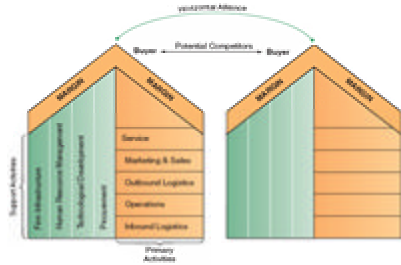
- Firms agree to use their skills and capabilities in different stages of the value chain to create value for both firms
- Outsourcing

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Adapted from Figure 9.2
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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

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Adapted from Figure 9.2
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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

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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

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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

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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



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Figure 9.3
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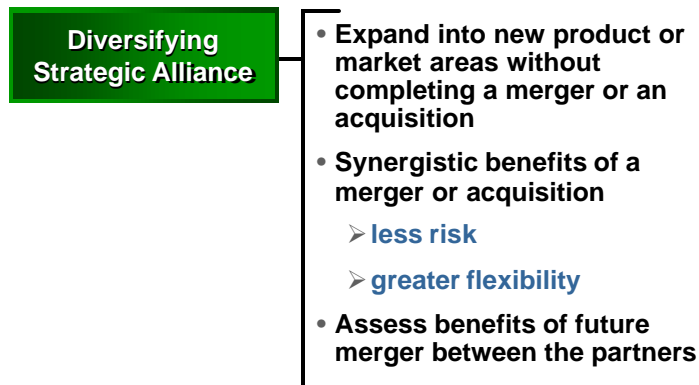
Corporate-Level Cooperative Strategy

- **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**

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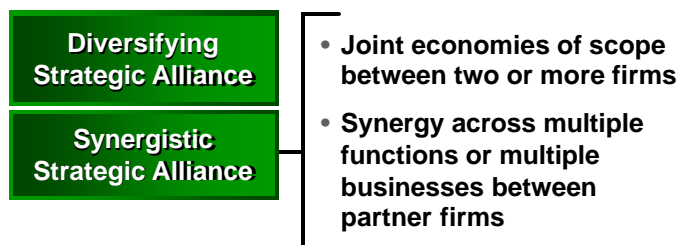
Diversifying Strategic Alliances



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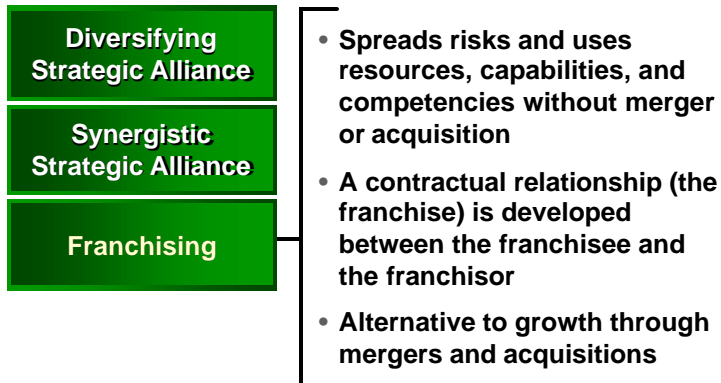
Synergistic Strategic Alliances



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Franchising



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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

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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

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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

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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

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Network Cooperative Strategies (cont'd)

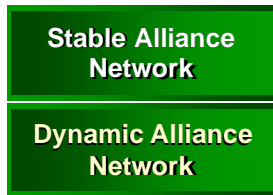
Stable Alliance Network

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

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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



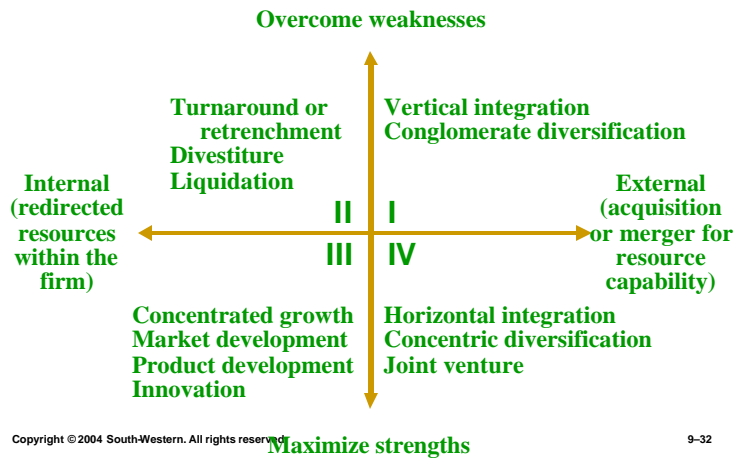
Managing Cooperative Strategies

- **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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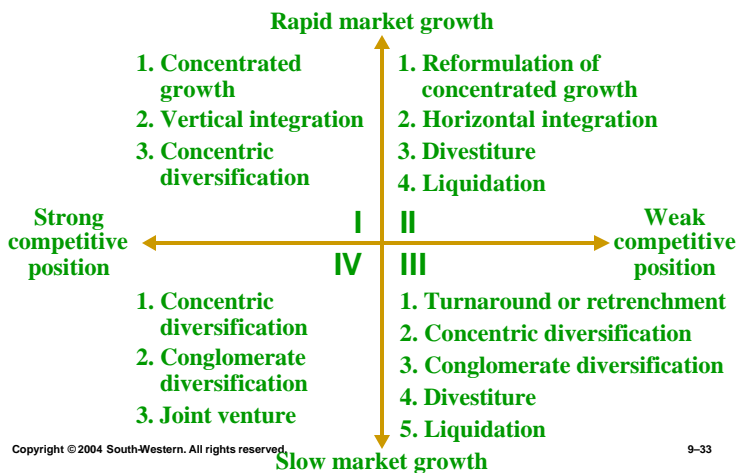
Grand Strategy Selection Matrix



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Model of Grand Strategy Clusters



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