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Alliances and acquisitions are alternative strategies—that is, the decision to do one usually implies not doing the other. If companies actually factored that into their decisions, they would make better deals.

When to Ally and When to Acquire

by Jeffrey H. Dyer, Prashant Kale, and Harbir Singh

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When to Ally and When to Acquire

The Idea in Brief

Many companies view acquisitions and alliances as interchangeable strategies for spurring growth. But each strategy has unique advantages and disadvantages. Firms that ignore those differences risk acquiring companies they should have collaborated with or allying with those they should have bought.

To escape this fate, know when to use each strategy. Dyer, Kale, and Singh advise basing your choice on the types of synergies you want, the type of resources you'll need to combine, and market conditions. For instance, if you want to generate synergies by combining your and another company's workforces, forge an alliance. Why? Acquisitions often spark a talent exodus in target firms. But if you're combining manufacturing plants to gain synergies, go with acquisition so you control economies of scale.

Cisco discovered the advantages of knowing when to acquire or ally. Over ten years, it purchased 36 firms *and* entered into 100+ successful alliances. Its market capitalization grew 44% every year.

The Idea in Practice

Synergies		
If…	Consider this strategy…	Example
You want *sequential synergies* (one company completes tasks and passes the results to a partner to do its part)	Equity alliance (one company invests in an equity stake in the other)	Bristol-Myers Squibb took a 20% equity stake in ImClone in return for the marketing rights to ImClone's cancer-fighting drug, Erbitux, and 40% of annual profits.
You seek *modular synergies* (managing resources independently and pooling results for greater profits)	Nonequity alliance	An airline and a hotel chain agree to let hotel guests earn frequent-flyer miles. By connecting consumers' choices of airline and hotel, both organizations benefit.
You want *reciprocal synergies* (both firms execute tasks through close knowledge sharing)	Acquisition	Exxon and Mobil knew they had to boost efficiency throughout their value chain to stay competitive. They could do this only by combining all assets and functions. So they merged.
Resources		
If…	Consider this strategy…	Example
You must combine *hard resources* (e.g., manufacturing plants) to get desired synergies	Acquisition	To generate economies of scale, home-improvement company Masco quickly scales up its acquired firms' manufacturing capacity.
You must combine *soft resources* (e.g., workforces) to get synergies	Equity alliance	A commercial bank buys an equity stake in a securities firm rather than acquiring it, knowing that the bank's culture and compensation structure could drive key securities firm employees out the door.
You estimate being saddled with *extensive redundant resources* after collaborating with another organization	Acquisition	When computer makers Hewlett-Packard and Compaq merged, they aimed to save $2 billion in the first year by eliminating redundancies across every function.
Market Conditions		
If…	Consider this strategy…	Example
The new entity will face *high market uncertainty* (e.g., you're unsure whether consumers or regulators will embrace or support it)	Nonequity or equity alliance	Bristol-Myers Squibb lost $650 million when its equity alliance partner ImClone's drug Erbitrux failed an FDA review. But it would have lost $3.5 billion if it had previously decided to acquire ImClone.
You'll have *rivals* for potential partners	Acquisition	Pfizer initially allied with Warner-Lambert to make Lipitor (Warner-Lambert's untried cholesterol-reducing drug) a blockbuster. Pfizer wanted a closer relationship with Warner-Lambert, ultimately acquiring it after other companies expressed interest in it and submitted bids.

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Alliances and acquisitions are alternative strategies—that is, the decision to do one usually implies not doing the other. If companies actually factored that into their decisions, they would make better deals.

When to Ally and When to Acquire

by Jeffrey H. Dyer, Prashant Kale, and Harbir Singh

At the core of your company's strategy lies a dilemma, wrapped in a problem, inside a challenge. As companies find it increasingly tougher to achieve and sustain growth, they have placed their faith in acquisitions and alliances to boost sales, profits, and, importantly, stock prices. That's most evident in developed countries. American companies, for instance, created a titanic acquisitions and alliances wave by announcing 74,000 acquisitions and 57,000 alliances from 1996 through 2001. During those six years, CEOs signed, roughly, an acquisition and a partnership every hour each day and drove up the acquisitions' combined value to $12 trillion. The pace of collaboration has slowed since then. U.S. firms struck only 7,795 acquisitions and 5,048 alliances in 2002 as compared with 12,460 and 10,349, respectively, in 2000, according to data from Thomson Financial. But as companies gear up for greater growth, collaboration is once again high on priority lists. In fact, firms clinched more acquisition deals (8,385) and alliance agreements (5,789) in 2003 than in the previous year.

