

The Third State of Alliance Management Study | 2009

Contact information

NSI/Universiteit Maastricht
Postbus 616
6200 MD Maastricht
Tel. +31 43 3883758/3647
E-mail secnsi@maastrichtuniversity.nl
www.unimaas.nl/nsi

Association of Strategic Alliance Professionals
250 First Avenue, Suite 300
Needham, MA 02494
United States
E-mail: info@strategic-alliances.org
www.strategic-alliances.org

Table of Contents

- Introduction.....4
- 1. The study.....5
- 2. Alliance success rates have increased.....6
- 3. The investments in alliance management are stable.....8
- 4. Europe invests more than the USA.....9
- 5. Alliances and innovation: facts and best practices.....11
- Highlights.....13

Introduction

This report presents the results of the Third State of Alliance Management Study, carried out on behalf of the Association of Strategic Alliance Professionals. In January and February 2009 over 400 companies responded to our survey on alliance management. Our previous studies, carried out in 2002 and 2007, have provided a wealth of new insights into the development of alliance management as a profession. Between the first two studies, alliance management developed rapidly. The red line of this third study is that alliance management has come of age:

- investments in alliance management are stable on a high level;
- alliance success rates are increasing;
- an increasing number of companies achieve very high alliance success rates through investment in alliance management.

There are three remarkable differences with 2007. First the success rate of alliances has increased substantially; second European companies now invest more in alliance management than American companies do and third there is a strong increase of the contribution of alliances to the stock market value of companies.

Next to an overview of general trends in alliance management, we also choose a special focus area. This year we have opted to look at alliances for innovation. Key results here are:

- alliances for innovation are much less successful than other alliance types;
- the number of innovation alliances is relatively stable with only a small growth rate;
- companies with a diversity of alliance functions and central coordination of alliances get more revenue from new products.

We would like to thank ASAP and the ASAP members who have responded to our survey. We hope these results will help alliance professionals to make the most of their investment in managing collaborative relationships.

Ard-Pieter de Man, VU University Amsterdam
Geert Duysters, UNU-MERIT, TU/e, NSI Maastricht University
Inge Neyens, Katholieke Universiteit Leuven

April 2009

1. The Study

The results of this study are based on a survey sent out in January and February 2009. More companies than ever responded to the survey. In 2007 we based our conclusions on data from 180 companies. In 2009 they are based on 431 companies. Most respondents were American (64%). European companies accounted for 24% of the respondents and the other respondents came from other continents. The vast majority of our respondents were big multinational firms (64%) with more than a thousand employees. Figure 1 shows the sector background of the companies.

