THE ALLIANCE ANALYST

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Managing alliances—skills for the modern era

Thoughts from David Ernst of McKinsey & Company

ANALYSIS FROM—

David Ernst
Senior Consultant
McKinsey & Co

Michael Stern
VP, Business Affairs
General Magic

IN THE PAST, alliance managers were a lot like gentlemen Brits running the middle distance. Their approach was decidedly unsystematic: training little, eating all wrong, drinking champagne one night and winning the Olympic mile the following noontime. All talent. No regimen. Quite civilized. Then the entire world started to take the competition so very seriously. Winners were increasingly backed by countries with powerful sporting machinery: training centers, coaches, and ever-more scientific methods of monitoring performance. And that lithe, talented Brit started having a difficult go of it.

This change is now happening with alliances. In the future, firms with the best internal alliance infrastructure are more likely to be standing among the winners. Without understanding that—and without pinpointing and building some of those capabilities—it will become ever harder to compete, especially in industries where alliance complexity is rising.

Complexity rising

Imagine the world a decade ago: the average multinational had to concern itself with just a few alliances, and even those were often of a similar ilk. Fujitsu's major alliances were equity stakes in two western computer companies, Amdahl and ICL; Corning was primarily focused on independently-operated joint ventures, formed usually to enter a new business; Colgate-Palmolive used alliances to gain insider positions on its way to selling soap, shampoo, and toothpaste to consumers in just-emerging markets.

In the year 2000, firms will look back nostalgically to this era. By then, alliances are expected to account for better than 20% of the average large firm's revenues. Alliances will involve competitors, multiple partners, and stretch well beyond the familiar confines of the firm's home industry. Alliances will also take on all sorts of new variations—from the product cobrandings to joint ventures used as viable alternatives to outright divestitures. There is little in Sprint's past, for instance, to prepare it for managing a $4 billion multimedia alliance with TCI, Comcast, and Cox (see Monitor, page 9).

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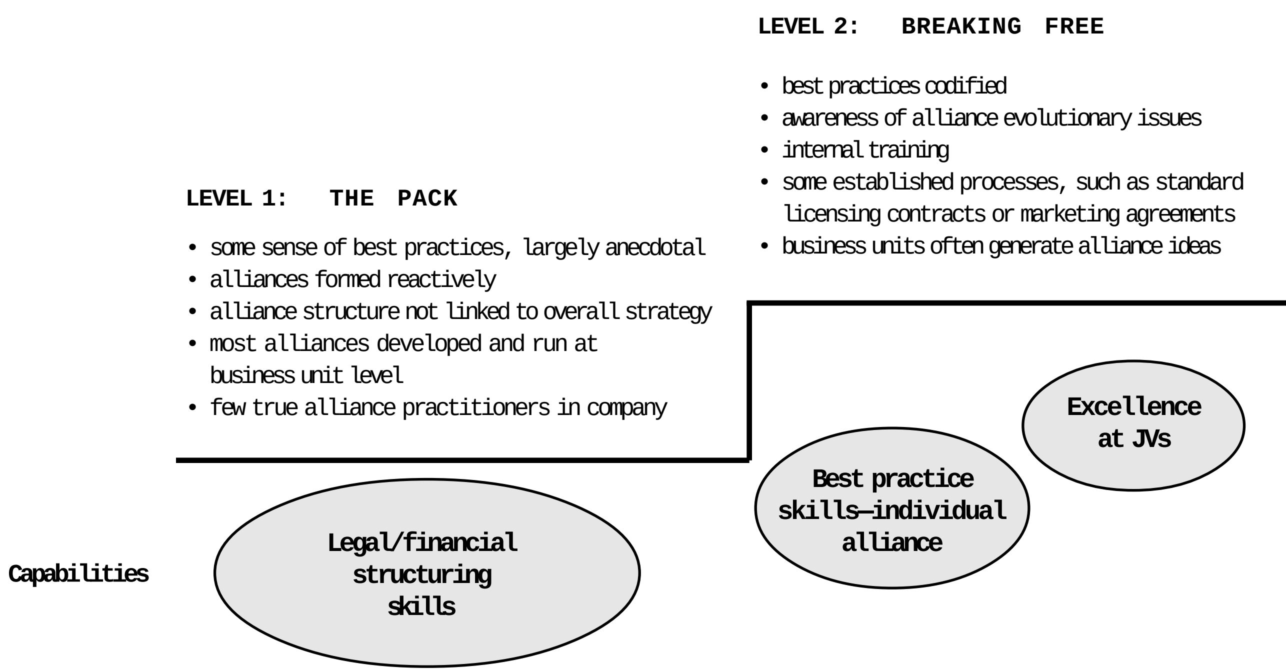
Implementation is the graveyard of alliances

These changes will create new pressures. Who will manage these alliances? It is unlikely to be expat country managers (perhaps the only group of executives with significant alliance experience); they have little relevant knowledge to apply to the new wave of mostly domestic partnerships. In the future, firms will need to be adept managers of corporate culture clash, not national culture clash, as was the common concern among the old cross-border alliances. Starbucks Coffee, for instance, is almost certainly driven by a whole different set of values, personalities, and goals than its recent marketing partner, United Airlines.

Firms will also have to understand the implications for joining alliance blocks. These represent real strategic turning points. Today, national phone companies debate whether to join WorldPartners, Concert, or Global One. Airlines decide whether to link with the trio of Delta-Swissair-Singapore Airlines, with Lufthansa-United-SAS, or with one of several other industry groups. And European media groups weigh the merits of aligning with Europe Online versus the ever-growing association massing behind the Microsoft Network. Because alliance blocks—especially where assets or operations are entwined—are far less likely to unravel than bilateral alliances, joining one can be a once-in-a-decade decision. Making the right choice requires a set of strategic planning and alliance skills which few firms yet have.

