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PROFESSIONALS



The Second State of Alliance

Management Study

2007

Table of Contents

- Introduction 3
- 1. The Study 4
- 2. How successful are alliances? 5
- 3. How can alliance success rates be improved? 6
- 4. America and Europe: level pegging 9
- 5. Alliances in China: money pit or pot of gold? 11
- Conclusion 12

Introduction

This report describes the results of the Second State of Alliance Management research project, carried out on behalf of the Association of Strategic Alliance Professionals and sponsored by Cisco Systems. In November, December 2006 and January 2007, approximately 200 global companies responded to our request to answer 60 questions related to their alliances and alliance management.

The key findings of the report are:

- alliance management continues to be a dynamic and rapidly developing profession;
- average success rate of alliances is 49.5%;
- best practice alliance management raises the alliance success rates substantially;
- companies that do not use best practices will rarely have success rates above 20%; whereas companies that implement a few best practices can easily raise their success rates to almost 50%;
- top alliance performers with success rates over 60% tend to focus on measuring and evaluating alliances, as well as on alliance management development;
- the implementation of alliance management best practices has significantly increased since the First State of Alliance Management research project that was carried out five years ago;
- five years ago, European companies lagged far behind American companies with respect to their application of best practices; now, European countries have completely closed this gap.
- alliance evaluation tools turn out to be the most important tools for increasing alliance success.

We would like to thank ASAP, Cisco, and all respondents for their help. Special thanks to Tina Saebi and Nico Rasters for excellent support throughout this project. The object of this report is to help companies benchmark their alliance performance and thus target those areas in their alliance capability that need most attention. We hope this project achieves this objective.

Ard-Pieter de Man and Geert Duysters

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1. The Study

Strategic alliances have become increasingly important over the past two decades (see figure 1). In fact, they have become a cornerstone for the strategy of most major companies.

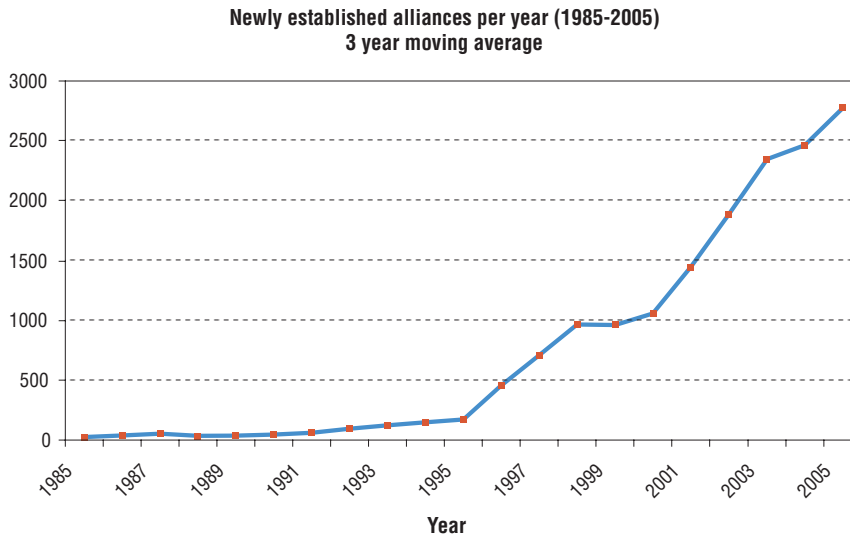


Figure 1: Number of newly established alliances (source CGCP, TU/e)

The Second State of Alliance Management project took stock of the alliance management capabilities of approximately 200 companies around the world. The respondents were from a variety of sectors (see Figure 2). The majority of the companies (69%) were large, with an employee base greater than 1,000 persons. Companies with less than 500 employees were also well represented (26%). Only 5% of the companies had an employee base between 500 and 1000 employees. Most respondents were based in the USA (68%) followed by those based in Europe (25%).