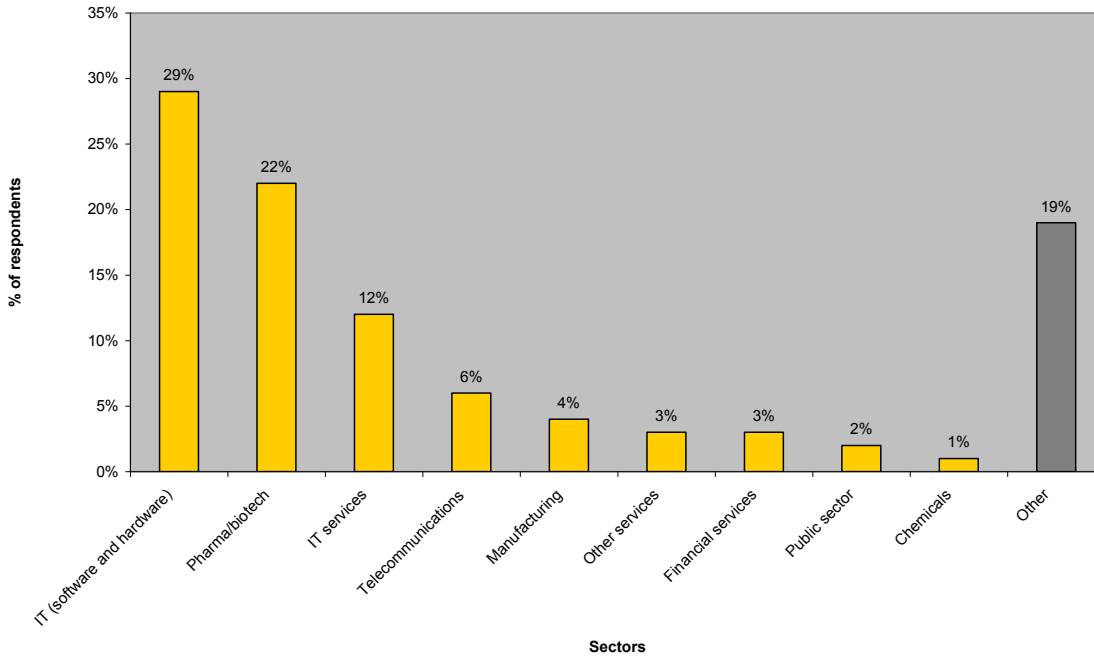


Figure 1: Sectoral breakdown of respondents

Co-marketing alliances were the most important alliance type for the respondents, with research/innovation alliances coming second (see table 1). This is similar to 2007. There is a slight 2% increase in research alliances at the expense of co-marketing alliances.

| Type of Alliance | Frequency (%) |
|-------------------------|---------------|
| Co-marketing alliances | 45% |
| Research alliances | 16% |
| Distribution alliances | 13% |
| Supplier alliances | 11% |
| Co-production alliances | 10% |
| Other | 5% |

Table 1: Types of alliances used by companies

2. Alliance success rates have increased

The first important result of this study is that the alliance success rate has increased to 57%. In the earlier studies the success rate was around 50%. The increase could have been expected based on the previous study, which showed that investment in alliance management had increased substantially in 2007. Now, in 2009, companies are reaping the fruits of this investment.

