The Impact of IT on Strategic Alliances

**Defined**

“The joining of efforts & resources by 2 or more partners”

Strategic Alliances

- Have been around for as long as businesses have existed
- Phoenician merchants set up joint ventures to limit their risks in overseas trade
- In recent years we have seen a surge in the number of alliances
- Leading firms are changing the way they do business beyond their corporate boundaries

Impact of Information Alliances

- 1980’s - record number of takeovers & buyouts
- 1990’s - alliances between arch rivals that would have seemed unthinkable in the past
- Eg. IBM & apple computers

Why Alliances?

- Firms seek to reduce competition or maintain profits
  - Eg. Consolidation of the banking industry in early 1990’s created system of fewer, larger banks
- May also serve purpose of reducing risk
- Brings together complimentary resources in development of products & taking them to market
- Fostering organisational learning & transfer of knowledge between firms
Types

Defensive
- Fend off threats from competitors or new market entrants

Aggressive
- Harness opportunities & build profit & market share

Knowledge-based Alliances

- Traditional forms of alliances focused on sources of wealth of classical economies - land, labour, capital
- Knowledge now another source of equal importance
- Huge impact on inter-relations of firms
- Collaboration helps firms learn from each other
- Accelerates the movement of knowledge

Links

Knowledge links
- Co-operative arrangement with explicit intent to create new knowledge or fostering inter-organisational learning

Product links
- Company relies on ally to manufacture part of its product line or components
  - Eg. Japanese car manufacturing industry

Migration of Knowledge

Migratory
- Moves very quickly
- Encapsulated in formula's, designs, manuals, books or in pieces of machinery

Embedded
- Moves slowly
- Resides in social relationships
- Team, department or company has knowledge embedded in its organisation & procedures

Information Intensity of Products

- Increasing role of information & IT directly affects products & services
- Continually require more information to produce
- More information to be imbedded in/bundled with product or service

Information Intensity of Products Cont.

- More technology required to distribute & market
- Forces firms into co-operative relationships to install supporting systems
- Brings together 'added information & technology' required to deliver 'value-add' to customer
IT Infused Products

Firms can differentiate services by means of IT
- Eg. Blue cross/blue shield - health insurance co in US

Point of service plan using IT
- Integrated claims system for hospitals, physicians, pharmacies & subscribers
  - Eg. Technology-assisted of automated customer service options

Bundling Products/services

Eg. Citicorp -
- Bundles many services with visa credit card
- Joint program with American airlines
- Also Qantas/Telstra/visa plus airline, accommodation & other partners - frequent flyer program

Customised Products

- IT reduces switch over costs in manufacturing processes
- Lowers breakeven quantity in production series
- Brings products & services from related markets closer together
  - Eg. McGraw-hill's publishing system customises textbooks for individual courses

Impact of IT on Alliances - The Evolution of IOS’s

- Sharing of computerised information &/or company systems between 2 or more separate companies
- Strategic tools for companies
  - Eg. BHP - rationalised their supplier base through use of EDI

Waves of computerised systems
- Includes full-fledged IOS’s (EDI) & ECSS

Electronic Channel Support Systems

Acquiring, creating, distributing & presenting knowledge rather than just data or information between organisations

5 Levels of Participation

- Strategic focus shifts with each level of user participation
- Level 1 - access to a system run & operated by other companies
- Level 2 - participants design, develop, maintain & share single application (eg.Customer order system)
- Level 3 - participants take responsibility for network in which lower level participants share (eg.Manufacturer/dealer networks)
ECSS’s Cont.
- Level 4 - participants develop & share network with diverse applications used by many different types of lower level participants (eg. Automated clearing house)
- Level 5 - any no. Of lower level participants integrated in real-time over complex operating environments (eg. Automated manufacturing facility)

Electronic Markets
- Allow buyers & sellers to exchange information about market prices & product offerings through computerised system
- Replaces traditional intermediaries

Electronic Markets
- New IT-based intermediaries or service providers emerge to sponsor the market
- Reduces cost & time required to acquire price & product information
- Allows buyer to consider large number of offerings from many different suppliers

Electronic Markets Cont.
- Buyer benefits in 2 ways
  - Lower prices due to increased competition among sellers
  - Better informed about available products & choose sellers who better suit needs
- Follow stages of development like other systems

Electronic Markets Cont.
- Evolve from non-electronic markets through intermediate stage of ‘biased’ electronic market
- Sponsors ‘bias’ system in favour of own products
  - Eg. SABRE
- Progress to unbiased system & on to ‘personalised’ systems

Organisational Impact of IOS’s
- Shift from organisational hierarchies to markets
- IT creating the shift
- Highly specific products can be produced & delivered more quickly & at lower cost
- Due to automated design & manufacturing & computerised inventory systems
Value-adding Partnerships

- Alliances of small companies able to position themselves to realise advantages of vertical integration through formation of VAP's
- Concept that each partner in the chain has a stake in the other's success

Move from adversarial view to co-operative view of partners on the supply chain

VAP's can secure benefits of economies of scale by sharing purchasing services, warehouses, R&D centres & information

Implications of Inter-organisational Computing

- Firms must recognise the information & knowledge embedded in structure of the firm, its products & delivery channels as source of value
- Competitive leveraging of IT a strategic necessity
- Such leveraging requires co-operative agreements with suppliers, customers, competitors & intermediaries
- IOS's are a strategic necessity & part of infrastructure of many industries

Before committing to an alliance firms should assess the values, commitment & capabilities of prospective partners

Firms must structure & manage alliances like separate companies

Implications of Inter-organisational Computing

- Firms information infrastructure is a central asset in any electronic integration initiative
- In developing systems requiring IT with very large development costs firms should seek to hedge risks & costs through alliances with other firms

Next Module Strategy and Policy