There's a problem, however, and it refuses to go away. Most acquisitions and alliances fail. A few may succeed, but acquisitions, on average, either destroy or don't add shareholder value, and alliances typically create very little wealth for shareholders. Companies' share prices fall by between 0.34% and 1% in the ten days after they announce acquisitions, according to three recent studies in the *Strategic Management Journal*. (The target companies' stock prices rise by 30%, on average, implying that their shareholders take home most of the value.) Unlike wines, acquisitions don't get better over time. Acquiring firms experience a wealth loss of 10% over five years after the merger completion, according to a study in the *Journal of Finance*. To add to CEOs' woes, research suggests that 40% to 55% of alliances break down prematurely and inflict financial damage on both partners. When we analyzed 1,592 alliances that 200 U.S. companies had formed between 1993 and 1997, we too found that 48% ended in failure in less than 24 months. There's plenty of evidence: Be it the DaimlerChrysler

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merger or the Disney and Pixar alliance, collaborations often make headlines for the wrong reasons. Clearly, companies still don't cope very well with either acquisitions or alliances.

What *are* we missing? For more than three decades, academics and consultants have studied acquisitions and alliances and written more tomes on those topics than on virtually any other subject. They've applied everything from game theory to behavioral science to help companies "master" acquisitions and "win" at alliances. They've worshipped at the altars of firms that got the stray acquisition or alliance right.

Surprisingly, although executives instinctively talk about acquisitions and alliances in the same breath, few treat them as alternative mechanisms by which companies can attain goals. We've studied acquisitions and alliances for 20 years and tracked several over time, from announcement to amalgamation or annulment. Our research shows that most companies simply don't compare the two strategies before picking one (see the exhibit "Practicing Versus Preaching"). Consequently, they take over firms they should have collaborated with and ally with those they should have bought, making a mess of both acquisitions and alliances.

It isn't difficult to see why companies don't weigh the merits and demerits of acquisitions and alliances before choosing horses for courses. The two strategies differ in many ways. Acquisition deals are competitive, based on market prices, and risky; alliances are cooperative, negotiated, and not so risky. So companies habitually deploy acquisitions to increase scale or cut costs and use partnerships to enter new markets, customer segments, and regions. Moreover, a company's initial experiences often turn into blinders. If the firm pulls off an alliance or two, it will forever insist on entering into alliances even when circumstances demand acquisitions. Organizational barriers also stand in the way. In many companies, an M&A group, which reports to the finance head, handles acquisitions, while a separate unit, headed by the business development director or VP, looks after alliances. The two teams work out of different locations, jealously guard turf, and, in effect, prevent companies from comparing the advantages and disadvantages of the strategies.

Some of the world's most admired companies haven't developed a sophisticated enough understanding of when to acquire or ally with other firms. For instance, Coca-Cola and Procter & Gamble announced in February 2001 that they would create a $4 billion joint venture that would control 40-plus brands and employ more than 10,000 people. Coke would transfer Minute Maid, Five Alive, Fruitopia, Cappy, Kapo, Sonfil, and Qoo brands, among others, to the new company, and P&G would contribute two beverage brands, Sunny Delight and Punica, and Pringles chips. Coke would tap P&G's expertise in nutrition to develop new drinks, P&G's flagging brands would get a boost from Coke's international distribution system, and the new company would slash costs by $50 million, ran the prepared script. Yet Coke's stock dropped by 6% the day the alliance was announced, while P&G's shares rose by 2%. Investors wondered why Coke had agreed to share 50% of the profits from a fast-growing segment with a weak rival in its core business. The unspoken question: If Coke needed P&G's soft-drink technologies and brands, why hadn't it simply bought them? It wasn't long before the companies wondered the same thing; Coke and P&G terminated the alliance in July 2001.