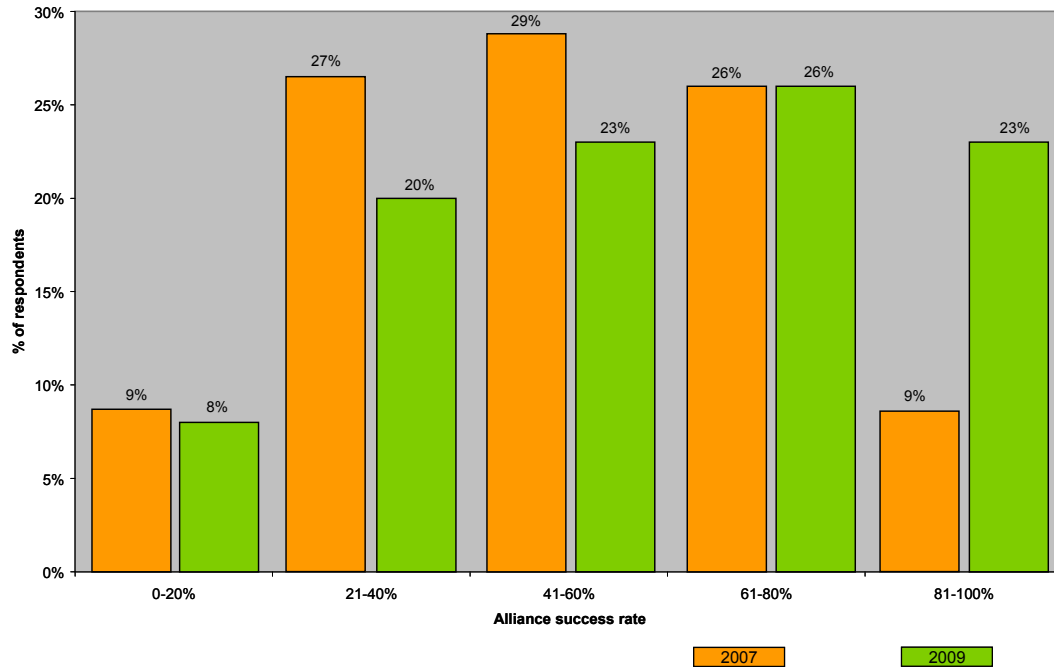


Figure 2: Alliance success rates in 2007 and 2009

Figure 2 shows that 23% of the companies now have alliance success rate of more than 80%, compared to 9% of the companies in 2007. However there remains a small group of companies (8% in 2009 versus 9% in 2007) that is unsuccessful. Their alliance success rate lies below 20%. The increase in success rate has mainly been achieved by companies moving through the success rate categories step by step, rather than jumping at once from a low to a high success rate. Growing experience backed up by investments in alliance management tools and processes make companies more successful over time.

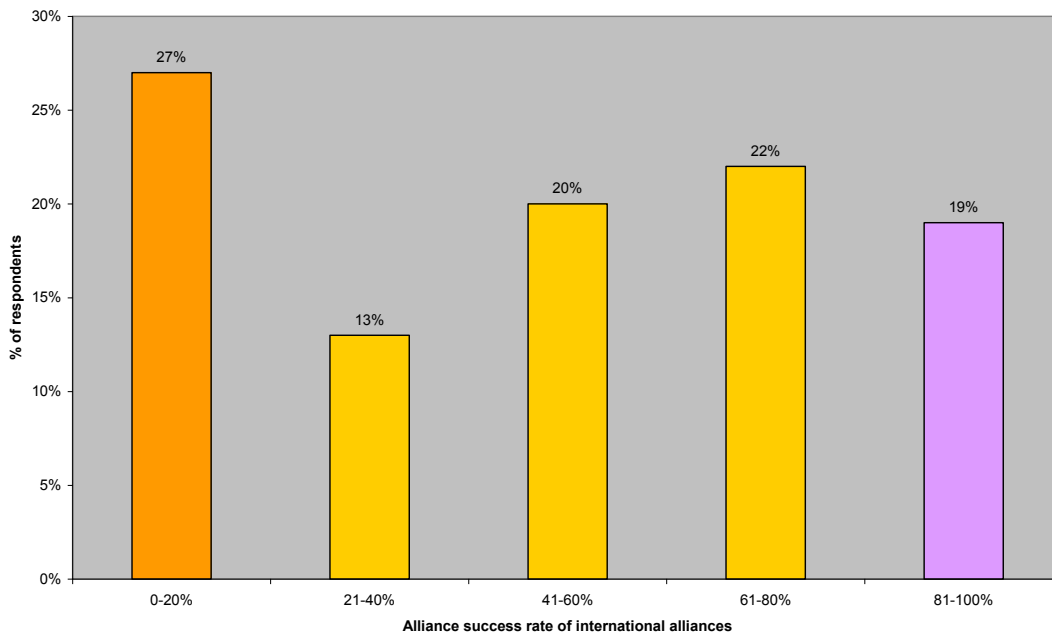


Figure 3: Success rates of international alliances

International alliances on the other hand remain a challenge. With an average success rate of 49% they are clearly harder to manage than domestic alliances. Even though this success rate has gone up from 45% in 2007, figure 3 shows that a particularly large group of companies has a very low success rate of less than 20%. Apparently many companies still underestimate the difficulties of doing business internationally. This is corroborated by the fact that the use of tools for managing cross-cultural alliances is limited.

In line with the increased success rates, the respondents are extremely positive about the value that alliances deliver and will deliver in the future. Figure 3 shows that 49% of the respondents stated that less than 40% of the value of their company depended on alliances in 2008, while 51% stated this percentage is higher than 40%. This already beats the expectation companies had two years ago in our previous study. Two years ago they expected that this contribution to market value would not be realized until after 2011. For 2013, 61% of the companies expect alliances will generate more than 40% of the company market value.