Below these strategy issues, lurking like a snake in the grass, is the matter of execution. A McKinsey study found that 50% of alliance failures are due to poor strategy while 50% are the result of poor management. Such sentiments were echoed in a Conference Board speech by Chuck Knight, the chief executive of Emerson Electric. "I do not believe that [alliances] fail in the planning stage," he said, "they fail in implementation—that is the graveyard of corporate

Few companies have worldclass alliance capabilities



Source: *McKinsey & Co and The Alliance Analyst*

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America." And as alliance complexity rises and experienced human resources are pulled ever-thinner, the challenges of follow-through will become more acute.

A snapshot of the future

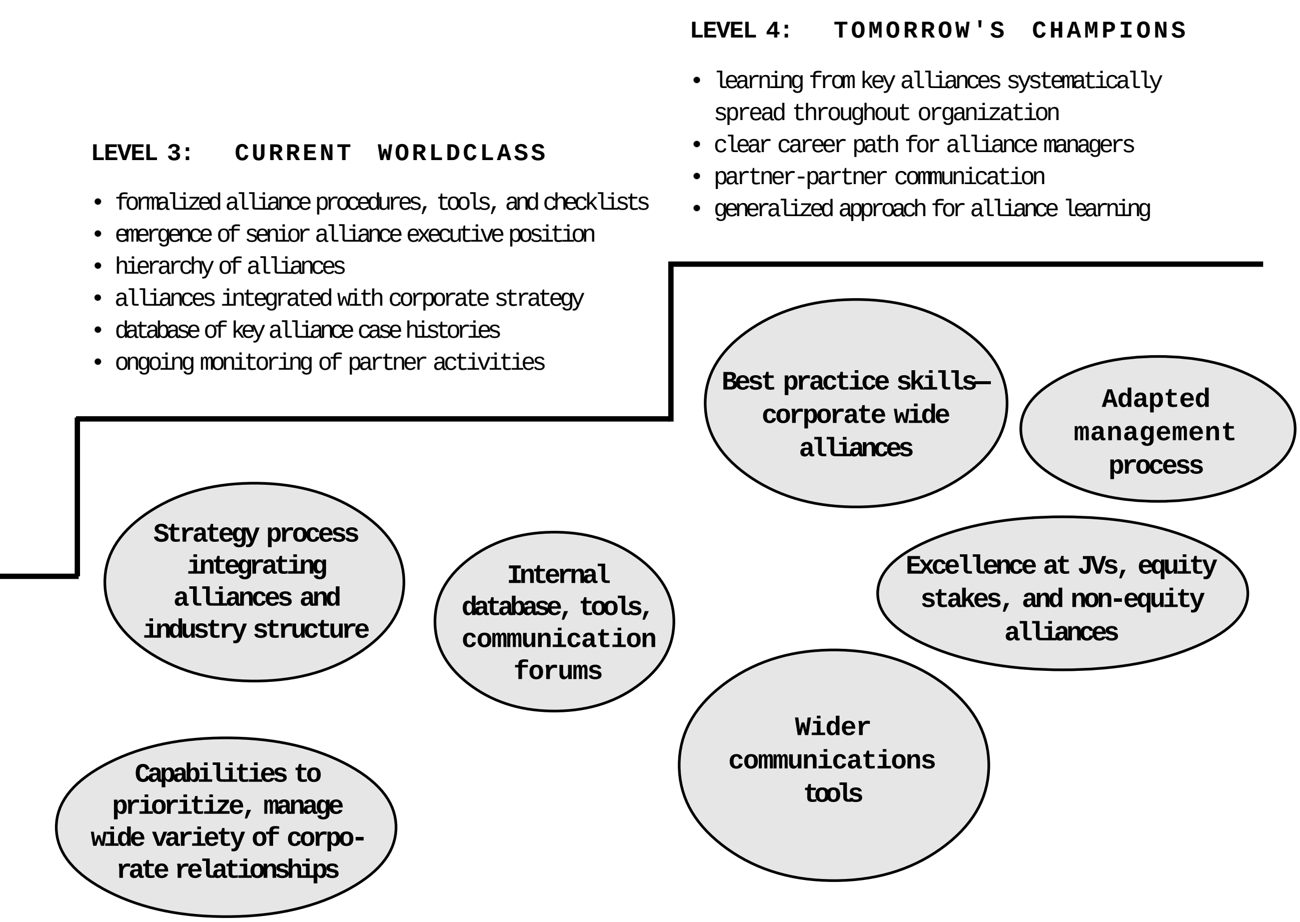
What will a winner look like? In the past—when alliances were infrequent and not widely varied—firms could draw lessons from individual success stories. An enterprising corporate strategist could pick a high-profile, successful alliance such as Siemens-Corning or GE-Snecma, gather as much information as available, sort through it, and pin a diagram to the wall. He could then start cutting out such lessons as when to use alliances instead of mergers or internal growth, when to use joint ventures over equity stakes or contractual agreements, and how to search for, and negotiate with, potential partners.

Today, this approach is insufficient. Lessons from any one alliance success story, no matter how detailed and true, have limited applicability. They also tend to focus on the alliance itself, not noticing what resources either parent devotes to supporting alliances in general. Yet those capabilities can determine whether an alliance is bungled or well-managed.

What then should an enterprising corporate strategist do? A reasonable first step is to identify a few companies with internal alliance capabilities, and then draw some lessons from them.