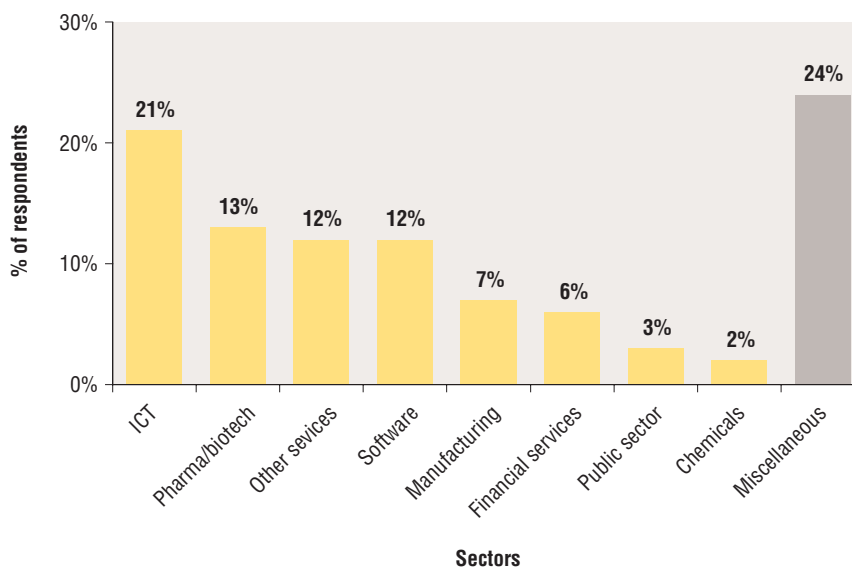


Figure 2: Sectoral breakdown of respondents

The survey also provided interesting data on the type of alliances most companies use. Results indicate that most alliances are market oriented, meaning that they are co-marketing, co-promotion or business development alliances. No less than 48% of all alliances fall under this category. Other alliance types are less popular (see Table 1).

Table 1: Types of alliances used by companies

Type of Alliance	Frequency (%)
Co-marketing alliances	48%
Research alliances	14%
Distribution alliances	13%
Supplier alliances	11%
Co-production alliances	10%
Other	4%

2. How successful are alliances?

On average, the respondents reported an alliance success rate of 49.5%. This finding is in line with other studies that consistently show alliance success rates of about 50%. However, more interesting than the average rate, is the fact that some companies perform much better than other companies. Figure 3 shows the differences.

A small group of companies (9%) are highly successful with alliances. In fact, more than 80% of their alliances are a success. On the other hand, there is also a small group of companies (9%) that have extremely low success rates that are less than 20%.

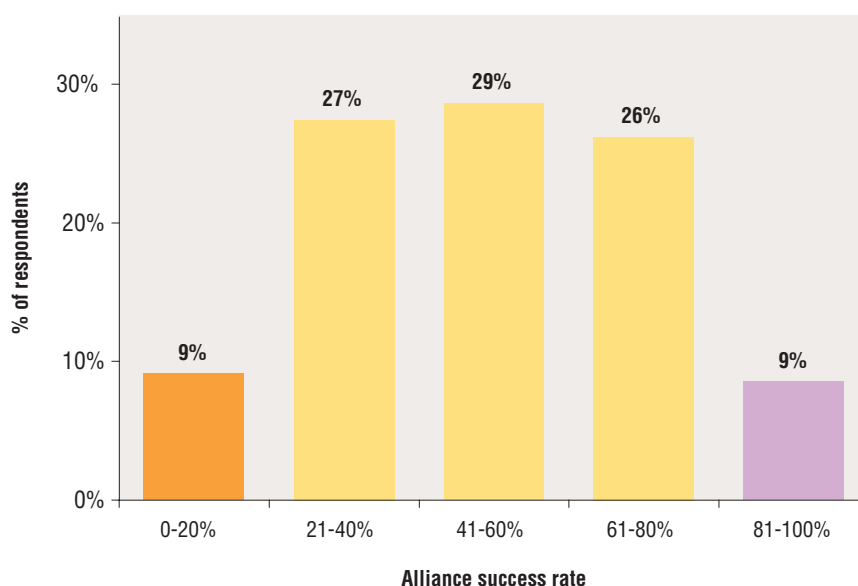


Figure 3: Alliance success rates

The low success rate is even more problematic, given that most companies (75%) believe that alliances are extremely important for the realization of their company's strategy. Only 8% of the respondents regarded alliances to be of little strategic importance. There is an obvious mismatch between the success rates and the perceived strategic importance of alliances, which implies that more attention to alliance best practices is a strategic necessity for the companies involved. Overall, companies appear to be optimistic about their capability to increase their alliance success rate. As demonstrated in Figure 4, most companies expect the contribution of alliances to the value of the company, to increase from the current rate of 19% to a rate of 47% in five years' time. However, to achieve this, alliance success rates will have to increase.