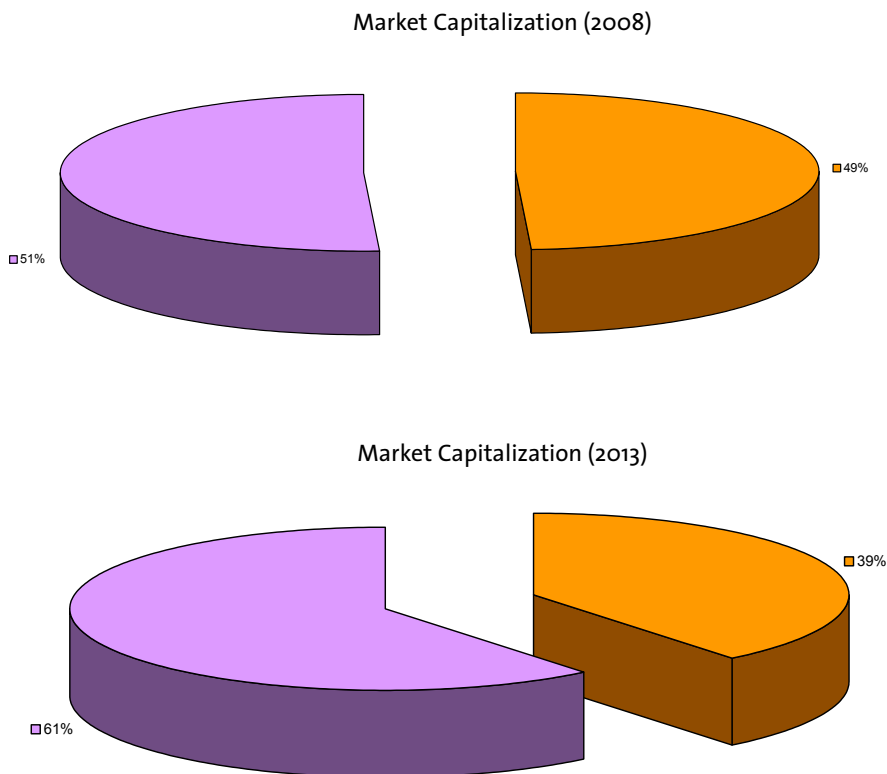


Figure 4: Contribution of alliances to company market value

3. The investments in alliance management are stable

Figure 5 shows which alliance management tools were the most implemented. Except for some minor differences, this list is the same as in 2007. This is an indication that companies have not radically changed their investment in the number and type of management tools and processes they invest in. The least used tools were: alliance management is a part of the management development programme (36%), gatekeepers (35%), culture programmes (30%), financial experts (27%), mediators (13%).