Lotus, Xerox, and Hewlett-Packard are among the leaders in building internal capabilities. Lotus has a 40-person alliance group, an established hierarchy of sales and marketing partners, and three dozen alliance rules of thumb. Xerox, despite a smaller team of central alliance staff, has articulated corporate-wide policies and, through a management group known as the Third Party Arrangement Council, communicates its message across divisions. Hewlett-Packard

Lotus, Xerox, and HP are as good as it gets today



has institutionalized an alliance training process, as well as debriefings after every negotiation and regular status checkups throughout the lives of key partnerships. All three firms will soon have a central, online repository of alliance knowledge—a tool which can be accessed from the most remote corners of their organizations.

The nature of the journey

Worldclass companies are *pushed* to create capabilities

Yet Lotus, Xerox, and Hewlett-Packard did not simply wake up one morning and decide, in a moment of managerial clairvoyance, to create alliance policies, hierarchies, staff, education tools, and communication channels. External catalysts were as responsible as internal vision. The introduction of Notes required Lotus to shift from a direct-selling business model towards an indirect one. The linking of office copiers and printers into wider networks forced Xerox to work closely with computer and software makers. Hewlett-Packard's decade-long push into computing drove it into more and more alliances. In each case, these market realities created a choice: either manage that portfolio of alliances well, or lose.

By focusing on catalysts, one can see how companies acquire internal alliance capabilities. Broadly, there are four levels of capability development. Most companies still linger at **Level I**, defined by relatively few alliances, few set processes, and a tendency to form alliances reactively. Then along comes a catalyst like a high-visibility alliance failure or a recognition that alliances are a key to executing strategy. This can push a company up to **Level II**. Perhaps 50 to 100 companies have fully achieved this plateau, marked by some codification of best practices, internal training, and improving returns. Level II companies typically have a moderate number of experienced alliance practitioners spread across several business units, and corporate-level support for legal, financial, tax, and/or technical issues. Alliances are still run out of business units, though.

A further catalyst is needed to push companies to **Level III**, such as the need to manage multiple alliance simultaneously. For Hewlett-Packard, the catalyst was a company-wide survey: in 1992, HPers overwhelmingly asked their business development office for internal training on alliances.

Level III capabilities include standardized alliance procedures and policies, a firm-wide alliance database, and a corporate body overseeing alliances. Perhaps most important, companies at Level III have a very clear view of what kinds of alliances should be pursued to leverage specific strengths, execute growth strategies, or fill capability gaps. Alliances, now, have at last become an integral part of the strategy process. There are probably no more than ten companies who exist at this worldclass level.

Admittedly, this framework is a simplification. But it allows executives to compare their internal alliance capabilities with others, to determine whether to invest in added capabilities and, most important, to understand what those more advanced skill sets might look like.

Building skills

Consider an alliance between General Electric and Honeywell (detailed in the Analyst, 1.23.96 and 2.5.96). In 1993, the partners agreed to have their sales forces cross-sell a large number of industrial control products. The complementary product ranges combined easily, creating wider sales reach, lower selling costs, and a more complete product to customers.

General Electric and Honeywell went through a very sensible alliance formation process and created, by all indications, a very successful alliance structure. Four aspects are notable:

• **benchmarking**. The two partners benchmarked themselves against General Electric's alliance with Fuji Electric, a similar joint sales venture established five years earlier in Southeast Asia. Looking for further reassurance, Honeywell sought out executives at such famed partnerships as Dow Corning and Ford-Mazda.

• **designated staff**. Honeywell and General Electric quickly grasped that, despite their modest capital investment, the alliance was in fact quite strategic. They feared that without someone manning the venture fulltime that it would be neglected, especially from senior management. As a result, they hired a small staff.

• **senior management involvement**. Senior management was not left out, however: a board of directors and, later, a more tactical operations committee supported the fulltime staff.

• **evolution**. General Electric and Honeywell have worked tirelessly to increase communication between their organizations, setting up weekly conference calls and annual sales meetings. Eager to keep the alliance vibrant, they continue to look for ways to push the US sales agreement into new geographies and new activities such as development or manufacturing.

Getting to worldclass

Such are the characteristics of advanced—not worldclass—practitioners. Typically, this level of company does not have a formal corporate alliance infrastructure behind it, either at the corporate or at the business unit level. Lloyd Trotter, the president of the General Electric division which created the alliance, says that "General Electric is a big company, and cross business unit communication is difficult, although we do have some processes in place to try to overcome this." In the case of its alliance with Honeywell, however, success was driven by senior management experience and its willingness to weigh aims and scope, and to develop a custom-made solution.

This may well be the optimal approach for both General Electric and Honeywell. But as alliances escalate in number and complexity, most companies will need to build their alliance capabilities further. To handle it, we offer three broad suggestions:

• **align alliances with strategy**. Top management must articulate a clear link between where it expects the industry's future profit pools will be, how to capture a larger share of those, and where, if at all, alliances fit in that plan. As part of this, senior management should develop some hierarchy of alliances within the firm. This is the topdown approach.

• **build systems and processes**. At the same time, companies must encourage alliance options to come from the middle and bottom of their organizations. Yet to do this effectively, some changes will be needed.

In the past, companies could draft a one-page set of alliance guidelines, spelling out such principles as "when sharing technology, insist on majority control," or "as part of the due diligence, investigate the proposed partners record in other alliances." If these requirements were met, chances were the alliance would succeed. For most companies, however, that one-page approach will soon be a dangerous simplification.

What will be needed is a fuller infrastructure. While tailored to the business and characteristic of the particular firm, this infrastructure might include tools such as corporate policies, sample contracts, best practice guidelines, and updated contact lists of internal company experts. It might also include a standard set of questions which need to be answered in any alliance proposal. That way, senior management can quickly and effectively assess the viability of alliance ideas bubbling up from line managers. Firms would also benefit from an alliance map, ie a snapshot of alliances across business units, products, technologies, and partner sets. It is a critical way to link overall strategy to alliances.