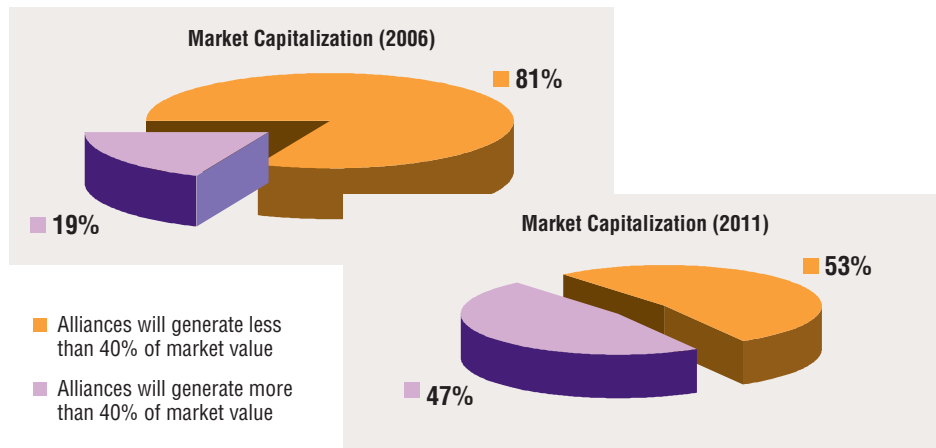


Figure 4: Expected increase in market capitalization

3. How can alliance success rates be improved?

Companies have implemented numerous tools to increase their overall alliance success rates. Figure 5 depicts the tools that are used most often.

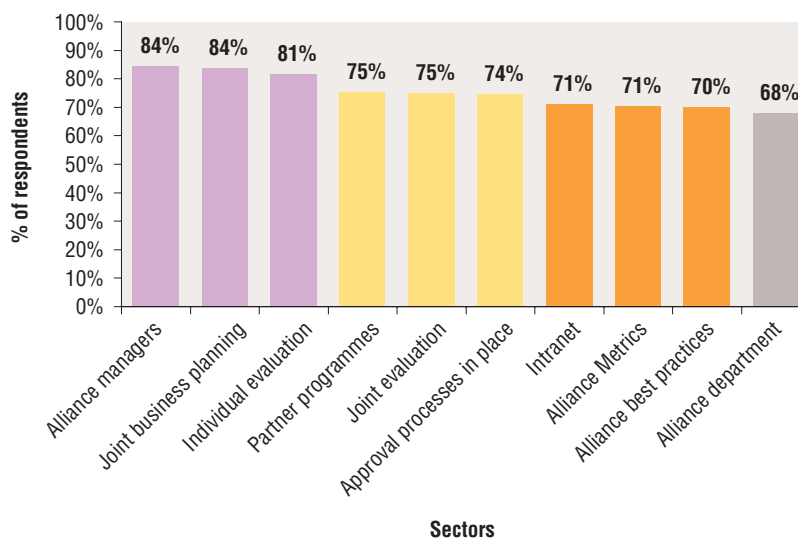


Figure 5: Most frequently used tools (Top 10)

Altogether 36 processes, functions and tools were researched for approximately 200 companies. One of the most interesting developments since the First State of Alliance Management study done five years ago is based on the fact that almost all of the tools are used more often. Development in terms of frequency has been especially phenomenal for the top two tools. Five years ago, approximately half of the companies had dedicated alliance managers - now more than 80% of the companies said they have implemented such a function in their organization. The same figures hold true for joint business planning. This indicates that companies have increasingly recognized the importance of alliance management as a specialized function within the company.