Another case in point is Intel, which paid $1.6 billion in cash in October 1999 to buy the $131 million DSP Communications, which manufactures chips for wireless handsets. Although the acquisition allowed Intel to break into the wireless communications market, its stock price fell by 11% over three days after the deal was made. Investors were concerned about the 40% premium that Intel paid for DSP's shares. In addition, people tend to leave high-tech firms when bigger companies absorb them, and technologies get obsolete quickly. Those factors usually trigger postacquisition trauma. Sure enough, Intel lost most of DSP's key people and its biggest wireless customer, Kyocera, when it absorbed the start-up. Intel had to write off $600 million of goodwill by 2003. Should the company have tested the airwaves by initially entering into an alliance with DSP?

Such questions needn't be answered only with the wisdom of hindsight. We've developed a framework that will help companies systematically decide whether they should ally with or acquire potential partners. Our

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research shows that executives must analyze three sets of factors before deciding on a collaboration option: the resources and synergies they desire, the marketplace they compete in, and their competencies at collaborating. Of course, companies must develop the ability to execute both acquisitions and alliances if they want to grow. Knowing when to use which strategy may, however, be a greater source of competitive advantage than knowing how to execute them.

Resources and Synergies

It's the most abused concept in the acquisitions and alliances dictionary, but companies team up to profit from the synergies they can generate by combining resources. Firms bring many kinds of resources to the table: human resources (intellectual capital, for instance); intangibles (like brand names); technological resources (such as patents); physical resources (plants, distribution networks, and so forth); and, of course, financial resources. Whenever companies have to choose between acquisitions and alliances, they must begin the process by examining key resource-related issues.

Types of Synergies. Companies create three kinds of synergies by combining and customizing resources differently. Those resource combinations, or interdependencies, as we call them, require different levels of coordination between firms and result in different forms of collaboration.

First, companies create *modular synergies* when they manage resources independently and pool only the results for greater profits. (The synergies are modular because modularly interdependent resources generate them.) When an airline and a hotel chain plan a collaboration that will allow hotel guests to earn frequent flyer miles, they wish to club the consumer's choice of airline and hotel, so that both benefit from her decision. Companies will find that nonequity alliances are usually best suited to generate modular synergies. For instance, like other companies in the information technology industry, Hewlett-Packard and Microsoft have created a nonequity alliance that pools the companies' systems integration and enterprise software skills, respectively, to create technology solutions for small and big customers.

Second, firms derive *sequential synergies* when one company completes its tasks and passes on the results to a partner to do its bit. In those cases, the resources of the two firms are sequentially interdependent. For instance, when a biotech firm that specializes in discovering new drugs, like Abgenix, wishes to work with a pharmaceutical giant that is more familiar with the FDA approvals process, such as AstraZeneca, both companies are seeking sequential synergies. Companies must customize resources to some extent if they want handoffs between the organizations to go smoothly. According to our research, that will likely happen only if partners sign rigid contracts that they monitor very carefully, or better, enter into equity-based alliances.

Third, companies generate *reciprocal synergies* by working closely together and executing tasks through an iterative knowledge-sharing process. Not only do firms have to combine resources, but they have to customize them a great deal to make them reciprocally interdependent. For companies that desire those synergies, acquisitions are better than alliances. In the mid-1990s, for instance, Exxon and Mobil realized that they would have to become more efficient in almost every part of the

Practicing Versus Preaching

We conducted a survey of 200 U.S. companies in 2002 to find out what executives said about acquisitions and alliances—and what they actually did.

Yes	Question	No
82%	Do you view acquisitions and alliances as two different ways of achieving the same growth goals?	18%
24%	When your company executed its last acquisition, did it consider the alternative of forming an alliance (or continuing the alliance, if it already had one)?	76%
14%	Has your company developed any specific policy guidelines or criteria for choosing between forming an alliance with and acquiring a potential partner?	86%

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value chain, from research and oil exploration to marketing and distribution, in order to remain competitive. The two giants could do that only by combining all assets and functions, and so they merged in 1999 rather than pursuing an alliance.

