

Strategic partnerships





Content of the lecture

- Facts supporting cooperation
- Reasons to cooperate – cooperation theories
- Forms of strategic partnerships
- Strategic alliance
- Cooperation in retail and wholesale

Some statistics

- volume of direct foreign investment exceeded 7 billion EUR in 2008
- *99,8% of all the Czech companies in the CR belongs to SME*
- *60% of all the employees in the national economy are employed in the SME*
- *Great importance of SME in the CR for GDP*
- *Ability to compete in the EU can be acquired when co-operating with other companies around even if they are competitors*

Classification of an enterprise

■ Eurostat:

- micro enterprise – up to 9 employees
- small enterprise – up to 99 employees
- medium enterprise – up to 499 employees
- large – more than 500 employees



Disadvantages of SME's

- limited possibility of financing (this disadvantage causes other secondary problems)
- higher interest rates at the bank
- underutilization of production machines
- employees motivation

Disadvantages of large companies

- growth of bureaucracy
- low flexibility

Which of the mentioned problems can be solved by strategic alliances?

	Large company	Medium company	Small company
Management difficulty (level of bureaucracy, problem of intra-organizational control)	3	2	1
Provision of knowledge resources	2	1	2
Organizational flexibility	3	2	1
Professionalism and negotiation power	1	2	2
Innovative behavior of organization and its managers	3	2	1
Capital power, disposability of needed resources	1	2	3
Company risks and possibility of their reduction	2	2	3
Efficiency of economic processes	1	2	3
Possibility of quality control in the whole process of the economic activity	1	2	3

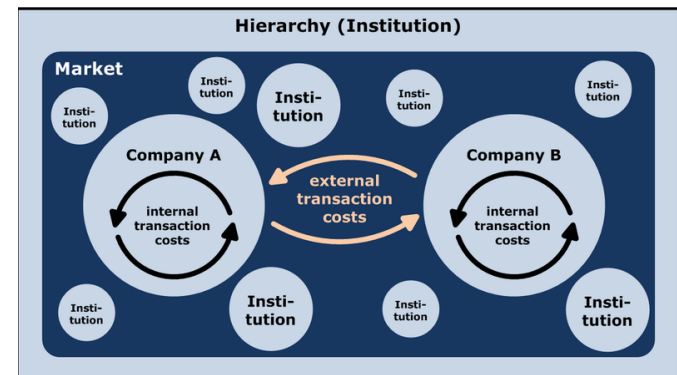


Main purposes of the alliances

1. activities and resources shared between partners – co specialization
2. competition battle reduction – co-option. coopetition
3. knowledge creation, transmission and utilization – co-learning, learning and internalization
4. power shift, image and trustworthiness shift

Theories explaining interorganizational cooperation

- Resource dependance theory
 - Formalized by *The External Control of Organizations: A Resource Dependence Perspective* (Pfeffer and Salancik 1978)
- Transactional cost theory
 - R.Coase in 1937
- Social network theory
 - Sociometry, Moreno, Milgram, Granovetter, Burt
- IMP Group
 - Value of relationships