It is interesting to determine whether some of the 36 alliance tools have been more effective than others. To study this, a comparison was made between the tools that were implemented by the companies showing success rates of 60% and higher and by those that were implemented by companies reporting success rates of 40% or lower. Two things surfaced in the analysis. First, the successful companies had implemented significantly more tools than those considered unsuccessful (i.e., 18 versus 14). Our data indicates that by simply implementing more tools, a company can easily raise its success rate from 25% to 48%, regardless of the type of tools implemented.

A second finding indicates that there are some tools that contribute significantly more to alliance success than others. Successful companies specifically put more emphasis on the elements listed in Table 2 than did the unsuccessful companies.

Table 2: Most important tools for alliance success

Alliance Management Tool	Rank
Individual evaluation	1
Joint evaluation	2
Alliance metrics	3
Cross alliance evaluation	4

Perhaps most remarkable, is that the evaluation and measuring tools are the single most important tools to raise alliance success. Evaluation techniques are also important in that they both increase alliance success and act as great educational tools to increase learning of alliance management in general. In fact, a focus on learning to manage alliances is a strong predictor of alliance success.

The following three success-enhancing factors are also among the most implemented in the system: individual evaluation, joint evaluation and alliance metrics. Cross-alliance evaluation is not used as frequently. This may imply that some investment in alliance management is misdirected and should be reallocated to the four capabilities listed in Table 2. This is especially true for the less successful firms that either under-invest in alliance management tools or avoid implementing the most successful tools.

An important conclusion of this analysis of success rates and tools is that low success rates are not inherent to alliances. It is possible to implement such processes so that higher success rates can be attained. Low success rates indicate inadequate management.

Another prominent finding is that alliance management has developed into a very important function for all of the companies involved in this study. It is not uncommon to find companies that employ more than 500 full or part-time alliance managers (see Figure 7). On average, firms employed approximately 275 alliance professionals in total (i.e., part-time and full-time).



Figure 6: Full-time alliance professionals

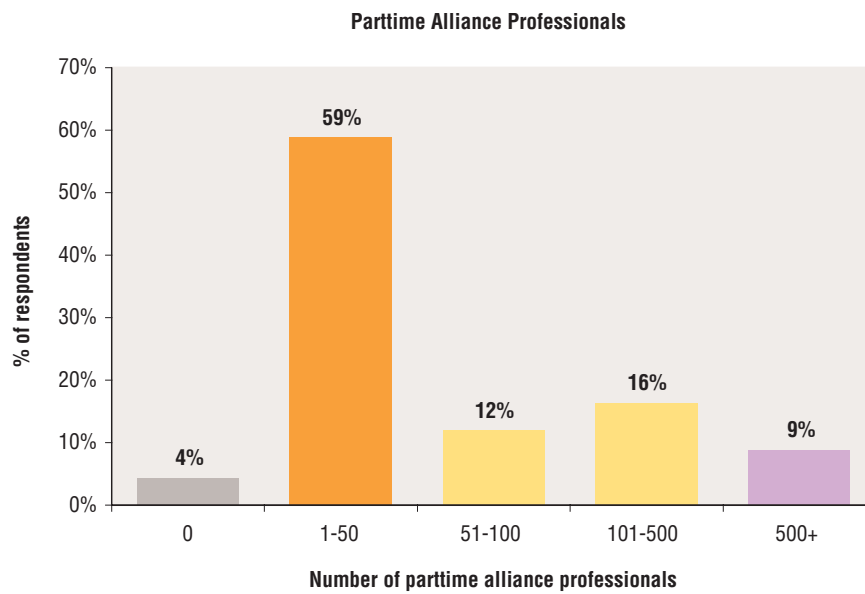


Figure 7: Part-time alliance professionals

4. America and Europe: level pegging

Historically, European companies were long considered more active in alliances than American companies. However, during the 1980s, the number of American alliances surpassed the number of European alliances, with an overall explosion in the number of alliances in general. In the 1990s, this dramatic influx led to increased attention to alliance management in the USA. In fact, five years ago, the management tools in our study were employed twice as much by American companies than by European companies.