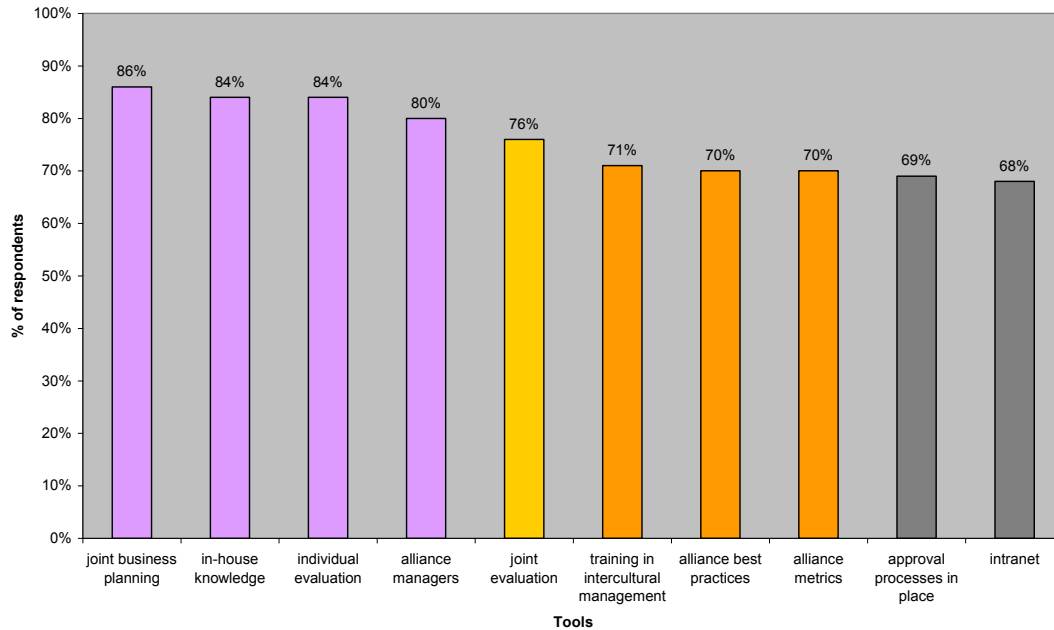


Figure 5: The top ten most frequently used tools

The conclusion that investments in alliances are stable is further supported by looking at the number of fulltime (figure 6) and part time (figure 7) alliance professionals companies employ. Again, there are only minor differences with previous years. The most important difference is that the number of companies that employs no fulltime alliance professionals has increased somewhat from 9% till 14%.