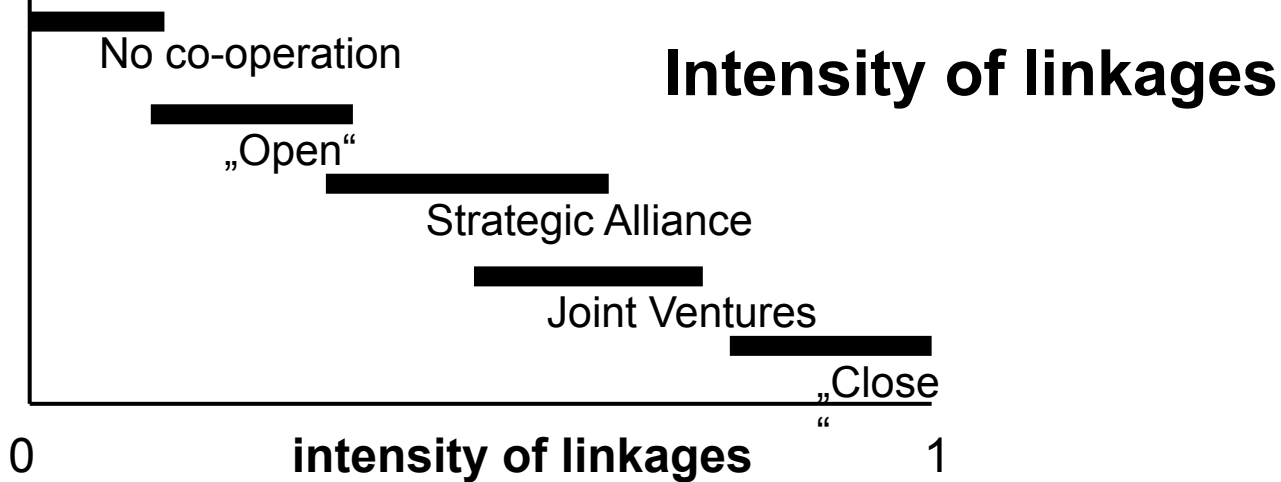




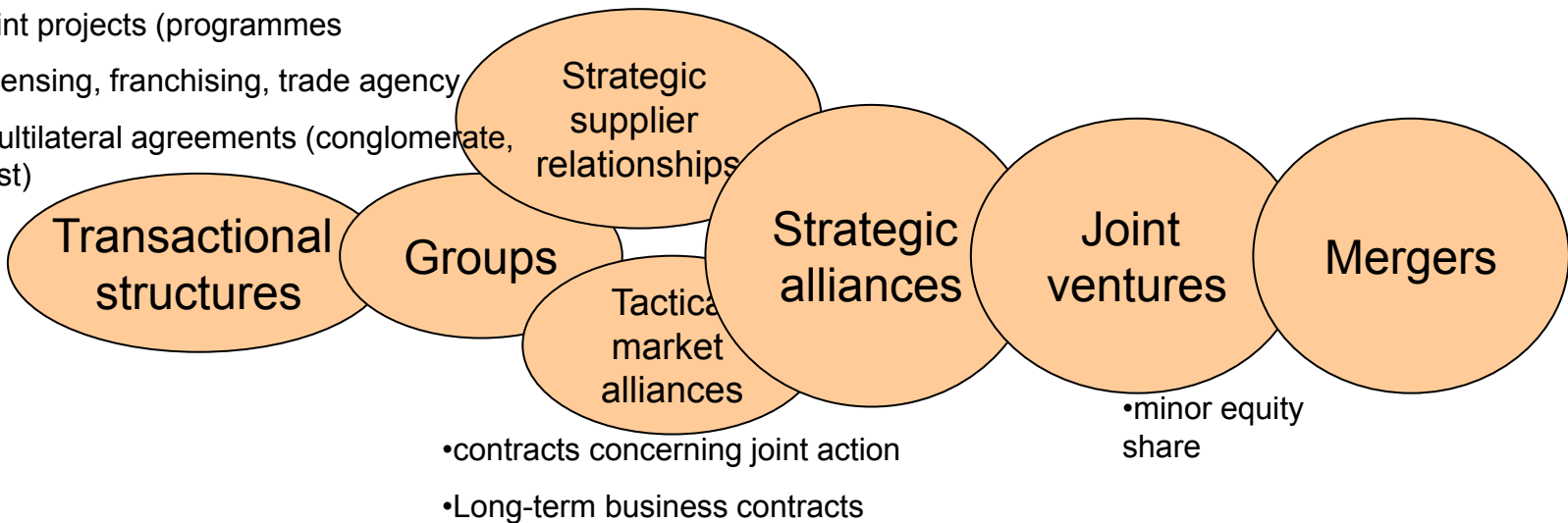
Business Collaboration: The Four C's

Companies can link their businesses in the following ways:

Level of business collaboration	Description	Business benefits
Competition	Business as usual	Zero-sum: If I win, you lose
Communication	Make information about business operations available to partners so they can work more effectively and return some of the benefits to you	Win-win: Both companies operate better than before
Coordination	One company does a job traditionally done by the other (e.g., outsourcing) or both companies work to the same schedule	Leverage: One company uses the competencies of its partner company
	Both companies do the same job	Continuity: Each company does the



- joint projects (programmes)
- licensing, franchising, trade agency
- Multilateral agreements (conglomerate, trust)



Strategic Partnerships

- „open“ form of co-operation
 - occasional co-operation
 - „salient“ informal agreements
- informal collaboration with information sharing
 - handshake agreement
- production, assembly, buy, back agreement
- management, marketing, service agreement
- licensing (outsourcing)
- franchising
- preferred suppliers and buyers
- joint ventures
- „close“ form of co-operation
 - merger
 - acquisition