Nature of Resources. Before settling on a strategy, companies should check if they must create the synergies they desire by combining hard resources, like manufacturing plants, or soft resources, such as people. When the synergy-generating resources are hard, acquisitions are a better option. That's because hard assets are easy to value, and companies can generate synergies from them relatively quickly. Take the case of Masco Corporation, which has grown its home improvement products business by acquiring 150 companies in the past 40 years, 20 of them between 2000 and 2002. After every acquisition, Masco quickly scales up the acquired firm's manufacturing capacity to generate economies of scale, combines the companies' raw materials purchases, and merges distribution networks. By repeatedly using that three-pronged process, Masco has stayed profitable over the years.

Knowing when to use which strategy may be a greater source of competitive advantage than knowing how to execute them.

When companies have to generate synergies by combining human resources, it's a good idea to avoid acquisitions. Research suggests that employees of acquired companies become unproductive because they are disinclined to work in the predator's interests and believe that they have lost freedom. In fact, people often walk out the door after acquisitions. Two studies show that acquirers of companies that had largely soft assets lost more value over a three-year period than did buyers of businesses with mostly hard assets. There's no dearth of examples. When NationsBank (now BankAmerica) picked up Montgomery Securities in 1997, the integration process didn't account for the cultural and compensation differences between commercial and investment banks. Key employees headed for the door, and BankAmerica never benefited from the acquisition.

Not surprisingly, equity alliances may be a better bet than acquisitions in collaborations that involve people. An equity stake allows companies to control the actions of their partners, monitor performance better, and align the interests of the two firms more closely. At the same time, the arrangement avoids the disaffection and mass exodus of employees associated with takeovers. Of course, firms will find it easier to achieve synergies if they can persuade their corporate partners to sell some shares to their key employees. Both the organization and people will then be committed to common goals.

Extent of Redundant Resources. Companies must estimate the amount of redundant resources they'll be saddled with if they team up with other organizations. They can use the surplus resources to generate economies of scale, or they can cut costs by eliminating those resources. When companies have a large amount of redundant resources, they should opt for acquisitions or mergers. That gives executives complete control over decision making and allows them to get rid of redundant resources easily. One of the key drivers of the Hewlett-Packard and Compaq merger, for instance, was resource redundancy. HP and Compaq claimed that they could eliminate redundancies across the value chain, all the way from administration, procurement, and manufacturing to product development and marketing. Their aim was to generate $2 billion of savings in fiscal 2003, and even more in later years. HP and Compaq would not have been able to achieve those results with the most comprehensive of alliances.

To sum up, when companies want reciprocal synergies or have large quantities of redundant resources, whether the assets are hard or soft, they must think in terms of acquisitions. At the other end of the spectrum, when businesses desire synergies from sequential interdependence and are combining mostly soft assets, equity alliances may be the best bet. When companies want to generate modular or sequential synergies, and the assets that will create them are mostly hard, like factories, they can choose contractual alliances. For instance, Toys R Us knows how to spot hot toys, while Amazon uses online selling and order-fulfillment skills to sell them to customers. Because the duo wanted to generate sequential synergies with hard assets, a contractual alliance between Toys R Us and Amazon has worked well for both companies.

Market Factors

Many companies believe that collaboration decisions are internal matters. They don't take into account external factors before picking strategies—and invariably fall victim to market

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forces. Companies should consider exogenous factors, like market uncertainty and competition, even if they can't control them.

Degrees of Uncertainty. Executives know that collaborations between companies are inherently risky, but don't realize that they've become downright uncertain in a fast-changing world. Risk exists when companies can assess the probability distribution of future payoffs; the wider the distribution, the higher the risk. Uncertainty exists when it isn't possible to assess future payoffs. Companies are forced to decide how to team up with other firms, especially small ones, without knowing whether there will be payoffs, what they might be, and when the benefits might come their way.

