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WHY STRATEGIC ALLIANCES?

BY RICHARD S. KATZ

Over the course of a decade or more, the growth of strategic alliances has been substantial. In 1990, just 3 percent to 5 percent of all business conducted was through a strategic alliance. In 2000, the number jumped to 20 percent. In 2010, it is projected that strategic alliances will account for 40 percent of all business (source: EIU Global Executive Survey). Why strategic alliances? What is the benefit—and for whom?

In today's tumultuous business environment, companies must be strategically and tactically nimble enough to correct their course based on market activity and increased competition in order to achieve a superior value-added position in the marketplace. Most would agree that this can be a difficult challenge at best. However, many companies involved in the insurance and financial services industries are successfully embracing the concept of strategic alliances to help weather the storm.

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The insurance and financial services marketplace is no different from any other in that it will seek out the products it desires from a readily available source. But the truth is no one company can successfully provide all needs for all market segments or satisfy all consumer needs and desires. It is difficult, if not impossible, to master all the critical skills and techniques required to provide products and distribution capabilities to all market segments, let alone take on the challenge of channel development. Furthermore, investments in emerging products and technology are costly and often difficult to recover in the short term. There is little or no patience in today's boardrooms for a financial review that begins with "At the margins ..."

The recent proliferation of mergers and acquisitions has proven itself, thus far, to be largely unprofitable. For a merger or acquisition to be considered successful, the end result should be the introduction of new products, markets, capabilities or capital; the minimization or elimination of channel conflict; and the realization that only one entity will survive. A strategic alliance, on the other hand, can work to increase profitability for all parties involved. Over a five-year period, the average return on investment (ROI) for alliances was significantly higher than the average ROI of the individual participants.

A strategic alliance is preferable because it helps to achieve a superior value-added position in the marketplace by supplementing or creating a core competency. The potential for an alliance is unlimited—it can be leveraged for channel development, marketing, product development, administrative and other initiatives. However, perhaps one of the most significant advantages to a company when forming an alliance is the fact that it can reduce the many financial risks associated with new product development and market entry.

The benefits of strategic alliances are many. A well-organized strategic alliance can open new markets.

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It can leverage customer and prospect databases, improve competencies, expand market presence, and offer access to knowledge and expertise far beyond what's possible with existing internal resources. Strategic alliances can be put together between competitors, with call centers, distributors, and marketing and advertising firms, to mention just a few options. Today some 50 percent of all alliances are among competitors.

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Research and due diligence are critical components, of course, of any strategic alliance. And it is equally as important for both parties to establish and communicate critical success factors, expectations and measurements to ensure that each is in synch with the other and that shared goals are achieved. When embarking upon a strategic relationship, it is also important to consider the culture of each partner and how the two entities will work together.

Joining forces through strategic alliances is a concept whose time has come for the insurance and financial services industries. By developing a well-planned strategy that considers the needs and desires of each party—and the needs and desires of existing and future customers—insurance and financial services companies can not only "weather the storm" but emerge as winners that will live long and prosper in any economic environment.