risk, resources,
costs



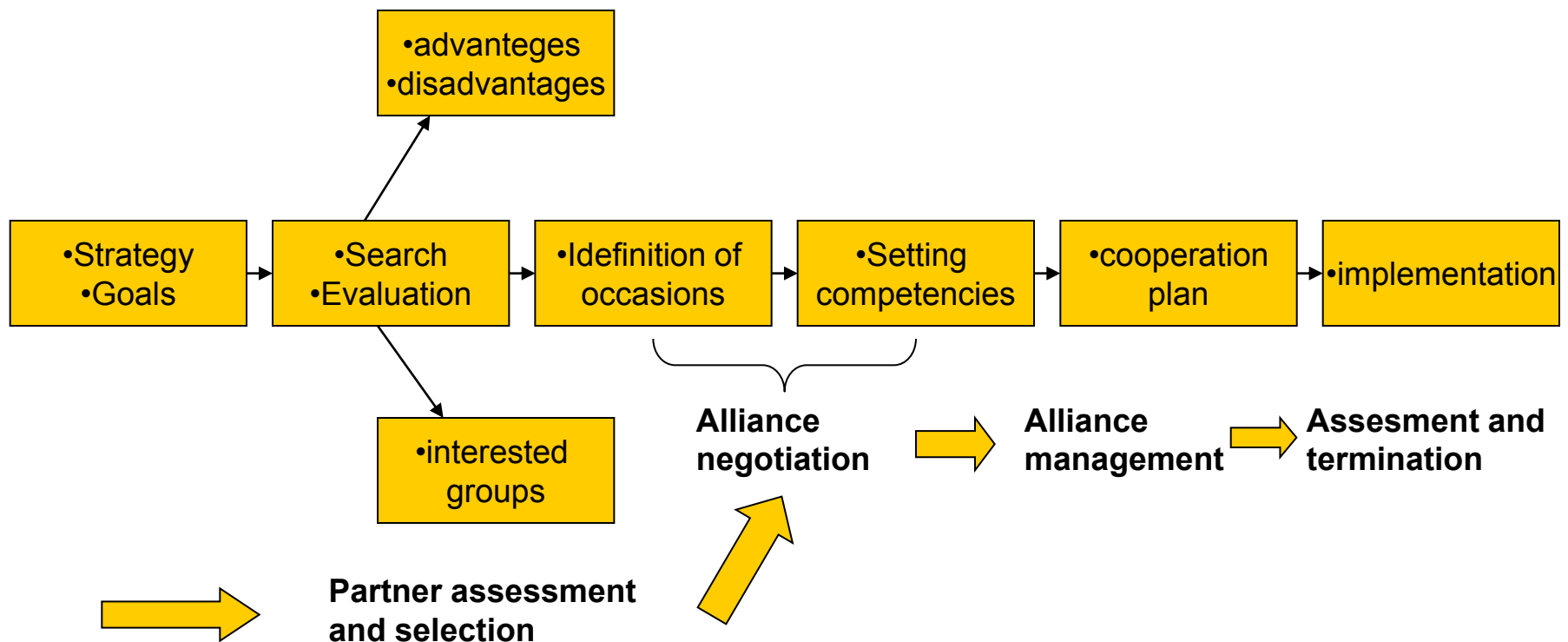
Strategic alliance

- alliance → one form of strategic partnership
- A relationship formed by **two or more organizations** that share (proprietary), participate in joint investments, and develop linked and common processes to **increase the performance of both** companies. Many organizations form strategic alliances to increase the performance of their common supply chain.

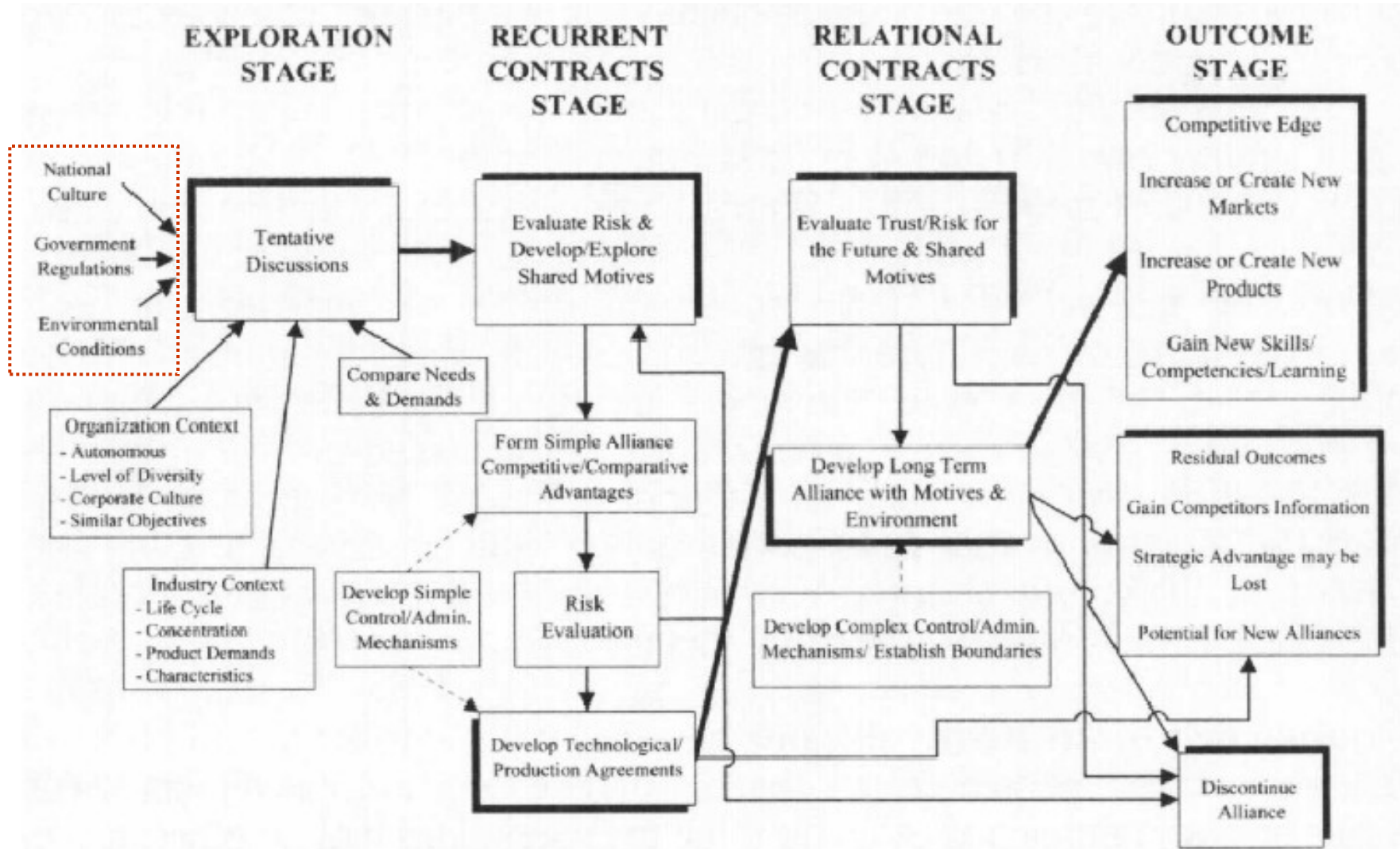
Source: <http://www.apics.org/>

- A Strategic Alliance is a partnership between two or more companies to pursue a set of **agreed upon goals** while **remaining independent** organizations. Strategic alliances come in all shapes and sizes, and include a wide range of cooperation, from contractual to equity forms. Source: Encyclopedia, Wikipedia, http://en.wikipedia.org/wiki/Strategic_alliance
- Definition according ASAP:
 - agreements with „open“ end
 - between separated companies
 - sharing common interests or goals