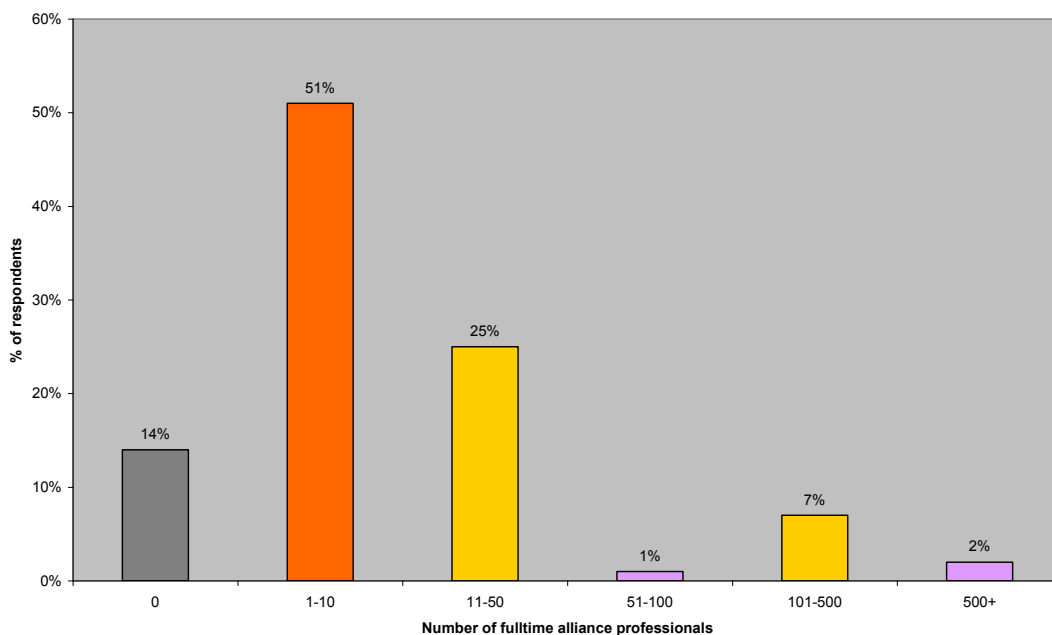


Figure 6: Fulltime alliance professionals employed

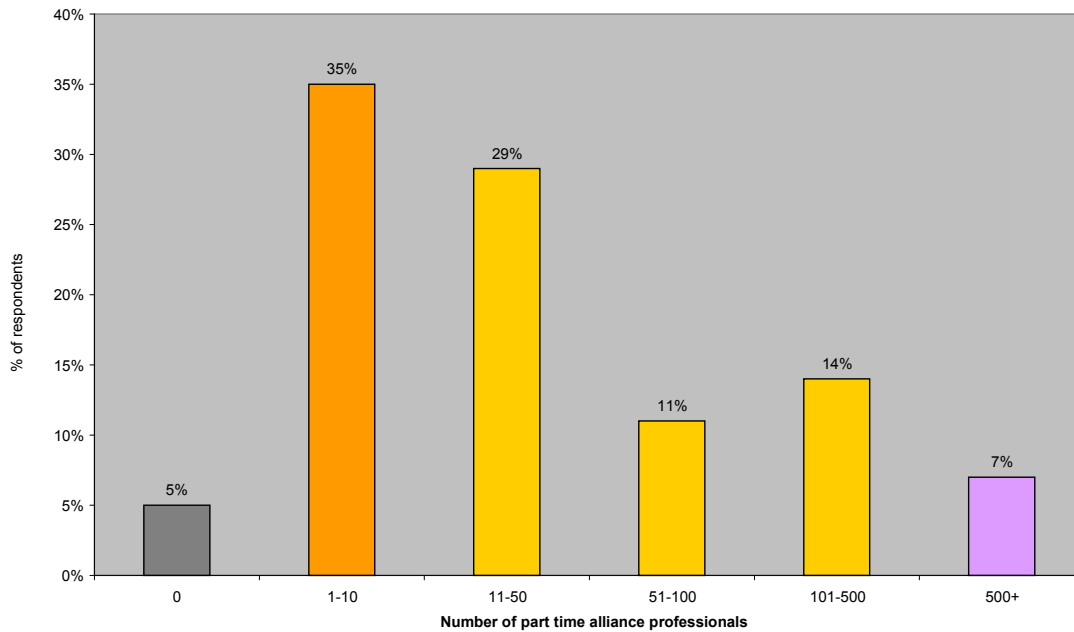


Figure 7: Part time alliance professionals employed

4. Europe invests more than the USA

In the First State of Alliance Management Study, American companies invested twice as much in alliance management as European companies. Two years ago, the second study showed that European companies had caught up with their American counterparts. This study shows that European companies now invest more than American companies (see table 3). On average the American companies make about the same investments as they did two years ago. The European companies have continued to increase their investment.

| Tools | Europe | USA |
|---|--------|-----|
| Alliance best practices | 71% | 71% |
| Alliance database | 59% | 48% |
| Alliance handbook | 49% | 35% |
| Alliance management is part of the management development program | 42% | 34% |
| Alliance metrics | 78% | 68% |
| Competency framework for alliance managers exists | 45% | 44% |
| Cross-alliance evaluation | 56% | 49% |
| Culture programme | 38% | 27% |
| External alliance training | 46% | 46% |
| In-house alliance training | 55% | 53% |
| Individual evaluation | 92% | 82% |
| Intranet | 79% | 67% |
| Joint business planning | 96% | 85% |
| Joint evaluation | 85% | 74% |
| Partner portal | 65% | 62% |
| Partner programmes | 83% | 64% |
| Standard partner selection approach | 67% | 62% |

| Functions | | |
|--|-----|-----|
| Alliance department | 63% | 62% |
| Alliance managers | 88% | 78% |
| Alliance specialist | 74% | 55% |
| Gatekeeper | 27% | 39% |
| Vice-president of alliances or Chief Alliance Officer | 61% | 42% |
| Processes | | |
| Approval processes in place | 73% | 68% |
| Rewards and bonuses for alliance managers are tied to alliance success | 76% | 54% |
| Rewards and bonuses for business managers are tied to alliance success | 46% | 43% |
| External parties | | |
| Consultants | 51% | 44% |
| Financial experts (like investment banks, accountancy firms etc.) | 29% | 24% |
| Legal experts | 40% | 49% |
| Mediators for conflict resolution | 7% | 15% |

Table 2: European vs. American Alliance Management

European companies may need that extra investment. With 53% their success rate is still 4.5% lower than the success rate realized by American companies (see figure 8 for success rates in Europe and the USA). Partly this may be caused by the less extensive experience they have with alliances; partly perhaps because they have more international alliances.

