factiva.

THE WALL STREET JOURNAL.

Business Insight (A Special Report): Strategy --- All for One: Should a company join a multipartner alliance? Here are the questions to ask

By **Dovev Lavie**, Christoph Lechner and Harbir Singh
1,916 words
12 May 2008
The Wall Street Journal
R8
English
(Copyright (c) 2008, Dow Jones & Company, Inc.)

Multipartner alliances are an increasingly common feature on the business landscape. Whether to join such alliances, however, is a difficult decision -- and one that many companies may make without asking themselves the right questions.

Such alliances, known as MPAs, are particularly common in industries dependent on fast-changing technologies. The idea behind them is to link research and engineering efforts, pool investments and share marketing and advertising costs, all in hopes of creating a technology standard or platform around which huge new markets will arise for the products of the MPA's members. Some examples include the Video Electronic Standards Association, or VESA; the Joint Electron Device Engineering Council, or JEDEC, in the semiconductor industry; and the Wi-Fi Alliance in the high-speed wireless local-area-networks industry.

MPAs offer their members important benefits, particularly in industries where levels of risk, the need for product interoperability and the cost of R&D investment limit the ability of any single company to independently gain success. MPA members can share resources and costs while limiting the downside of their platform being ultimately rejected by consumers: Think Betamax versus VHS, or, more recently, HD-DVD versus Blu-Ray.

The risks of backing the wrong MPA are clear. But far less recognized are the risks and challenges that arise inside MPAs, which often feature hundreds of member partners whose individual objectives can clash. Through ruling boards, typically composed of a handful of powerful companies, MPAs effectively constrain the strategic options of partners by enforcing common rules for governance and operations that are not always in a partner's best interest. Among many risks that can arise, partners may find themselves subsidizing rivals if their proprietary knowledge -- associated, for instance, with product design, core technology or production process -- leaks to their competitors through the MPA.

The key for each company is to make sure that its investment in the alliance remains in line with the benefits. But this is a task at which few succeed.

The Wi-Fi Alliance, for example, is one of the more successful MPAs in recent years. The alliance, which was founded in 1999 and led early on by a handful of companies including 3COM Corp., Agere Systems, a spinoff of Lucent Technologies Inc., and Cisco Systems Inc., emerged victorious after a several-year battle with three rival MPAs, all competing to create the standard technology for wireless local area networks, or WLANs. Today, people use Wi-Fi to connect to the Web in homes and businesses, coffee shops and airports around the world. But a 2004 Gartner Dataquest report suggested that about 85% of the world-wide WLAN market was captured by only 20 of the alliance's 250 partners.

The Wi-Fi Alliance says it seeks to be fair to all of its participants. Karen Hanley, senior director of the Wi-Fi Alliance, based in Austin, Texas, notes that the distribution of market share seen in the Gartner Dataquest report is seen in many kinds of markets. She says: "We strive to offer the same opportunities to all of our members."

But the extent to which partners share in the rewards in any MPA largely depends on decisions they make at every step along the way.

What follows are five key decisions executives will face from the time they first consider joining an MPA, to when they should consider getting out. Our team drew its insights from original research and extensive interviews with industry experts, and a detailed analysis of the Wi-Fi Alliance.

TO JOIN OR NOT?

2008 Factiva, Inc. All rights reserved.

Some companies may be better off alone. When a company owns a superior technology and has exclusive market access, it may not need an MPA. Or executives may decide to establish a new MPA if existing alliances appear to give advantages to competitors.

A company should consider the direct costs and other burdens an MPA may place on it, and whether its budget and other resources will be inordinately strained. Partners can be asked to commit their most talented engineers to joint research, and even to share proprietary technology with other members. It is possible in some cases to participate at a reduced level of cost and commitment. But it's the companies that invest the most that tend to sit on MPA governing boards, controlling strategic decisions on such matters as product development and marketing, and setting rules and constraints for the rest.

Companies that can't justify a seat on the board or that balk at the idea of surrendering certain controls should seriously consider staying on the sidelines.

WHICH MPA TO JOIN?

Knowing which MPA to join is only easy after the fact -- when the marketplace has chosen its winner.

When MPAs are still competing, however, and the outcome is uncertain, looking at certain benchmarks can help determine which ones have the edge. The benchmarks will change, of course, depending on the industry and the nature of the products being developed. But in general, the areas to focus on are: the relative strengths of the specific technologies; the ability to release products in a timely manner; and the extent of interoperability with other products and systems.

In WLAN, there were several MPAs to choose from early on. First came HiperLAN, in 1996, with only a handful of partners, including Apple Computer Inc. and Advanced Risc Machines Ltd.Intel Corp. formed the HomeRF Alliance in 1998 with more than 100 companies, including Compaq Computer Corp., Motorola Inc. and Proxim Corp., a maker of wireless networking equipment at that time. That same year, the Bluetooth Special Interest Group was created by five companies including cellphone makers Nokia Corp. and Telefon AB LM Ericsson. The Wi-Fi Alliance appeared in 1999.