The process of strategic alliance creation



Process model of strategic alliance formation



PETT, L.T., DIBRELL, C.C. A process model of global strategic alliance formation. *In: Business Process Management Journal*; 2001; 7, 4; pg. 349

Informal collaboration with information sharing

- Sharing of information which are interesting for the both sides (supplier and subscriber)
- The partners can share the experience and other data resources concerning the market conditions, experience with other partners, computer programs
- Handshake agreements
- **Question of trust** – it can be problem in the CR

Preferred suppliers and buyers

- Agreements connected with the special position of the partners (sole agency)
- Long-term co-operation
- License agreements are the subgroups of strategic partnership (strategic partnership is wider notion than strategic alliances) but they are also established on the principles of preferred suppliers and buyers
- ŠKODA Auto Mladá Boleslav

SIMPLY CLEVER



Sole agency



- The company **Starlift s.r.o.** is the exclusive agent of the company Mitsubishi Forklift Truck (manufacturer of material handling equipment for a wide range of industrial and commercial applications,)
- Starlift is a distributor of the lift trucks and alongside it provides the customer of Mitsubishi company with maintenance services
- The co-operation started 15 years ago
- Starlift company is also sole distributor for the Slovak market

Production / assembly / buy back agreements

- The participating companies are trying to exploit the advantages coming from the economies of scale
- Co-operation connected with fluently recovery of the capital equipment and later with buy back by the supplier of the equipment



Management / marketing / service agreements

- Agreements concerning the collective solution and implementation of external processes
- The external processes can be presented by mutually coordinated marketing, assembly and servicing of complicated equipments, common distribution
- The example of Technicoat and DuPont, cooperation in the strategic planning of marketing activities

Licensing

- The Czech company **Technicoat s.r.o.** operates in the surface coating business specializing in the application of industrial coatings (Teflon, Xylan, Dykor, Halar, Rilsan)
- Technicoat was awarded DuPont license to apply Teflon® Fluoropolymer coatings „DuPont Licensed Industrial Applicators“
- Technicoat is supplying also Slovak and Polish market
- **Success** of the co-operation: troublefree communication, sharing of know-how, knowledge of Czech and Slovak market

Joint ventures

- An agreement between two or more firms to undertake the same business strategy and plan of action
- It has its legal form
- Two companies want to co-operate (share knowledge, **markets**, and profits) and they decide to create another company together – JOINT VENTURE
- In the CR typical for the enterprises with foreign capital

Barum Continental

- tires producer
- JV partner – German company
CONTINENTAL – 1992
- Barum – part of Continental Group



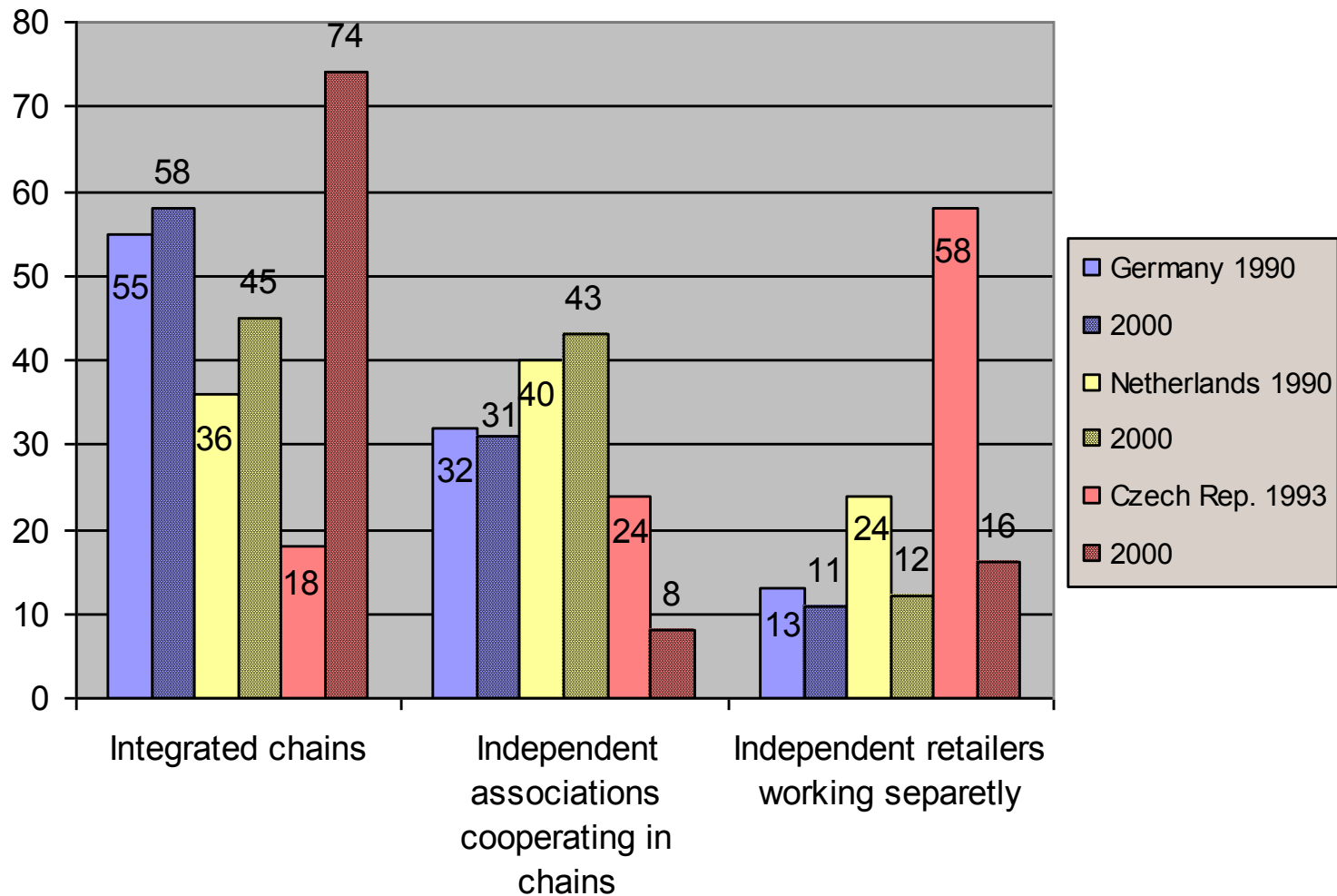
- The company **Plastika** s.r.o. Kroměříž established joint venture with the French company Seat Ventilation, SA in 1994 – **SEPLAST s.r.o.**
- Seplast is a producer and distributor of industrial ventilators units and plastic industrial ventilators
- Plastica provided the French partner with knowledge of the Czech market

