Birth, Life and Death of Strategic Alliances
(Or, What Your Mother Didn't Tell You About Marriage)

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Abstract. Not every relationship that a buying organization has with a supplying organization should be considered a strategic alliance. Supply management departments should be looking for relationships with suppliers who provide reliability, quality and affordability. But these qualities are not the sole purview of strategic alliance relationships. If a strategic alliance relationship is the best one to form with a particular supplier, the smart purchaser will identify business objectives that are beneficial and will monitor performance in order to meet those objectives. Like all things, strategic alliances have a natural life cycle. They're born, they live and they die. The trick is to keep them alive as long as they're advantageous to all parties. This presentation will discuss and explore the definitions, evolution, development process and the life cycle of strategic supplier alliances.

Definitions. According to Webster's New World Dictionary, an alliance has two prime definitions; 1. An allying or being allied: specifically, a union or joining, as of families by marriage. 2. A close association for a common objective, as of nations, political parties, or companies.

Definitions can also be found in the academic world. For example, Michigan State University listed this definition in its material: "Strategic supplier alliances are long-term, cooperative relationships designed to leverage the strategic and operational capabilities of individual participating companies, to achieve significant ongoing benefits to each party. These alliances continue as long as significant value accrues to both parties. Successful alliances require very high levels of coordination, trust, information sharing, creativity and senior management support to fully exploit joint opportunities."

Other definitions are created by commercial operations to suit their purposes. FedEx created this one: "Long-term, cooperative relationships, requiring high levels of coordination, trust, information sharing, creativity, designed to leverage the strategic and operational capabilities of individual participating companies to achieve significant ongoing benefits to each party."

All the definitions, however, share these common themes:

- Long-term
- Cooperative
- Leverage capabilities and resources
- Significant ongoing benefits to each party
- High levels of coordination, trust, information sharing, creativity and senior management support

Evolution. But how did these strategic relationships come about? In their 1993 text, Poirier and Houser outlined this evolution. On two dimensions (Amount of Risk and Economic Focus) relationships between buying and supplying firms began on an adversarial note with minimum risks to either party and a focus on the visible price. A second transformation took place when both buying and supplying firms found that in some instances (while still price focused) it was in both their best interest to establish longer term relationships and to begin cooperating. Following the successes of these types of relationships, buying firms began to include more items within the commodity family and the focus shifted to total cost. Finally, the fourth iteration of these relationships has concluded with business unit strategy-driven supplier alliances that focus on total system cost with a high level of cooperation.

Configurations. Alliance configurations can take on three similar shapes: Supplier to Customer, such as in the case of P & G and Wal-Mart; Horizontal Supplier-Supplier to Customer, such as Dell and Microsoft supplying PCs with bundled software; and third, Vertical Supplier-Supplier to Customer, as exhibited by Over the Road trailers being transported to distribution centers by railroad flat cars.

Right Relationship. Similar to the two dimensions used in the evolution of strategic alliances, the determination that a strategic alliance is the right relationship also has two dimensions (the economic impact on the buying firm and criticality of the products or services). These dimensions can be used to determine if a strategic alliance is the right relationship configuration for a particular buying and supplying firm. Products or services with high economic impact and criticality are prime candidates for strategic alliances.

Some of the factors to consider when determining a product/service criticality are:

- Largest cost component
- Differentiating feature
- Key technology factor
- Spend the most time
- Difficult to obtain
- Long lead times
- Volatile price

Process. A model which could be used to institute a strategic supply alliance would have the following 12 steps:

1. Define the outcome
2. Justify the business need
3. Develop a sourcing strategy
4. Define the selection criteria
5. Identify potential candidates
6. Research potential candidates
7. Secure Executive support
8. Negotiate mutually favorable agreement
9. Share process information
10. Plan implementation

11. Review performance
12. Manage the relationship

Managing the Relationship. Rosabeth Moss Kanter, in her 1994 article for the Harvard Business Review, wrote, "In the global economy, a well-developed ability to create and sustain fruitful collaborations gives companies a significant competitive leg up. Yet, too often, top executives devote more time to screening potential partners in financial terms than to managing the partnership in human terms. They tout the future benefits of the alliance to their shareholders but don't help their managers create those benefits. They worry more about controlling the relationship than about nurturing it. In short, they fail to develop their company's collaborative advantage and thereby neglect a key resource." I interpret Ms. Kanter's statement to say that the management of the relationship is the more important part of the alliance benefit derivative.

Strategic Alliance Phases. Ms Kanter also writes: "Relationships between companies begin, grow and develop – or fail – in ways similar to relationships between people. No two relationships travel the same path, but successful alliances generally unfold in five overlapping phases. In the first – courtship – two companies meet, are attracted, and discover their compatibility. During the second – engagement – they draw up plans and close the deal. In phase three, the newly partnered companies, like couples setting up housekeeping, discover they have different ideas about how the business should operate. In phase four, the partners devise mechanisms for bridging those differences and develop techniques for getting along. And in phase five, as old-married, each company discovers that it has changed internally as a result of its accommodation to the ongoing collaboration."

Conclusion. Like all rewarding relationships:

- Alliances take time to set up correctly
- Alliances go through phases
- Alliances are more than financial investments
- Alliances present a huge challenge, the broader in scope and the closer the relationship the more complex the relationship can become

REFERENCES

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