Using the benchmarks stated above, there was already evidence not long after Wi-Fi's arrival to suggest that it would be the eventual victor. HiperLAN, despite having arguably more advanced technology, didn't ship its first product until two years after the first Wi-Fi product hit the market. Bluetooth featured a wireless signal with short range that proved suitable only for a few commercial applications, such as in cellphones. HomeRF products were locked into Proxim's proprietary technology.

Wi-Fi, meanwhile, featured a signal with greater range and the potential for wired and wireless computers to work together. It further encouraged interoperability by adopting open-standard, nonproprietary technology (known as IEEE 802.11), and rapidly released products instead of perfecting them. Wi-Fi emerged as the dominant world-wide WLAN standard in 2004.

Consider joining several MPAs, if exclusivity isn't required. Belonging to several alliances increases access to information about technology, markets and competitors. Rival MPAs may develop complementary designs for peripheral components or services. Steps that ensure compatibility with more than one successful technology can increase market share. Participation in multiple MPAs also provides favorable exit options in the case that an MPA loses its dominance to a rival.

Intel joined the Wi-Fi Alliance in 2000 while still a partner in HomeRF. The company's later decision in 2001 to quit HomeRF, some say, was a tipping point that helped lead to Wi-Fi's success.

WHEN TO JOIN?

Our research suggests that partners who join either early or late gain the most from their MPA membership.

Early joiners make fundamental decisions that determine the subsequent organizational and technological progress of the MPA. They can set rules and procedures that best fit their own needs. They're also well-positioned to build internal coalitions and create rich information channels for themselves.

Waiting can make it easier to see which MPA is the most successful, allowing late joiners to minimize investments in technologies that turn out to be unsuccessful. Late entrants thus can fully concentrate on exploiting the opportunities provided by an established alliance instead of contributing to the collaborative effort. Another benefit to waiting: Companies with assets or expertise of special value to an advanced MPA may be able to bargain for more advantages than early partners got.

2008 Factiva, Inc. All rights reserved.

WHAT ROLE TO PLAY?

Different levels of involvement are possible. Partners may engage in informal exchanges of information, participate in committees where proposals are negotiated, design and certify products, or oversee the MPA's operations by obtaining a seat on its board. Common wisdom would suggest that being more involved in an MPA will yield more benefits. But our research shows this is not guaranteed.

We found, for instance, that on average, the products of board members in the Wi-Fi Alliance were not measurably more successful than those of less-involved partners. This is perhaps because board members direct most of their resources and attention to achieving the common objectives of the MPA, which may limit their capacity to pursue private initiatives.

Less-involved partners can benefit from the collective effort of other partners by accessing technology and marketing resources without adequately sharing the cost and other burdens of managing and promoting the MPA.

WHEN TO EXIT?

Emerging technologies are continuously rendering their predecessors obsolete. Executives thus should conduct a cost-benefit analysis not only on whether to join an MPA but also on when to quit.

As market conditions change and competition gains momentum, the proceeds from MPA affiliation are distributed to an increasing number of partners. Thus, the costs and the risks mount, while the benefits of remaining a partner may not.

Intel quit HomeRF and became a board member in the Wi-Fi Alliance in September 2001, basing its decision on the increasing dominance of Wi-Fi's standard. Proxim, for its part, joined the Wi-Fi Alliance in December 2000,but continued to chair the board of HomeRF until the alliance was shut down.

The market does not salute companies that fail to abandon a sinking ship.

Dr. Lavie is an assistant professor of management at McCombs School of Business, University of Texas at Austin, and a senior lecturer at the Technion - Israel Institute of Technology, in Haifa. Dr. Lechner is the EMBA professor of strategic management and head of the Center for Responsible Corporate Competitiveness at the University of St. Gallen, in Switzerland. Dr. Singh is a professor of management and co-director of the Mack Center for Technological Innovation at the Wharton School, University of Pennsylvania, in Philadelphia. They can be reached at reports@wsj.com.

For Further Reading

These related articles from MIT Sloan Management Review can be accessed online at sloanreview.mit.edu/wsj

How to Make Strategic Alliances Work

By Jeffrey H. Dyer, Prashant Kale and Harbir Singh (Summer 2001)

New research shows that among today's many strategic alliances, the most successful are in companies with a department specifically assigned to overseeing alliances.

Defining the Social Network of a Strategic Alliance

By Michael D. Hutt, Edwin R. Stafford, Beth A. Walker and Peter H. Reingen (Winter 2000)

Many alliances fail to meet expectations because little attention is given to nurturing the close working relationships and interpersonal connections that unite the partnering organizations.

Ally or Acquire? How Technology Leaders Decide

By Edward B. Roberts and Wenyun Kathy Liu (Fall 2001)

2008 Factiva, Inc. All rights reserved.

Too often companies choose collaborative strategies without first considering what stage in the technology life cycle a given technology has entered -- and which type of partnership is suited best to that stage.

License this article from Dow Jones Reprint Service

Document J000000020080512e45c00019

2008 Factiva, Inc. All rights reserved.