Before entering into an acquisition or alliance, companies should break down the uncertainty that surrounds the collaboration's outcome into two components. First, managers must evaluate the uncertainty associated with the technology or product it is discussing with the potential partner. Can we tell if the widget will work? Is it technically superior to existing and potential rivals? Second, the company should assess if consumers will use the technology, product, or service and how

Choosing Between Acquisitions and Alliances

When pursuing collaboration as a growth strategy, managers must carefully analyze several key factors before deciding whether to acquire or to ally with a company. Once they've determined what kind of resources they plan to combine, the types of synergies they're hoping to create, and the market and competitive factors they face, managers can use this framework to choose the strategic option best suited to their situation. Managers should weigh each factor depending on its importance to their industry. In all cases, the collaboration competencies a company already possesses should be considered in making a decision.

Factor	Strategy
1. Types of Synergies	
Modular	Nonequity alliances
Sequential	Equity alliances
Reciprocal	Acquisitions
2. Nature of Resources	
Relative value of soft to hard resources	
Low	Nonequity alliances
Low/Medium	Acquisitions
High	Equity alliances
3. Extent of Redundant Resources	
Low	Nonequity alliances
Medium	Equity alliances
High	Acquisitions
4. Degree of Market Uncertainty	
Low	Nonequity alliances
Low/Medium	Acquisitions
High	Equity alliances
5. Level of Competition	
Degree of competition for resources	
Low	Nonequity alliances
Medium	Equity alliances
High	Acquisitions

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much time it will take to gain widespread acceptance. Based on the answers—or lack thereof—the company can estimate if the degree of uncertainty that clouds the collaboration's end result is low, high, or somewhere in between.

When a company estimates that a collaboration's outcome is highly or moderately uncertain, it should enter into a nonequity or equity alliance rather than acquire the would-be partner. An alliance will limit the firm's exposure since it has to invest less money and time than it would in an acquisition. Besides, the company can sink more into the partnership if it starts showing results, and, if necessary, buy the firm eventually. If the collaboration doesn't yield results, the company can withdraw from the alliance. It may lose money and prestige, but that will be nowhere near the costs of a failed acquisition.

That isn't exactly rocket science, but our research shows that few companies are disciplined enough to adhere to those rules. For instance, Hoffmann-La Roche spent $2.1 billion in June 1999 to acquire Genentech, which had developed a clot-busting drug, TPA, but hadn't completed effectiveness studies or sought FDA approval. Roche thought it could help the start-up get clearances for the drug quickly and then push it through its global distribution network. Six months later, a study found that TPA, which Roche had priced at $2,200 per dose, was only as effective at clearing clots as Hoechst's streptokinase, which sold at $200 a dose. That dashed Roche's hopes. TPA grew into a respectable $200-million-per-annum drug, but it never became the blockbuster Roche paid for. Given the high technical uncertainty in the drug development process, Roche should not have bought Genentech.

Not every company makes such mistakes. Bristol-Myers Squibb invested $1 billion to pick up a 20% equity stake in ImClone in September 2001 rather than buying the firm. In return, it bagged the marketing rights to ImClone's cancer-fighting drug, Erbitux, as well as 40% of annual profits. According to the deal, Bristol-Myers Squibb would invest $800 million more after ImClone got past key milestones in the drug approval process. In December 2001, when the FDA declined to review Erbitux due to "severely deficient" data, ImClone's share price plunged from over $60 to $25 within two weeks (and shook up offices on Wall Street and suburban homes in the U.S. in the process). The companies immediately renegotiated the alliance, and the giant will invest less in ImClone in the future. Had it chosen to acquire ImClone for the asking price of $5 billion, rather than allying with it, Bristol-Myers Squibb would have been gazing out of a $3.5 billion hole in its books instead of a $650 million one.

Forces of Competition. There's a well-developed market for M&A in the world, so companies would be wise to check if they have rivals for potential partners before pursuing a deal. If there are several suitors, a company may have no choice but to buy a firm in order to preempt the competition. Still, companies should avoid taking over other firms when the degree of business uncertainty is very high. Instead, the company should negotiate an alliance that will let it pick up a majority stake at a future date after some of the uncertainty has receded.