Beyond these changes to programs, companies need to adjust strategic planning and performance measurements. They might also develop an alliance tracking system—ie a process for monitoring the company's important alliances which might include regular debriefings, surveys, or audits.

• **staff appropriately**. Along with new policies and systems, firms that manage dozens of alliances will need a new class of executives and managers. Current worldclass companies such as MCI, Oracle, and Xerox all have senior executives in charge of alliances. These are not corporate strategists or business developmentists who squeeze some alliance work into the busy acquisition schedules. Rather, these are executives with fulltime responsibility for alliances, and have such titles as senior vice president, corporate strategic alliances or vice president, worldwide alliances. These positions were created after the firms realized that their alliances suffered from inconsistencies and lacked a senior executive champion.

Of course, the new staffing needs go beyond anointing an alliance godfather. A coming challenge will be to look at deeper human resource capabilities. Firms need to take a long look at whether it makes sense to develop a class of alliance managers with a widely-understood career path, proper performance measures, and, above all, a sense of community. As alliances proliferate, many firms will find it necessary to hire ex-investment bankers and experienced alliance negotiators for their expertise in valuation and structuring alliances. This may seem like heresy in the current anti-dealmaker mood of alliances. But it is an expeditious way to build capability.
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PARTNERS	Amt.	Type	Joint R & D	Joint Prod.	Joint Mktg.	Comment
AIRLINES & AEROSPACE						
Lufthansa (GER) **United Airlines (USA)**	N/A	Anti-trust immun.				Following the formal announcement that the US and Germany have signed an "open skies" treaty, United Airlines and its partner Lufthansa have applied to the US Department of Transportation for certain types of antitrust immunity. The two carriers want permission to engage in joint capacity and price planning, activities typically not permitted between companies. Eager to bring such benefits to Lufthansa, the German government says it will not enact the open skies treaty until Lufthansa is granted such access.
Aviation Industry of China (CHN) **Daimler-Benz Aerospace (GER)**	N/A	JV disc'ns				Chinese authorities are now insisting that Daimler-Benz Aerospace (Dasa) join three other European aerospace firms in bidding for participation in the development of a 100-seat regional jetliner. The Chinese, who are working with the South Koreans, say the joint bid from Aerospatiale, Alenia, and British Aerospace, must include Dasa, who had initially been excluded from a European consortium because of its insistence that some of the project work be done in Europe.
British Aerospace (GBR) **Airbus Industrie (EUR)**	N/A	Rumors				Dick Evans, the chief executive of British Aerospace, denied that his company is seeking a larger stake in Airbus Industrie. Some analysts had speculated that BAe's recent strong financial performance would lead to further investment. Evans did say, however, that transforming the loose confederation status of Airbus into a more traditional corporate structure would be one way to deal with a consolidating aerospace industry.
AUTOMOTIVE						
General Motors (USA)	N/A	Labor dispute				General Motors senior management is taking a hardline toward the United Auto Workers, who are striking at two brake-parts plants in Dayton. "If at the end of a day, a plant can't deliver [worldclass] competitiveness, we owe it to our shareholders and our workers to look at outsourcing," says Harry Pearce, GM vice chairman. Analysts say that if GM fails to gain the flexibility to use outside suppliers it stands little chance of competing effectively against Chrysler and Toyota, who are turning more and more to external suppliers.
Honda Motor (JPN) **Asian Honda Motor (THA)** **Agricultural Machines (VTM)**	$30m	JV				Honda has received final approval from the Vietnamese government to create a joint venture to manufacture small-engine motorcycles in the country. Honda and its affiliate Asian Honda Motor will own 70% of the venture, while Agricultural Machines of Vietnam will hold the remainder. The JV is capitalized at $30 million and is expected to manufacture 300,000 motorcycles a year beginning within two years.
AlliedSignal (USA) **Robert Bosch (GER)**	$1.5b	Acq'n & supplier all'nce				AlliedSignal has decided not to fold its antilock braking business into a joint venture with Bosch. Citing cultural differences and deal-structuring complexity, AlliedSignal decided to sell the business outright to the German firm.
AlliedSignal (USA) **Knorr-Bremse (GER)** **Jidosha Kiki (JPN)**	N/A	JV				AlliedSignal and Knorr-Bremse, already partners in the air-brake business in North America, Europe, and South America, have formed a new joint venture in Japan with Jidosha Kiki. That venture intends to make and market air-brakes to Japan's heavy-duty truck makers. Jidosha Kiki will own 65% of the JV, with the two other partners each holding 17.5% stakes. The agreement allows for after-market sales outside of Japan.
BUSINESS SERVICES						
True North Communications (USA) **Publicis Communications (FRA)**	N/A	Adjust.				True North says it has ended its global alliance with Publicis, the French advertising agency. The split is apparently tied to the firms' unhappiness with the exclusivity provision in their agreement, which contractually bound them to work together. Both are likely to seek new partners.

