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HIGH-PERFORMING ALLIANCE PORTFOLIOS

Forming Ties That Will Free Your Firm

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In early 2009, Telefónica became the first operator in Spain to launch a new mobile device equipped with Google's Android operating system, enabling greater Internet access and popular Google applications via mobile handsets using open-source software. Android has attracted much media attention since its formation in 2007. The business vision is to create a broad multinational coalition of technology and wireless companies to provide, in the words of the founders, "a new level of openness that enables [us] to work more collaboratively [and thereby] accelerate the pace at which new and compelling mobile services are made available to consumers." Nearly 50 companies make up the Open Handset Alliance, from mobile operators like Telefónica and Vodafone, to semiconductor companies like Intel and Texas Instruments, to handset manufacturers like Motorola and Sony Ericsson, to software companies like eBay. Each is committed to "innovating in the open" by leveraging each other's resources and market positions in order to give end users a better experience, faster and at lower cost.

Google's mission – to organize and connect – is shared by many firms that rely on their portfolios of ties to enhance their market position. Research shows that alliance portfolios with certain characteristics can bring a high level of benefits. For example, prominent, resourceful and experienced partners improve the likeli-

hood that firms will reap benefits, which makes sense. Having diverse partners, in the biotech industry especially, increases flexibility and enhances performance, which also makes sense.

But when it comes to which are the best *types of ties* to have, the results are less straightforward. One study found that strong ties – enjoying high levels of collaboration and communication – were better for exploiting knowledge in stable environments, like the steel industry, whereas weak ties – maintaining a certain degree of distance in the relationship – were better for exploring new knowledge in dynamic environments, like the semiconductor industry. Meanwhile, a study of garment firms in New York found that retailers performed better when their connections included a mix of ties, both strong ones and weak ones alike.

All of which may leave many managers scratching their heads. Knowing what an ideal alliance portfolio should look like (diverse, experienced, resource-rich partners!) is not the same as knowing how to actually go about forming one. Life may be easy for well-endowed firms that can use their superior resources and numerous references to attract and juggle multiple partners in a successful way. However, this rich-get-richer view of alliances does not provide anyone with a realistic picture of how an average firm can obtain and manage a high-performing alliance portfolio.

EXECUTIVE SUMMARY

Strategic alliances provide opportunities to strengthen your market position, gain new capabilities and resources, and enable you to grow and expand during difficult times. Many large, highly resourced companies already know this and are leveraging it to their advantage. But how can a small firm with fewer resources obtain and manage a high-performing alliance portfolio? Getting the alliance portfolio you dreamed of, and then managing it well over time, is not as impossible as it may seem, provided that you act early, make multiple approaches to various partners, give sequential attention to each, and generally avoid alliances with competitors. An analysis of U.S. wireless firms, as well as a survey of 113 joint ventures worldwide, yields some salient lessons that increase the likelihood of obtaining high-performing alliances for your firm.

In this article, we describe some strategies that firms can employ, first to win over potential partners, and then to manage the portfolio in order to extract the maximum advantage. Our findings are based largely on a study of entrepreneurial firms founded between 1999 and 2002, a period that marked the emergence of the wireless gaming sector in the United States. Our sample was diversified by geography (firms based in the San Francisco, Los Angeles and Seattle areas), entry date into the market, makeup of founding team members and investors, and prior connections to the industry, thus reinforcing the robustness and generalizability of our results. Though we talk about specific firms here, we feel they reveal universal strategies, particularly as the market conditions they faced – characterized by frequent change and extreme ambiguity – are in keeping with the current market context that many different types of firms are also facing today. So as not to be distracted by the specific firms involved, for the purposes of this article, we have made up fictitious company names. By learning from their example, you may be able to increase the likelihood of obtaining high-performing alliances for your own firm.