Take, for instance, the manner in which Pfizer used an alliance with Warner-Lambert as a gateway to an acquisition. In June 1996, Pfizer offered to collaborate in the marketing of Lipitor, a new cholesterol-reducing drug that Warner-Lambert had developed. Lipitor was technically superior to competing products in some ways, but it was a late entrant in the market. Doctors and consumers were used to four other products in that category, and it wasn't clear if they would accept Lipitor immediately. Given the high technological and market uncertainty, Pfizer rightly believed that a contractual alliance made the most sense. Partly due to Pfizer's marketing acumen and distribution system, Lipitor's sales crossed $1 billion in its very first year, and by 1999, it had become a blockbuster drug with an annual turnover of $3 billion.

Even as Pfizer was exploring the possibility of working more closely with Warner-Lambert, archrival American Home Products and Warner-Lambert announced a surprise $72 billion merger in November 1999. The next day, Pfizer made an $80 billion counteroffer for its partner. Procter & Gamble jumped into the fray with a plan to acquire both AHP and Warner-Lambert but withdrew after investors reacted angrily. The battle between AHP and Pfizer for Warner-Lambert raged on for weeks, but it was a foregone conclusion.

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Pfizer's alliance with Warner-Lambert to market Lipitor, the cost-cutting opportunities it had spotted, and the possibility that Pfizer could combine one of its drugs, Norvasc, with Lipitor together gave Pfizer a distinct edge over American Home Products. By February 2000, Pfizer had won the battle for Warner-Lambert with a $100 billion bid.

Collaboration Capabilities

A company's experience in managing acquisitions or alliances is bound to influence its choices. Some businesses have developed abilities to manage acquisitions or alliances over the years and regard them as core competencies. They've created special teams to act as repositories of knowledge and institutionalized processes to identify targets, bid or negotiate with them, handle due diligence, and tackle issues that arise after a deal is made. They've learned the dos and don'ts from experience and created templates that help executives manage specific acquisition- or alliance-related tasks. In addition, they've developed formal and informal training programs that sharpen managers' deal-related skills. GE Capital, Symantec, and Bank One, among others, have created acquisition competencies, while Hewlett-Packard, Siebel, and Eli Lilly, for example, have systematically built alliance capabilities.

It's tempting to say that companies should use the strategy that they are good at because it does improve their chances of making collaborations work. However, specialization poses a problem because companies with hammers tend to see everything as nails. Since most firms have developed either alliance or acquisition skills, they often become committed to what they're good at. They stick to pet strategies even if they aren't appropriate and make poor choices.

Smart companies prevent such mistakes by developing skills to handle both acquisitions and alliances. That isn't as easy as it sounds. Take Corning. For decades, it had cultivated the ability to manage alliances. In the 1990s, however, the company used acquisitions to expand in the telecommunications business. Corning faced several challenges and much criticism because it had little experience in handling takeovers. While Corning made many mistakes, the company may have been on the right track when it tried not to let habit determine its choices. In fact, our research shows that companies that use both acquisitions and alliances grow faster than rivals do—as companies like Cisco have amply demonstrated.

How Cisco Does It

Everyone knows that Cisco follows an acquisitions-led growth strategy. The networking giant has acquired and successfully absorbed 36 firms in the last ten years. What most people don't realize, however, is that Cisco entered into more than 100 alliances in the same period—and managed them well. Largely because of Cisco's dual growth strategy, between 1993 and 2003, the company's sales and market capitalization grew by an average of 36% and 44%, respectively, every year. Just how does Cisco succeed where almost every other company fails?

A key reason is that Cisco has one senior vice president in charge of corporate development, who is responsible for M&A, strategic alliances, and technology incubation. By placing all three functions under the same person, Cisco is able to look internally first, and then, if there are no viable options for meeting its objectives, consider either an alliance or an acquisition. Dan Scheinman, Cisco's head of corporate development, told us, "This is where we make the choice between internal development, acquisitions, or alliances. At some point, I have to make the decision about what's the right strategy for us." Each time, Scheinman makes the call with the help of two vice presidents in charge of M&A and alliances.

The VPs head teams that have honed the ability to execute acquisitions and alliances. Usually, Cisco will first assess whether a target company has a technology that is critical to Cisco's core products. The target company's technology, when combined with Cisco's technologies, must provide solutions that customers will demand immediately and in the future. If that seems likely, Cisco will acquire the business right away. However, the $18 billion giant believes that it can absorb other firms' technologies only if their facilities and people are located nearby. Cisco avoids deals that would require employees to relocate because they usually leave the company instead of moving. Thus, Cisco rarely buys companies that are not located in its general neighborhood.