One of the most remarkable findings in this Second State of Alliance Management project is that European companies have managed to close the wide gap with American companies. As Table 3 indicates, European companies, with respect to implementation of alliance tools, are now on par with American companies. There has been phenomenal investment in alliance management in Europe over the last five years. In fact, a number of European companies are among the alliance leaders. Firms such as, BT, SAP, Philips, GSK, Dassault Systèmes and Siemens are at the forefront of alliance management.

It is not easy to explain why this development has occurred. One reason might be related to the fact that competition in Europe has increased substantially over the last years due to the increasing integration within the European Union. This may have put alliances and alliance management higher on the company agenda. Whatever the reason, the speed of development is remarkable: in only five years, the gap has been bridged.

On average, the success rates in Europe and the USA do not differ much. However, there are some differences when we look further into the details (See Figure 8). The data indicates that the United States has relatively higher numbers of both high performers and low performers than what is found throughout Europe. In this case, the higher number of high performers might be explained by the US's longer and broader experience with alliance management. The higher number of low performers might be due to the fact that more new companies are created in the US; companies who are still at the beginning of the alliance learning curve.

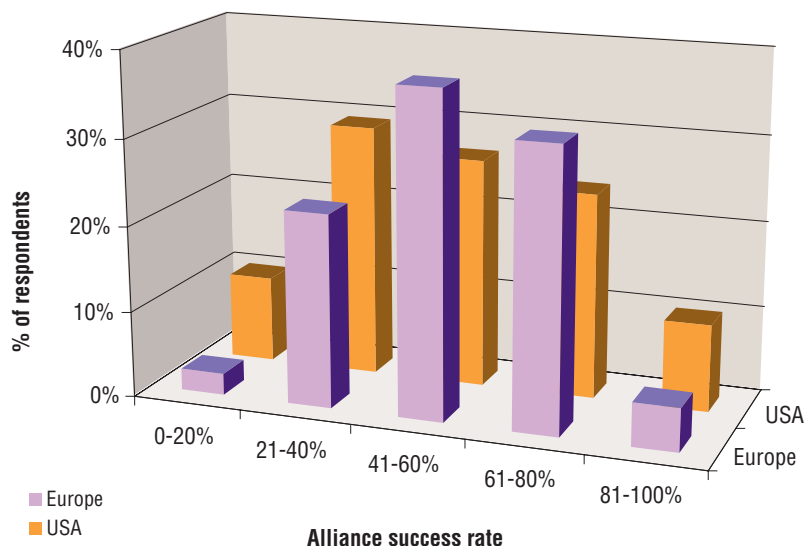


Figure 8: Success rates Europe vs. USA

Table 3: European vs. American Alliance Management

Tools	Europe	USA
Alliance best practices	80%	68%
Alliance database	55%	60%
Alliance handbook	33%	40%
Alliance management is part of the management development program	29%	36%
Alliance metrics	61%	74%
Competency framework for alliance managers exists	41%	41%
Cross-alliance evaluation	53%	48%
Culture programme	33%	26%
External alliance training	32%	47%
In-house alliance training	51%	48%
Individual evaluation	82%	81%
Intranet	71%	73%
Joint business planning	80%	84%
Joint evaluation	75%	74%
Partner portal	60%	68%
Partner programmes	69%	77%
Standard partner selection approach	67%	67%
Functions		
Alliance department	69%	70%
Alliance managers	78%	87%
Alliance specialist	73%	53%
Gatekeeper	40%	30%
Vice-president of alliances or Chief Alliance Officer	53%	52%
Processes		
Alliance managers from different units/divisions formally exchange their experience	58%	43%
Approval processes in place	70%	76%
Rewards and bonuses for alliance managers are tied to alliance success	73%	61%
Rewards and bonuses for business managers are tied to alliance success	43%	46%
External parties		
Consultants	48%	40%
Financial experts	59%	45%
Legal experts	17%	13%
Mediators for conflict resolution	25%	27%

5. Alliances in China: money pit or pot of gold?

Currently, China is 'hot' and alliances with Chinese firms seem to be a major trend in virtually all industries. However, as our study clearly indicates, entering into alliances with Chinese partners does not come without risks. Compared to international alliances in general, companies in our study report either very high or very low failure rates. It appears that the more experienced companies who have already learned the 'tricks of the trade' in China, perform very well, whereas those companies that boldly venture into China without any previous experience, face almost complete failure.