Creating Your Dream Portfolio

We start by describing the alliance formation process. Many executives think that small or new firms are limited, by default, in their offer to established partners and will, therefore, have difficulties forming an alliance with their dream partners. We find that this is not always the case. When setting out to form an alliance with the big shots in your industry, there are two key considerations: Act early and approach multiple potential partners simultaneously.

1. ACT EARLY. Nascent markets are a great time to form alliances. In fact, approaching potential partners early in the emergence of a market increases the likelihood of firms building a strong portfolio. During this period, high market ambiguity and low competition work in favor of smaller firms, especially entrepreneurial ventures, which would normally lose out to the competition in gaining valuable face time with prominent firms. Since most lack a clear vision of what the new market will look like, executives can take advantage of this by meeting with potential partners and then promoting and selling a vision of the future in which both parties play central roles. Then, through frequent interac-

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> Executives can take advantage of market ambiguity by selling their own vision of the future, which structures the alliance, reinforces ties and impedes rivals.

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tions while working together, executives can deepen these relationships before market competition intensifies.

Let us consider this phenomenon in the case of the company we call *Starclick* (company names in *italics* indicate they have been changed to protect their true identities). During the emergence of the wireless gaming industry, no one had any clear understanding of the industry architecture. As one CEO explained, "Many people had a vested interest in succeeding, but nobody knew who or what would help them succeed."

Starclick executives began by talking with several firms and promoting their own vision for the industry, terming it the "market ecosystem." Their vision relied on strong collaboration between carriers, platform developers and publishers, not handset makers, to develop the industry. When *Starclick* approached Qualcomm and Verizon Wireless with this idea, all parties were intrigued, because such an ecosystem would enable them to focus on their own businesses: Qualcomm needed applications to prove that the platform worked; Verizon needed applications to sell, because the platform alone wasn't interesting; and *Starclick* brought its games to the table. *Starclick*'s blueprint defined the partners' subsequent interactions, and their ties became strong. "We had access to very senior people," said one *Starclick* VP. "We got to be very close."

Strong ties, formed early, do something else important: They stymie and often block competitors from gaining or strengthening ties to the original partners. Because of its strong, early ties, *Starclick* gained exceptional marketing and codevelopment opportunities on a regular basis, so much so that one rival complained: "*Starclick* gets anything they want. It's unfair to the rest of us." Throughout our study, *Starclick* remained the No. 1 publisher on this carrier and platform provider.

This example illustrates an effective strategy. First, by passionately advocating a clear vision to multiple firms, a focal firm can mobilize less prescient partners to act in concert and distribute the risks of pioneering a new market. Second, signing up to a vision structures the consequent collaboration *after* alliance formation; firms are more motivated to collaborate and draw closer to realize their common vision. This, in turn, reinforces partner ties and impedes rivals from getting close to protected partners.

This finding is generalizable to many settings in which industries give birth to new sectors where the business model is immature and the business environment is ambiguous. VeriSign, an entrepreneurial firm in the Internet security business, did something similar in the late '90s when it convinced prominent players such as Netscape, IBM, Microsoft and Visa to form an ecosystem around digital security, and has since enjoyed a dominant position.

2. APPROACH MULTIPLE POTENTIAL PARTNERS SIMULTANEOUSLY. When considering forming an alliance, many executives take the methodical approach: They start by identifying potential partners whom they hold in high regard – either in terms of their perceived importance, or familiarity with them through prior business dealings – and then proceed to work through their wish list in order, going sequentially from one partner to the next, forming alliances as they go, one after the other. Research shows this seems to be the typical modus operandi.

Yet our data indicate that firms are more likely to build a strong alliance portfolio if executives approach diverse types of partners *simultaneously*, not sequentially. One of the U.S. wireless firms we studied, *Mobilate*, overcame its late entry into the market by employing this kind of strategy.

When *Mobilate* began in 2002, the industry was clarifying, and many potential partners already had ties. As a *Mobilate* founder explained, "[Potential partners] had their favorites picked out. They didn't even want to talk to anyone else."