How Strongly Will a United Europe Lead to Strategic Alliances?

by
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1. Strategic Alliances and Economic Globalization

Economic globalization and strategic alliances often go hand in hand. In view of shortened product cycles, the goal is to gain entrance into foreign markets that carry sufficient potential for retrieving the costs of research, development and production.

A look into the past clearly shows the development. In the 1960's and '70's, the German economy grew through exports. During this time, the German automobile industry, machine manufacturing and electrotechnic industries exported 60% of their products. Traditionally, the chemical industry has also been a large exporter. The high foreign market share, however, could not be held indefinitely through exports alone. Thus, many companies set up sales organizations abroad, which often developed into assembly and fully integrated production plants. As a result, by 1980 German direct investment abroad reached the level of foreign investment in Germany for the first time since the end of World War II.

The foreign investors had been mostly American companies in the 1950's and '60's. Recently, the balance sheet of creditor and debtor positions shows a surplus of German investment expenditures abroad in the range of DM 90 billion over foreign capital investment in Germany. The desire for growth and worldwide competitive economic capability was and is an important catalyst for internationalization, be it for the market, production or procurement of components. If this does not happen through foreign subsidiaries, then strategic alliances are seen as a vehicle. In this case, various means can service the potential of cooperating enterprises.

2. Types of Strategic Alliances

The most binding type of alliance is the acquisition of one enterprise by another. This is the traditional model that came to a peak at the end of the 1980's in the U.S. through large corporate takeovers and buyouts. The motives were not always the utilization of business potential, but rather the quick realization of financial benefits.

At the other end of the spectrum, a strategic alliance can be the pursuit of a common goal that two enterprises have for a time, for instance, a traditional collaboration for completing a project. A specific example is the joint development of the super chip by IBM, Toshiba and Siemens, who wanted to spread the immense costs of research and development of the 256 megabit chip over a broader base and bring it to the market before the competition. Cost reduction and time savings were the motives for this alliance. Another type of strategic alliance is the exchange of components, e.g. the use of the same engine and transmission by various automobile manufacturers. This type of alliance does not require capital investment by the companies involved. A further example is the current discussion between intermediate size airlines such as Swissair, SAS, KLM and Austrian Airlines. The goal is to increase the companies' profitability through common route planning and more economical installation of flight crews. Another well-known type of strategic alliance which has been a time-proven example of international division of labor is contract production. This is commonly practiced by apparel manufacturers. Apparel design and pattern making takes places within the company, fabric is purchased centrally, and assembly is done in countries where there is a sufficiently large work force, namely in north African Mediterranean countries, Portugal and a few eastern European countries.

Other types of alliances not involving capital investment have arisen among acquisitions and the above mentioned cooperative alliances, such as joint ventures and mergers. When two companies bring their respective areas of expertise together to form a special company, this is referred to as a joint venture. The Bosch-Siemens Household Appliances GmbH is an example. In the same vain, but more encompassing, is the merger between two companies which incorporates all respective business areas. A prominent example is ABB.

3. Company Size and the Right Type of Alliance

If an objective can clearly be defined and the means is clear and simple, then alliances are also an option for smaller enterprises. Purchasing organizations are an example of this. Small businesses, however, can be presented with a large challenge as an alliance becomes more complex and requires operational organization and management structure. Currently, there are vertical cooperations in the automobile supply industry so that it can comply with standards set by the automobile industry for coordinating parts delivery for assemblies and components. It should be remembered here that goal-setting by the customer - in this case, the automobile industry - is subject to dynamic processes and that demands may change in either direction as the occasion arises. Today's cooperative solution may not work tomorrow and a different organizational structure or even a merging of enterprises may be required. As far as who should form a strategic alliance with whom in the narrow sense of the word, big businesses tend to align with each other. The discussions between Mitsubishi and Daimler-Benz are an example, which will also demonstrate how much persistence and stamina are necessary to show tangible effects of such strategic alliances.

4. Where is the Trend Heading?

From an economic viewpoint, the market within the European Economic Community and that of the Nafta countries will continue to grow together.

The European market has around 350 million people. The Nafta market (North American Free Trade Agreement) is comparable with approximately 360 million people.

Various local factors such as labor costs and tax burden as well as licensing procedures for planned sites, qualification procedures for new products and liberties in research and development will further increase the mobility of these large economic blocks. Based on structure already set in place, hardly another country is as well prepared for this as the German economy. Even among small businesses there are few companies that do not have an international connection on either the selling or purchasing end. This trend in internationalization will strengthen. Enterprises will primarily grow further under their own power, then will follow selective sharing in capital and acquisitions of entire enterprises. Both of these measures ensure guidance and direction of operating activities just when it becomes important: when the next bad weather front rolls in and one must act according to the axiom, "one will, one pocket book". Strategic alliances with no capital investment should take place between balanced partners who are each in the position to return to its core business if there is a setback, without having to rely on the goodwill of the other partner. Some of the existing strategic alliances today will eventually lead to a merger or takeover by the economically stronger partner. An instance of this is the structure of the European airlines, or even the small manufacturers of semi-trailer trucks such as DAF, MAN and Scania. The more difficult the economic situation in a branch of business or industry, the less suitable are strategic alliances with no capital connections. Strategic alliances demand substantial management activity, because the ability to function successfully relies solely on consensus building. They lack the potential influences of partner's rights, which fundamentally makes them susceptible and instable. The prime objective for a small business and its owner is to select an alternative that allows negotiation from a strong, thus advantageous position. Better to negotiate from a position of strength now than perhaps to be in a restricted negotiating position in five years.

Frankfurter Allgemeine Zeitung on 26.04.1993

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