Close form of cooperation

- merger
- acquisition
- Acquisitions – key success factor:
 - ability to integrate the company (85)
 - synergies (84)
 - competitive position of the company acquired (81)
 - evaluation of acquisition candidate (80)
 - management abilities of company acquired (77)
 - prior experience making acquisitions (69)
 - market growth of the company acquired (69)
 - technology position of the company acquired (68)
 - compatibility of management styles (67)
 - price paid (64)
 - aid from public authorities

Wall Street Journal/Booz-Allen &Hamilton Survey 2002

Co-operation in retail and wholesale



Cooperation in retail and wholesale

■ Stages of co-operation:

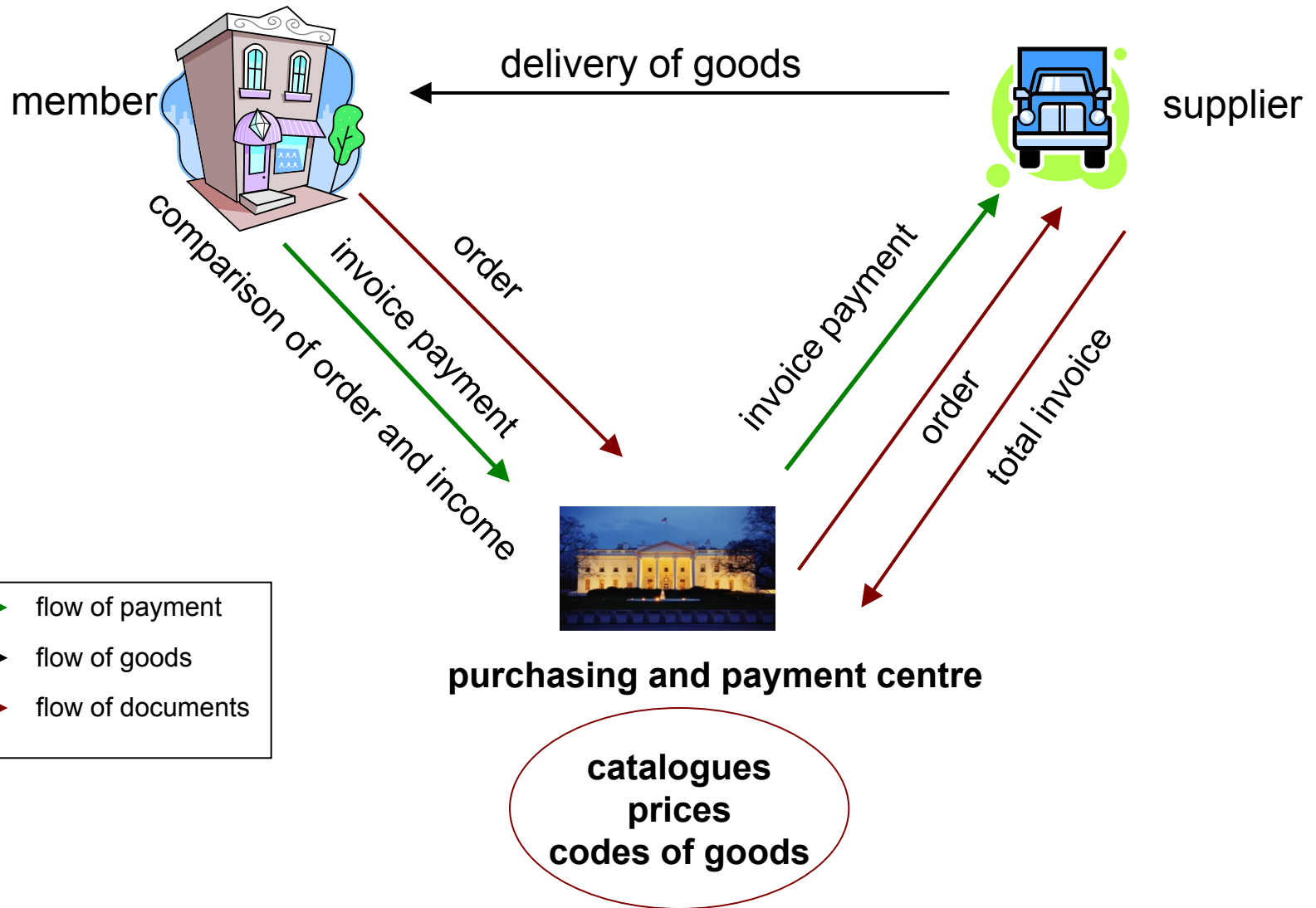
Level of Integration
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- Purchasing and payment alliance
- Purchasing and selling alliance
- Marketing alliance
- Service organization