PARTNERS	Amt.	Type	Joint R & D	Joint Prod.	Joint Mktg.	Comment
CONSUMER PRODUCTS/ RETAIL/ FOOD & BEVERAGE						
Philip Morris (USA) **Viacom (USA)**	$60m	Co-branding				Kraft Foods and Viacom's Nickelodeon cable network signed a two-year co-branding alliance valued at $60 million. The agreement calls for Kraft, which is a unit of Philip Morris, to buy advertising space on Nickelodeon to promote 25 brands aimed mainly at children. In what makes the relationship an alliance, Kraft says that it will promote the Nickelodeon name and logo in the supermarket. The Nickelodeon logo will appear on some 300 million Kraft food packages, including those of Kool-Aid, Kraft Macaroni & Cheese, and Oscar Mayer hotdogs. Kraft will even promote Jell-O molds in the shape of Nickelodeon characters.
Asahi Breweries (JPN) **Foster's Brewing (AUS)**	$91m	Equity				Asahi Breweries sold down 2.8% of its stake in Foster's Brewing of Australia, leaving the Japanese beer maker with a 13.8% stake in the firm. Asahi pledged to remain a long-term Foster's shareholder.
Pepsico (USA) **Viacom (USA)**	N/A	All'nce				Pepsico signed an agreement to become the exclusive soft-drink sponsor of certain high-rated broadcasts on MTV, the Viacom-owned music network. The three-year agreement will see Pepsi advertised in Europe, Latin America, and Asia during the MTV Music Video Awards. The agreement does not cover the US.
COMPUTERS & COMMUNICATIONS						
Siemens (GER) **Newbridge Networks (CAN)**	N/A	Cross-lic'sing				Siemens and Newbridge Networks, the fast-growing Canadian equipment maker, will jointly develop and market new high-speed communication networks to telecom companies. The two, who have been working together since 1991, intend to develop new broadband products and to more closely coordinate their sales, marketing, and customer service operations. They signed a long-term cross-licensing agreement to ensure full and compatible product lines.
Cable & Wireless (GBR) **Northern Telecom (CAN)**	N/A	Research all'nce				Cable & Wireless and Northern Telecom have formed an alliance to develop regional solutions for telecom networks, services, and equipment. C&W says the agreement allows it to form alliances with any of Northern Telecom's research and development labs.
Bell Atlantic (USA) **Nynex (USA)**	N/A	JV				The Bell Atlantic-Nynex plan to offer stock in their cellular joint venture may create serious repercussions for the two firms' participation in PCS Prime Co, a joint venture with US West and Airtouch Communications. Reports indicate that Bell Atlantic and Nynex are likely to take their assets from PCS Prime and fold them into their bilateral venture Bell Atlantic-Nynex Mobile. While none of the companies have commented, such a move is thought to underline ongoing tension among the PCS Prime partners.
PCS Prime Co (USA) **Airtouch Communications (USA)** **Bell Atlantic (USA)** **Nynex (USA)** **US West (USA)**	$1.1b	Rumor				PCS Prime Co is reportedly having trouble managing the diverging interests of its four founders, Airtouch, Bell Atlantic, Nynex, and US West. The four partners in the wireless venture are said to disagree on such matters as the choice of equipment suppliers and brandname. This dispute comes just weeks after revelations of troubles at another alliance block: Sprint's communications venture with cable giants TCI, Comcast, and Cox.
Tele-Communications Inc (USA) **US West (USA)** **Nynex (USA)** **Bell Cablemedia (CAN)**	N/A	All'nce				TeleWest, the UK cable joint venture founded by TCI and US West, is working with two other partners to develop high-speed access to the internet. The four firms, including Nynex CableComms and Bell Cablemedia, will focus on standardization issues in Britain. They believe that internet transmission speeds can be increased at least 200-fold by using cable lines.
Microsoft (USA) **Bell Atlantic (USA)** **BellSouth (USA)** **Nynex (USA)** **MCI Communications (USA)** **Pacific Telesis (USA)** **Sprint (USA)** **US West (USA)**	N/A	All'nce				Microsoft has formed alliances with seven telecommunications companies to offer consumers easy access to faster internet connections. Microsoft says that it will offer users of its Windows 95 free software which can be used to electronically order Integrated Services Digital Network (ISDN) from the phone companies. ISDN allows data transmissions at five times the speed of ordinary telephone modems. The partners are Bell Atlantic, BellSouth, MCI, Nynex's Southern New England Telephone, Pacific Telesis's Pacific Bell, Sprint, and US West.