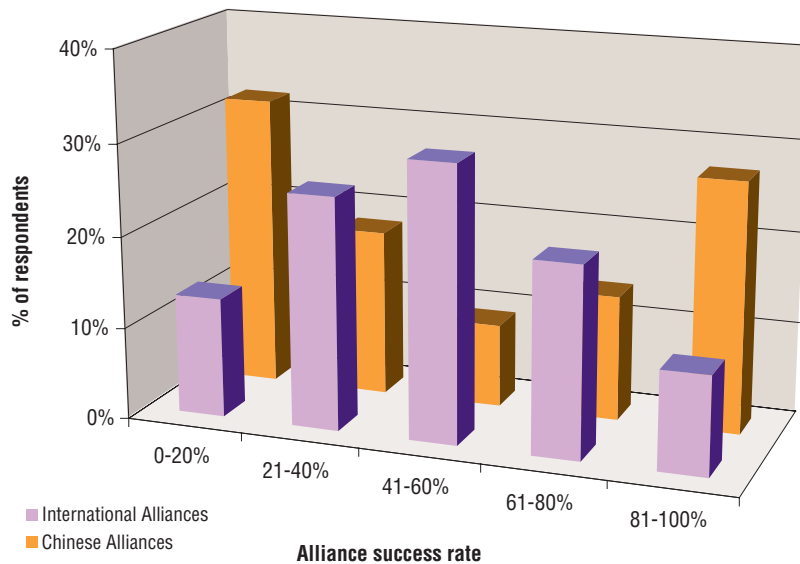


Figure 9: Success rates international alliances vs. Chinese alliances

European companies are the most active in China. Forty-four percent of the European respondents indicated that they were actively engaged in Chinese alliances whereas approximately one third of the American firms indicated an active involvement with Chinese alliances. The interest in China is also visible in alliances. The data show that there are interesting opportunities to partner in China. However, not all companies are able to exploit these opportunities.

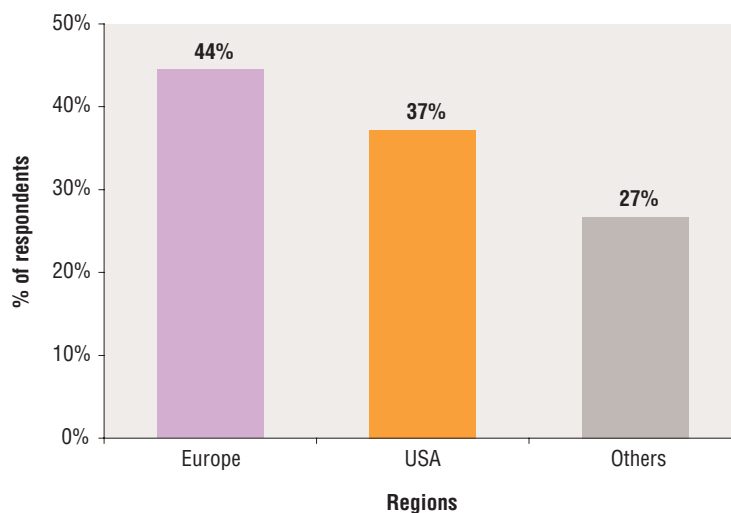


Figure 10: Regional disparity companies engaged in Chinese alliances

Conclusion

- The Second State of Alliance Management Study has clearly shown that alliance management has established itself as an important and rapidly developing profession.
- In recent years the numbers of alliance professionals have reached levels that were unheard of in the past.
- The development of the alliance management profession has also brought about a major shift in the degree to which companies employ professional alliance tools and techniques.
- We have shown that by investing in the right tools, functions and processes companies attain higher rates of alliance success.
- Some companies seem to consistently outperform other companies in terms of alliance success by building sophisticated alliance capabilities into their organization.
- The number and strategic importance of strategic alliances has never been higher and therefore the need to employ effective tools to support these alliances is critical for the competitive success of most companies worldwide.