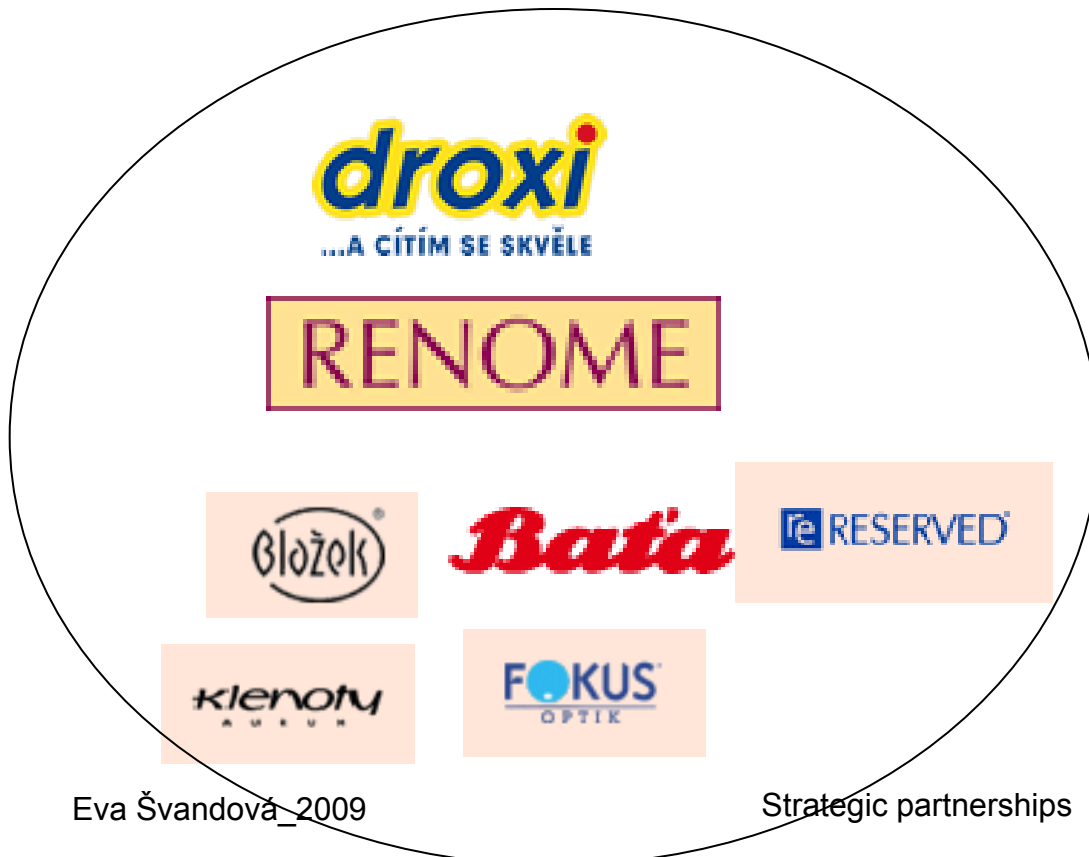
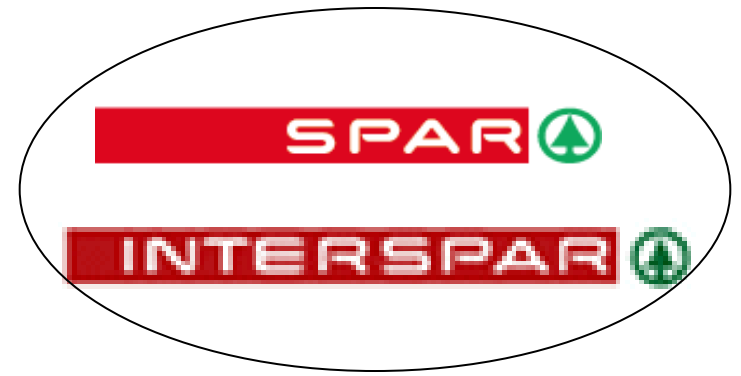
	Alliance	No of Members	Turnover in 2002 in CZK (mil.)
1	COOP Centrum	45	21,000
2	COOP Morava	17	9,500
3	Vega	MO,VO obch.	7,500
4	Čepos	23	6,500
5	Ardanas	117	5,655
6	Partner	250 prod.	4,500
7	Enapo	119	4,386
8	SVOP	Drobní obch.	2,847
9	Bala	225 prod.	2,746
10	COOP Supermarket	31	2,640
11	Eso Market	Drobní obch.+2	2,592
13	Vonet	3	2,200
14	Teta – PK Solvent		1,900
15	Šipka	97	1,750*
16	COOP Terno	4	1,691
17	Flop jih	Drobní obch.	1,595
18	Fast – Planeo	Drobní obch.	1,529
19	Brněnka	42	1,000
20	COOP Diskont	12	962
21	Koruna potraviny	43	905
22	Racek, Drogerie VO	176	822
23	SPAR	Drobní obch.	2,500*