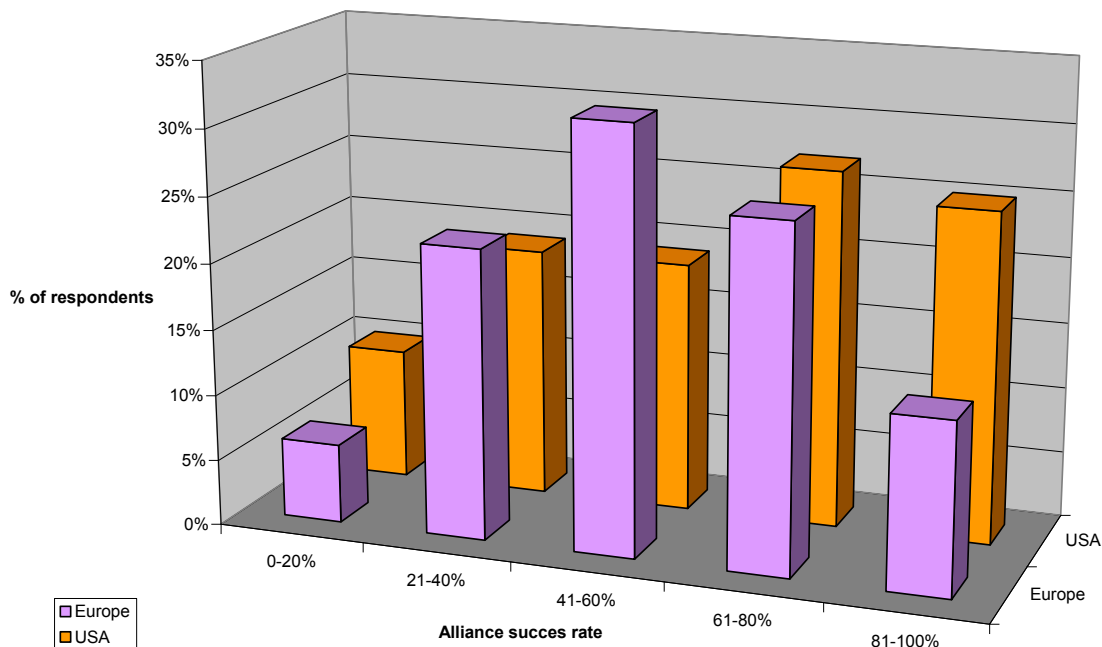


Figure 8: Success rates in Europe and the USA

5. Alliances and innovation: facts and best practices

This year's special theme was dedicated to alliances for innovation. R&D alliances, technology development alliances or innovation alliances are the second most important alliance type after marketing alliances. This year there was a small increase in alliances aimed at innovation (see figure 9).