PARTNERS	Amt.	Type	Joint R & D	Joint Prod.	Joint Mktg.	Comment
Knight-Ridder (USA) **Tele-Communications Inc (USA)**	$800m est	Disc'ns				Knight-Ridder is in discussions to sell its stake in a cable property to its partner, TCI, for an estimated $800 million. Knight-Ridder and TCI jointly own TKR Cable, an operator with some 620,000 subscribers. Knight-Ridder has said that it wants out of the cable business, whose rapid consolidation has left fewer and fewer such midsize operators.
MCI Communications (USA) **News Corp (AUS)** **Loral (USA)** **Tele-Communications Inc (USA)**	$400m est	Supply				MCI and News Corp, who earlier this year announced their intention to jointly enter the direct television broadcasting business in the US, have agreed to purchase two satellites from Loral Corp for more than $400 million. Analysts say that decision is likely to put pressure on TCI, who is considering joining the alliance. TCI is eager to enter the direct broadcast business, in part to use capacity on two satellites. MCI says it is likely to deploy the Loral satellites elsewhere if TCI joins the alliance.
News Corp (AUS) **Comsat (USA)** **Globo (BRA)** **Tele-Communications Inc (USA)** **Grupo Televisa (MEX)** **Panamsat (USA)**	$100m	JV & supply				News Corp canceled its five-year, $100 million contract with Comsat to use one of its satellites for direct broadcasting to Latin America. News Corp had planned to use the satellite in its joint venture with TCI, Globo, and Grupo Televisa. Analysts say that it is likely that News Corp and its partners have been offered better terms from Panamsat, a rival to Comsat. Panamsat is 40% owned by Grupo Televisa.
British Sky Broadcasting (GBR) **Canal Plus (FRA)** **Bertelsmann (GER)** **Havas (FRA)**	$1.0b	JV				British Sky Broadcasting (BSkyB) says it will form a joint venture with Bertelsmann, Canal Plus, and Havas to expand pay television across Europe. Rupert Murdoch's News Corp owns a controlling 40% stake in BSkyB. The new digital pay-TV network will be 30% owned by BSkyB, Bertelsmann, and Canal Plus. Havas, France's largest publisher and owner of 24% of Canal Plus, will hold 10% in the venture. The partners say they will invest $1 billion to develop theme-oriented channels for European audiences.
British Sky Broadcasting (GBR) **News Corp (AUS)** **Canal Plus (FRA)** **Bertelsmann, Premiere,** **Kirch (GER)**	$270m	Equity				British Sky Broadcasting says it will acquire a 25% stake in Premiere, Germany's leading pay television channel, for $270 million. The agreement links four of the world's leading media companies. BSkyB is 40% owned by News Corp, while Premiere is jointly owned by Bertelsmann, Kirch, and Canal Plus.
Washington Post (USA) **Most (RUS)**	N/A	Lic'sing				The Washington Post Company has signed a licensing agreement with a Russian publisher to produce a Russian version of its Newsweek magazine. The Most Group will hold rights to the Newsweek name, and will rely on Newsweek staff for editorial and business advice, particularly leading up to the launch in May. The magazine will be called "Itogi" or "Summing Up," and will contain a mix of local content and Newsweek content translated into Russian. The Most Group will sell domestic ad space, while Newsweek will sell worldwide ads.
Sundance Channel (USA) **PolyGram (NET)** **Viacom (USA)**	N/A	Equity				PolyGram Filmed Entertainment, a unit of PolyGram, will take a 50% equity stake in the Sundance Channel, the new cable channel created by Robert Redford in partnership with Viacom's Showtime Networks. The Sundance Channel was launched last month in the US with the mission to air independent films. PolyGram says that it will lead the channel's drive overseas, and will own a 75% stake in foreign operations.
Viacom (USA) **Phoenix Pictures (USA)**	$10m est	Equity & dist'n				Showtime will take an 11% stake in Phoenix Pictures, the movie production house built by the former chairman of TriStar Pictures, Mike Medavoy. In addition, Showtime agreed to acquire the pay-television distribution rights to Phoenix films. Pearson, Onex, Altamira Management are also equity holders in Phoenix.
Dreamworks (USA) **Pacific Data Images (USA)**	N/A	Equity				Dreamworks will acquire a 40% stake in Pacific Data Images, a computer animation firm with whom the studio has recently been working on a feature length film. There are reports that the agreement reaches into the "tens of millions of dollars."

PARTNERS	Amt.	Type	Joint R & D	Joint Prod.	Joint Mktg.	Comment
UUNet Technologies (USA) **USA Networks (USA)**	N/A	All'nce				USA Networks will work with UUNet Technologies to make its Sci-Fi Channel simultaneously available via cable and the internet.
Netscape Communications (USA) **CompuServe (USA)**	N/A	All'nce				In a blow to Microsoft, CompuServe announced it will license Netscape's Navigator software, and build a broad marketing relationship with the software maker. CompuServe, the country's second largest online service, will allow its 4.5 million domestic customers to download Navigator free of charge starting this spring. CompuServe says it will use Netscape as a tool to enter overseas markets, allowing purchasers of Navigator software to connect automatically to CompuServe.
AT&T (USA) **America Online (USA)** **CompuServe (USA)** **Prodigy (USA)**	N/A	Disc'ns				AT&T is reportedly in discussions with America Online, CompuServe, and Prodigy about providing AT&T internet-service customers direct access to the three online services. For the online companies, a marketing alliance with AT&T could become a powerful sales channel, as well as a way to gain discounts in their large telecommunications charges. For AT&T, such alliances could increase customer demand for its internet-access service.
America Online (USA) **Apple Computer (USA)**	N/A	Lic'sing				Apple plans to offer access to America Online on all its computers sold to consumers in North America and Europe. Businesses licensing the Mac operating system will also have the chance for such access. Apple's promotion of AOL is tied to its decision to abandon its own online service, known as eWorld, effective March 31. eWorld was developed two years ago by AOL, in whom Apple holds a 5.1% equity stake.
Hewlett-Packard (USA) **Microsoft (USA)**	N/A	Co-branding				In an unusual move, Microsoft will connect its name to a new family of computers. Working with Hewlett-Packard, Microsoft will launch the Small Business Center family of computers. These products—using HP hardware and a Microsoft operating system and suite of software applications—will be targeted at small businesses such as doctor's offices and restaurants. Because such businesses typically do not have a separate technology staff, HP will establish a help center which, via modem, can address user problems. Analysts say that Microsoft sees the alliance as a powerful way to push its Windows 95 operating system and internet browser software.
Veba (GER) **Metro (SWZ)**	N/A	All'nce				After backing away from the Bertelsmann-led consortium in digital television, Veba has formed a rival alliance with the Swiss retail giant Metro. Veba and Metro say they will launch a full range of digital television services, such as video-on-demand and home shopping, in Germany by September 1.
IBM (USA) **Great Wall Computer (CHN)**	N/A	Progress report				Thanks to a two-year manufacturing joint venture with Great Wall Computer, IBM has vaulted from a nonentity in the Chinese personal computer market to its market share leader. IBM surpassed both AST Research and Compaq for the first time in the fourth quarter of last year.
ENERGY & NATURAL RESOURCES						
Royal Dutch/Shell (NET-GBR) **Amoco (USA)** **Mobil (USA)** **Texaco (USA)**	N/A	JV				A four oil company consortium is planning to drill a well in a world-record water depth 7,625 feet. The Gulf of Mexico project will be 25% owned by each of the partners: Royal Dutch/Shell, Amoco, Mobil, and Texaco. Shell, who has the most experience in the Gulf of Mexico, will operate the venture.
British Petroleum (GBR) **Mobil (USA)**	$5.0b	JV				In a $5 billion combining of assets, British Petroleum and Mobil will pool their European refining, motor fuels, and gas station operations. Analysts say the move, driven by the struggling downstream sector, could generate as much as $500 million a year in savings through greater scale economies and the elimination of parallel distribution networks.