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Whenever soft resources are involved, a red flag should go up about the appropriateness of acquisitions.

When there is a high degree of uncertainty around technologies, or when they aren't critical, Cisco uses alliances as stepping-stones to acquisitions. Approximately 25% of Cisco's acquisitions start as small equity investments. That allows Cisco to get some partners to accelerate development of products, take options on competing technologies, and evaluate firms to determine if acquisitions will work. According to the company, it takes between 12 and 18 months to build trust with partners and decide if the companies can work together. The equity relationships also help Cisco move quickly to preempt rivals and acquire firms when the time is right. Clearly, Cisco has used both acquisitions and alliances successfully because it has developed processes that help it determine when to use which strategy.

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To conclude, let us return to the beginning and two deals, Coke's alliance with P&G and Intel's acquisition of DSP Communications. Would these companies have done any better by using our framework? In the case of Coke and P&G, the companies had plenty of redundant resources and wanted to generate reciprocal synergies primarily from hard resources. According to our framework, acquisitions are most appropriate under those circumstances. Next, market uncertainty was relatively low for the venture's products, but competition would have been high. Once again, the framework suggests that when rivalry is intense but uncertainty is low, acquisitions are the best bet. Coke should have acquired P&G's health drinks business instead of entering into a joint venture.

Although Intel took over DSP, the two companies wanted to generate modular synergies since the degree of resource interdependence between Intel's microprocessors and DSP's wireless chips businesses would have been moderate. Moreover, DSP's resources appeared to be primarily people. Whenever soft resources are involved, according to our framework, a red flag should go up about the appropriateness of acquisitions. Besides, Intel and DSP had little resource redundancy, and wireless technologies are highly uncertain. Those factors also suggest that an equity-based alliance between Intel and DSP, which Intel could have used as a springboard to an acquisition, would have been more effective than acquisition. As the mathematician would say, QED.

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Further Reading

ARTICLES

Not All M&As Are Alike—and That Matters
by Joseph L. Bower
Harvard Business Review
March 2001
Product no. R0103F

Even if your company has decided on an M&A instead of an alliance, keep in mind that different acquisitions/mergers can have very different strategic aims. These include: dealing with overcapacity through consolidation in mature industries; rolling up competitors in geographically fragmented industries; extending into new products and markets; substituting for R&D; and exploiting eroding industry boundaries by inventing an industry. Each strategic intent presents unique integration challenges. To address those challenges, be sure to assess the acquired company's culture. Depending on the type of M&A you're considering, your approach to the culture in place will vary, as will the degree to which culture will interfere during integration.

Your Alliances Are Too Stable
by David Ernst and James Bamford
Harvard Business Review
June 2005
Product no. R0506J

Whenever your company opts to establish alliances, you need to look critically at them afterward to see whether they're delivering their promised value. If they are not, you may need to restructure them or intervene to correct performance problems. Evaluate your ventures on these dimensions: ownership and financials, strategy, operations, governance, and organization and talent. Identify root causes of problems in any of these dimensions, not just the symptoms. Decide whether to fix, grow, or exit the arrangement. If you're going to fix or grow, assemble 3–4 restructuring options, test them with shareholders, and get parent companies' approval. Execute the changes, assigning accountability to specific groups or individuals.

Launching a World-Class Joint Venture
by James Bamford, David Ernst, and David G. Fubini
Harvard Business Review
February 2004
Product no. R0402G

Even if an alliance is right for your company, it may not necessarily deliver on its promised value. How to ensure success? Devote adequate time and attention to planning the launch and executing the deal. The launch phase begins when the parent companies sign a memorandum of understanding, and it continues through the first 100 days of the alliance's operation. During this period, convene a team dedicated to exposing inherent tensions early and tackling four key tasks: 1) Building and maintaining strategic alignment across the corporate entities, each of which has its own goals, market pressures, and shareholders. 2) Creating a shared governance system for the parent companies. 3) Managing the economic interdependencies between the parents and the alliance. 4) Building a cohesive, high-performing organization.

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