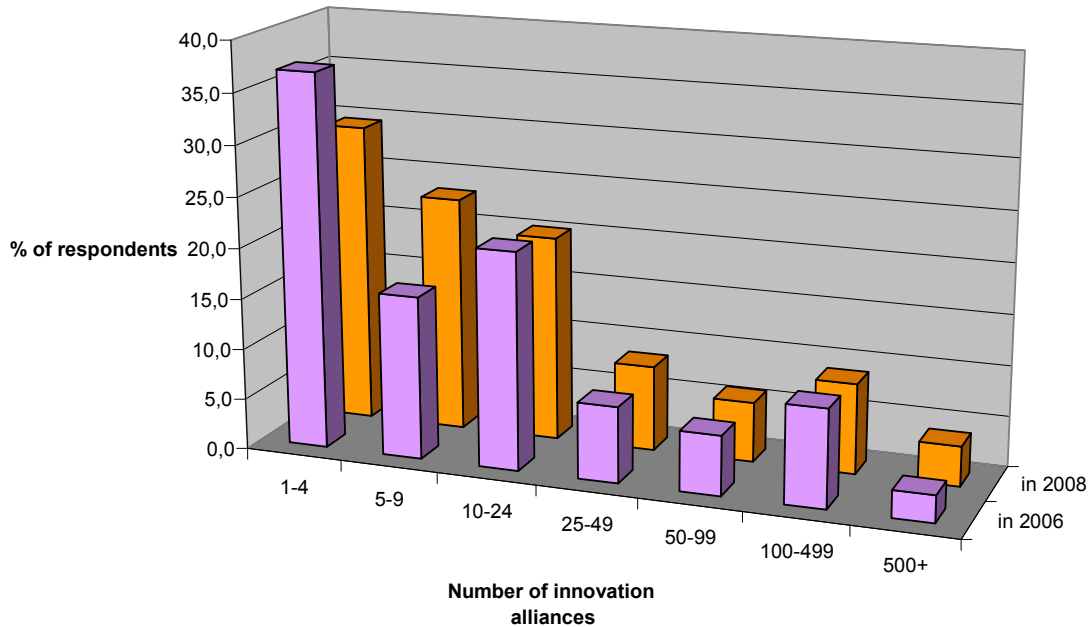


Figure 9: The number of innovation alliances

The success rates of these alliances are low. Our respondents report on average only a 40% success rate. This shows how difficult it is to manage alliances that aim at innovation. Another telling figure is that 44% of the respondents did not know the success rate of their innovation alliances. Apparently it is difficult to measure their success. In our study we measured the innovation success of the company by asking for the percentage of sales that was generated by new products.

Most innovation alliances are vertical. They are set up in the value chain, either with suppliers or clients (see table 3). Horizontal alliances make up 32% of innovation alliances and 15% of the innovation alliances are set up with a university or research institute.

| Type of partner | Frequency (%) |
|---|---------------|
| A supplier, a client or a customer | 42% |
| A competitor or another company in your industry | 32% |
| A university, another higher education institute or a public research institute, a commercial lab or a private R&D institute | 15% |
| Another kind of partner (e.g. a company of another industry) | 16% |

Table 3: Types of partners involved in innovation alliances

Do companies use these alliances to explore new technologies and engage in radical innovation or do they aim to exploit technologies and engage in incremental innovation? Table 4 gives the answer. Both in Europe and the USA two thirds of alliances are of an exploitative nature. Still, a third of the alliances aim to develop or learn about radical changes in technology.

| Alliance type | Europe | USA |
|--|--------|-----|
| Explorative innovation alliances | 32% | 33% |
| Exploitative innovation alliances | 68% | 67% |

Table 4: Explorative and exploitative innovation alliances

Looking at the low success rates of innovation alliances, the question is whether some approaches to managing them are more effective than others. We found two elements that had an impact on the success of innovation alliances (summarized in table 5). First of all companies that use different, specialized alliance functions tended to perform better. When different persons manage different aspects of innovative alliances or different phases of such alliances that is more effective than when one person handles the entire alliance. Companies that have such specialized alliance managers create more products that are completely new to the market. At the same time it helps them to generate sales from products that already exist in the market but are new to them. By means of imitating, co-marketing or licensing other companies' products, these companies generate revenue from inventions done by others. With many different alliance functions in place, companies can spot more of such opportunities.

Next, using hierarchical means to coordinate innovation alliances also has a positive impact on sales generated by products new to the firm. For example, having one centralized office to coordinate alliances may help to spot knowledge or products from partner A that can be sold to or with partner B. In order to create such synergies in the alliance portfolio, a centralized overview of alliances is needed.

| Item | Finding |
|-----------------------|---|
| Specialization | Companies that have a large variety of alliance functions generate more sales from products that are both new to the market and new to the firm than companies that do not have such a variety. |
| Hierarchy | Companies that centralize decision-making power with regard to alliances generate more sales from products that are new to the firm than companies that do not centralize decision-making. |

Table 5: Managing innovation alliances

Highlights

- Alliance success rates have increased from 50% in 2007 to 57% in 2009.
- The contribution of alliances to the stock market value has increased significantly and is expected to increase even further.
- On average the investment in alliance management has stabilized.
- But European companies now invest more in alliance management than American companies.
- With a 49% success rate, international alliances are much less successful than domestic alliances.
- But the lowest success rate is reached with innovation alliances: 40%.
- Specialized alliance functions and more central coordination may help to increase the success rate of innovation alliances.