PARTNERS	Amt.	Type	Joint R & D	Joint Prod.	Joint Mktg.	Comment
ENTERTAINMENT & LEISURE						
Bank Leumi (ISR) **Africa Israel (ISR)** **CBS (USA)**	N/A	Equity sale				Bank Leumi is seeking to sell its 50% stake in Africa Israel, the diversified Israeli firm with interests in hotels, tourism, and insurance. New national banking laws prevent Israeli banks from holding more than 25% interests in nonfinancial institutions. Bank Leumi and Africa Israel say they are talking to unspecified US, European, and Japanese investors about using the equity stake as the foundation of a strategic alliance. Larry Tisch, chairman of CBS, is rumored to be one of the potential investors.
FINANCIAL SERVICES						
American Express (USA) **Microsoft (USA)**	N/A	License				American Express will license Microsoft software in order to provide secure electronic transactions between its cardholders and merchants. The license is non-exclusive. Consumers and merchants are expected to license compatible software for use over personal computer networks.
Aberdeen Trust (GBR) **Phoenix Home Life Mutual Insurance (USA)**	$37.5m	Equity & JV				Aberdeen Trust established a joint venture with Phoenix Home Life to distribute investment products in the US. The agreement also calls for Phoenix to pay $37.5 million for a 15% stake in Aberdeen.
Bayerische Hypotheken- und Wechsel-Bank (GER) **Massachusetts Financial Services (USA)**	N/A	All'nce				Bayerische Hypotheken-und Wechsel-Bank—or Hypo-Bank—will work closely on joint marketing with Massachusetts Financial Services, the US fund manager owned by Canada's Sun Life. The two say they will initially promote and distribute one another's funds to clients. They hope to soon escalate that relationship into cross-selling products. Massachusetts Financial Services already has close marketing links with Foreign & Colonial Management, the British fund manager who is 50%-owned by Hypo-Bank.
Barnett Banks (USA) **Bank of Boston (USA)**	N/A	JV				Barnett Banks and the Bank of Boston will fold their entire mortgage service businesses—and some of their mortgage banking functions—into a new joint venture. That venture, in which two private investors will hold stakes, will manage some $75 billion in mortgages.
HEALTHCARE/ CHEMICAL						
Baxter International (USA) **Inhale Therapeutics Systems (USA)**	$80m (est)	Equity				Baxter International will invest $20 million for 12% stake in Inhale Therapeutics Systems, the developer of dry-powder inhaler technology. The agreement calls for Baxter to invest, over time, an additional $60 million in research funding and milestone payments. The two firms say they will work together to use the Inhale Therapeutics technology to develop four new drugs.
Union Carbide (USA) **Nova (CAN)**	$600m	JV				Union Carbide and Nova, the Canadian pipeline and chemical giant, will build a joint venture ethylene plant. The facility, to be one of the lowest cost production sites in the world, will be located in Alberta, Canada and will cost an estimated $600 million.
TRANSPORT						
Virgin (GBR) **London & Continental Railways (GBR)**	$4.6b	Joint bid				The Virgin Group and its partner were awarded a $4.6 billion contract to build a high-speed rail link connecting London with the Channel Tunnel. Virgin and London & Continental Railways, which is 17% owned by Virgin, say the 68-mile route will be completed by 2003. The partners will receive a $2.17 billion subsidy from the British government.
Noel Group (USA) **Western Rail Investors (USA)** **BankAmerica (USA)** **Chemical Latin America Equity Associates** **DK Partners**	$63.4m	Privatization				A consortium led by the US's Noel Group has won a concession to operate a 1,000 mile rail network in central-western Brazil. The sale is the first step in Brazil's ambitious privatization of its weather-worn rail system. The Noel consortium includes Western Rail Investors, Bank of America International Investment Corp, Chemical Latin America, and DK Partners. They will pay $63.4 million to operate the system for 30 years. The Brazilian government expects to generate roughly $1.4 billion through its rail privatizations. Analysts say that another $4 billion in investments will be needed to upgrade the system.

The shared utility

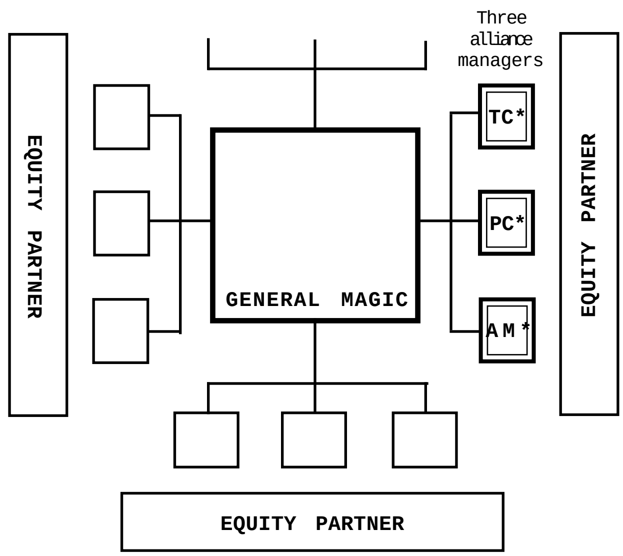
IRIDIUM, WorldPartners, Inmarsat, Sabre, MasterCard. Each is what economists call a shared utility: that is, a company owned by a mass of others, each happy to dip in to use the "utility" occasionally, yet unwilling to finance its existence entirely. Such was the logic when a band of airlines established Sabre as their common reservation system. The same was true when a handful of aerospace companies created Inmarsat to launch satellites, and regional banks formed MasterCard to build an infrastructure for a national credit card business.