	Purchasing alliance	CIT	TT	Members (no.)
1.	EMD Markant	NA	42,00*	Oversea business chains, czech retailers
2.	COOP Centrum	11,25	18,39	46
3.	NC Praha	6,00*	8,60	SPAR Česká obchodní spol., SPAR Šumava
4.	COOP Morava	3,70	14,35	20
5.	Vonet	3,10	4,40*	JAS, Quanto, Tabák Plus
6.	Čepos	1,31	3,31	15 wholesalers

Turnover	Group	No. of salesroom	Turover 2002	Turnover 2003	Chang 2002/2003
1.	Makro Cash&Carry ČR, s.r.o.	Makro (10)	33,9	35,7	1,8
2.	Ahold Czech Republic, a.s.	Albert (177), Hypernova (43)	32,0*	32,5*	0,5*
3.	Kaufland, v.o.s.	Kaufland (53)	23,0*	26,0*	3,0*
4.	REWE ČR Billa, s.r.o. Penny Market, s.r.o.	Billa (72) Penny Market (131)	22,1* 8,9* 13,2	22,8* 9,0* 13,8	0,7* 0,1* 0,6
5.	Tesco Stores ČR, s.r.o.	Tesco hypermarket (16), Tesco OD (6)	18,5*	19,5*	1,0*
6.	Globus ČR, k.s.	Globus (10), Baumarkt Globus (6)	16,4	18,2	1,8
7.	Tengelmann ČR Plus - Discount, s.r.o. OBI - systémová centrála, s.r.o.	Plus (104) OBI (16)	16,9* 11,3 5,6*	17,7* 12,1 5,6*	 0,8
8.	Delvita, a.s.	Delvita (76), Delvita City (1), Proxy (9), Sama (9)	11,2*	11,0*	-0,2*
9.	Carrefour ČR, s.r.o.	Carrefour (9)	9,5*	10,0*	0,5*
10.	Spar ČR (Spar Česká obchodní, Spar Šumava)	Interspar (14)	8,7*	9,0*	0,3*
1.-10.	Total		192,2*	202,6*	

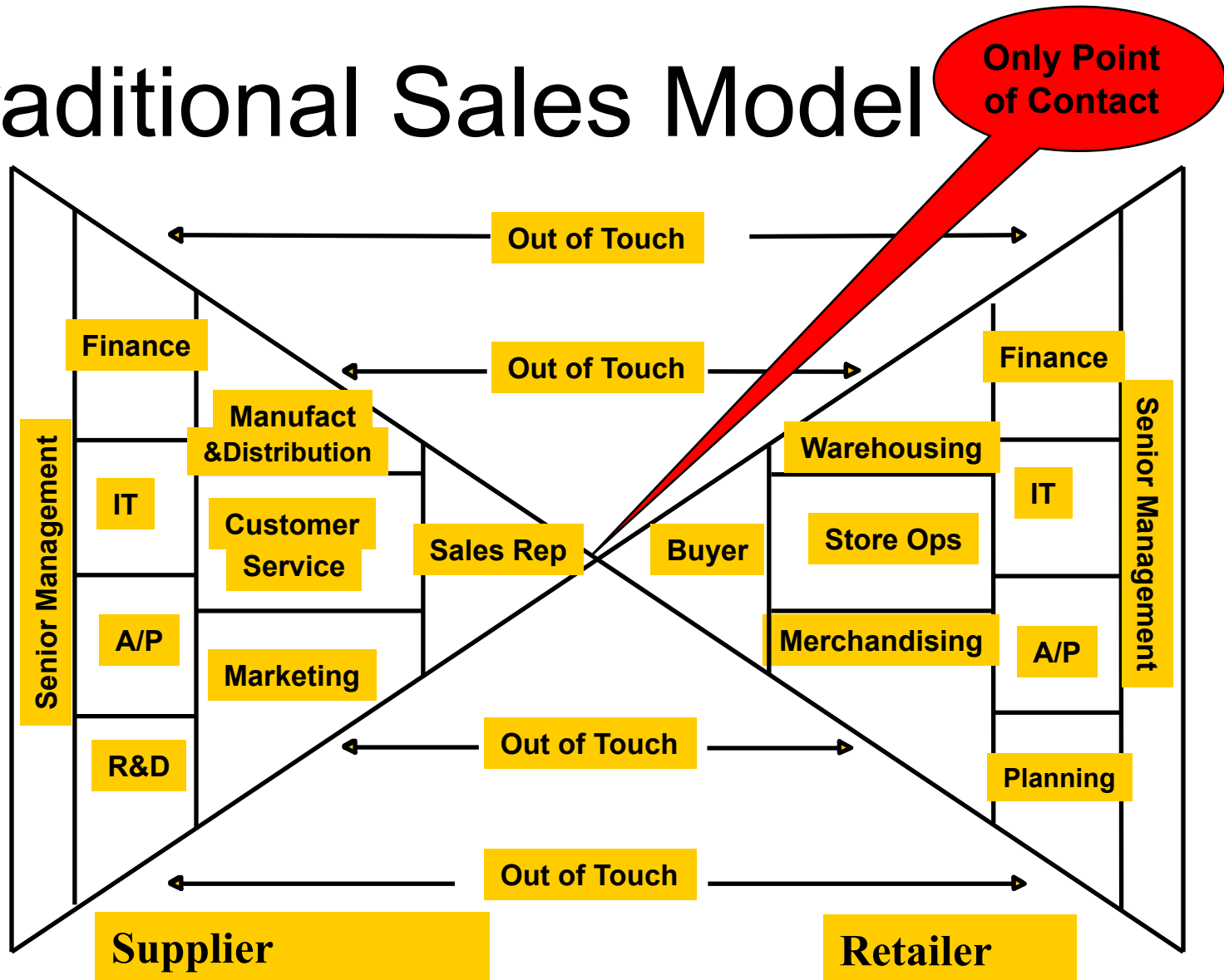


- NC Praha – purchasing and payment alliance SPAR
- COOP Centrum
- Marketing alliances - Droxi, RENOME