Shared utilities are alliances in their purest form. Yet do they have anything to teach an executive striving to manage a more traditional corporate structure? Certainly they should reveal a thing or two about building internal alliance capabilities.

Yes and no. "We never need to convince anyone at this company that alliances are important, that corporate alliance policies are needed, or that alliance managers have a career," says Mike Stern, the vice president of business affairs at General Magic, one of the earth's rare examples of a for-profit (though not yet profitable) shared utility. "But we have had to spend a lot of time determining the nuts and bolts of working with partners." In the very least, General Magic offers a glimpse into how alliance-intensive companies of the future might handle the role of alliance managers.

Utility workers

General Magic's use of alliance managers



*Technical Coordinator *Project Coordinator *Alliance Manager
Source: *The Alliance Analyst*

Not just one, but three

To General Magic, its alliance partners are so important that it assigns three people to manage each relationship. These magicians (what the company calls its staff) each manage a different piece of the alliance. A technical coordinator ensures compatible interfaces; a project coordinator arranges specific ongoing activities (such as a product test or coordinating work between different General Magic partners); and an alliance manager is the overall guardian of the relationship. General Magic is likely to have such triple coverage for most of its 15 equity-members.

While responsible for separate tasks, the technical and project coordinators work in tandem in one crucial area. "One of our key functions is to help our partners model markets, figure out business strategies, and map our technology deliverables and their product plans against those emerging markets," says Stern. "This is really hard in these types of markets, so the technical and project coordinators work with partners on their business plans. There is no way to divorce the technology from the business."

How can General Magic afford to devote three magicians to each alliance? "The partners defray some of the costs associated with that support," says Stern. Such largess is almost certainly explained by the fact that General Magic's partners are both equity owners and among the world's largest companies who can afford to lend a hand to a startup.

More intriguingly, perhaps, is the fact that General Magic's alliance management resources are spelled out in the partnership contract. In other words, agreements with Motorola, Sony, and Philips all contain a contractual commitment to provide certain types of staff and a level of support.

Yet while the partners want General Magic to have strong and capable links to them, they do not get directly involved in picking those individuals. Unlike, say, the alliance between Baxter and the Red Cross (see the Analyst 2.5.96), there is no beauty contest where prospective technical and project coordinators are paraded before the partner.

The alliance manager is almost certainly onboard before the agreement is ever assigned. "In virtually every case, they were one of the people responsible for bringing the external company into the alliance in the first place," says Stern.

Tightrope walkers

General Magic must simultaneously perform two potentially conflicting tasks. In order to create greater efficiency in managing alliances, it must encourage experience-sharing among its staff. However, it must also prevent its alliance managers from becoming carriers of proprietary information between partners. "It is always a theoretical risk," says Stern. "But in the five years that we have been doing this, we have created a pretty high comfort level that it does not happen. It is a trust issue."

TO THE MODERN ERA

Tomorrow's champions

Today's worldclass alliance organizations may not necessarily hold that title for long. No one truly has mature skill levels yet. In other words, there is a lot of daylight between current worldclass infrastructures and infrastructures which are corporate-wide, consistent, or anywhere near optimal.

For good companies aspiring to get even better, the future is likely to include added internal alliance capabilities, especially:

- **a more inclusive corporate alliance infrastructure.** That is, connecting pockets of advanced alliance thinking and better linking the varied experiences of business units.
- **communications channels between the company's partners.** Bristol-Myers Squibb, for instance, is considering bringing its biotech research alliance partners together periodically to chat and share experiences.
- **reduction in alliance conflicts across divisions.** Even worldclass companies still stumble into divisional conflicts, fighting for scarce resources, and battling over jurisdictions.
- **more appropriate human resource management.** There is a need to create clear performance measures for alliance managers and establish alliance management as a career.
- **better filters for alliance ideas coming up from business units.** Senior management should be able to sift quickly through their alliance-based growth options.

These will not be easy. However, most firms today need to focus on catching up with the likes of Lotus, Hewlett-Packard, and Xerox. Overtaking them will have to wait until the next lap. n

The above article is an outgrowth of extensive joint thinking between The Analyst and David Ernst. David Ernst is a senior consultant at McKinsey & Company where he is a leader of the firm's alliance practice. He is also a member of The Analyst's advisory board.

A parting thought

It is one of the quiet undercurrents of the 1990s: consumers caring less and less about whether a single company makes a product they are purchasing, or if a network of companies does. What matters now is not whom, but how well. Ask an owner of an HP laser printer if she is concerned that Canon makes the engines. Ask a man out for a jog if he is sweating because his Nikes are manufactured by one of the company's Asian partners, and not Nike itself. The answer in both cases is no, they are not worried. For companies turning to alliances to cut costs and increase efficiency, that's the good news. The consumer does not care.

The bad news is that the consumer expects end-to-end quality. So, if someone in your networked value chain fails, the consumer is going to blame *you*.

That should be enough to give any manager pause when forming an alliance, especially some of the ever-tempting cobranding alliances. Last year, Unocal formed an alliance with Circle K to have Unocal gas pumps installed at some 420 convenience stores. But what happens if a Circle K clerk gets a little cheeky when a customer is paying for gas? That customer is likely to downgrade his whole opinion of Unocal.

SUBSCRIPTION INFORMATION

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415 South Van Pelt Street, Suite B3, Philadelphia, PA 19146
Tel: 215-546-2441 Fax: 215-546-3292

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