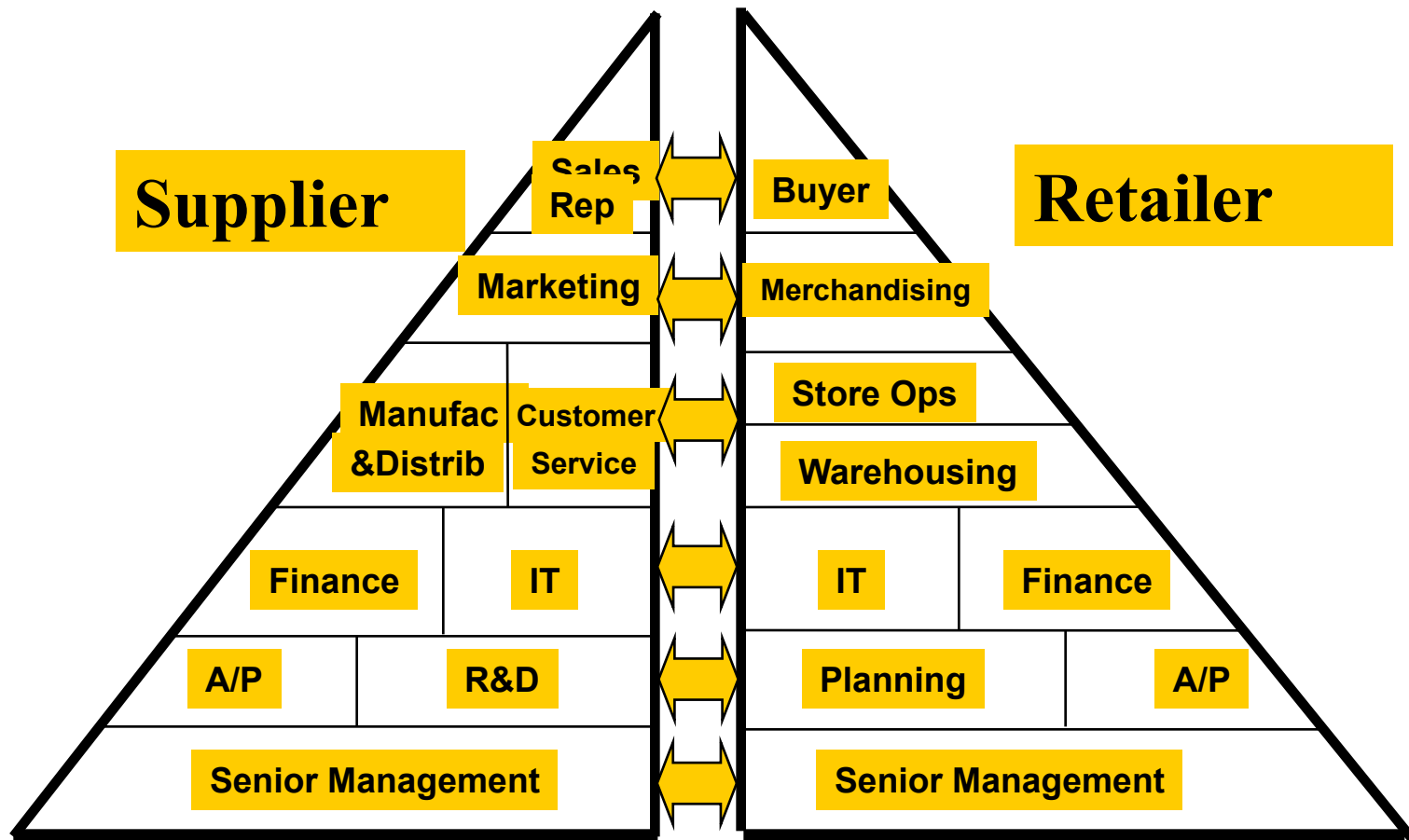


- EMD Markant – Globus, Kaufland....

Traditional Sales Model



The Partnering Model



Dissatisfaction with alliances followed by their end

- Low rate of strategies conformity
- Unrealistic expectation concerning difficulty of establishment and running the alliance
- Key workers don't want to work
- Key workers don't manage to fulfill qualification requirements
- Enemy effort to become independent with regard to the founder

My experience concerning cooperation in the CR

- Problem with trust between the Czech companies being competitors, if they are going to co-operate (the Moravia Silesia Cluster) – problem especially of the co-operation supported by public authority
- Foreign partners are trying to produce for cheap in the Czech Republic
- Foreign partners want to expand and don't know the Czech market
- Cooperation between Czech firms in the sphere of research and development (24 of innovative research parks in the CR)
- Expansion of outsourcing



Thank you