Business Development from Start to Scale
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Week - 09
Business Development Structures
Lecture - 42
Strategic Alliances

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in week 9 with the theme of Business Development Structures. In this lecture, the 42nd in the series, we discussed the topic of Strategic Alliances.

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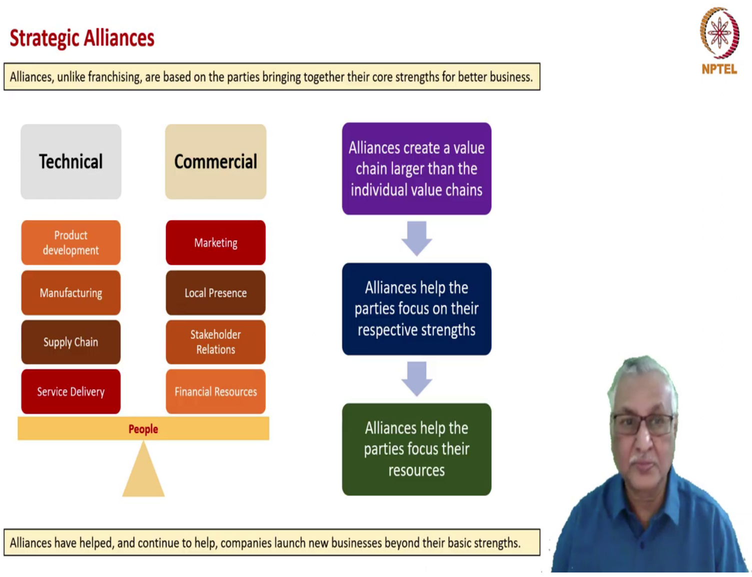

Strategic alliances are unlike franchising or general collaboration or based on the parties bringing together their core strengths for better business. There are two aspects to any strategic alliance. The first is the technical aspect and the second is the commercial aspect.

In the technical aspect, we have drivers such as product development, manufacturing, supply chain and service delivery. In the commercial aspect, we have drivers such as; marketing, local presence, stakeholder returns and stakeholder relations and financial resources. Alliances typically create a value chain that is larger than the individual value chains. Why does it happen?

If you are having a manufacturing value chain and if your alliance partner has a marketing value chain, together you create an end-to-end manufacturing to delivery value chain. Similarly, if you have a product development value chain and if your partner has a manufacturing value chain, together you will create a value chain that is end-to-end from product development to manufacturing delivery.

Alliances help the parties focused on their respective strengths. Alliances also help the parties focus their resources on things which they can do the best. Alliances have helped and continue to help companies launch new businesses beyond their basic strengths. Strategic Alliances therefore, are truly strategic for companies.

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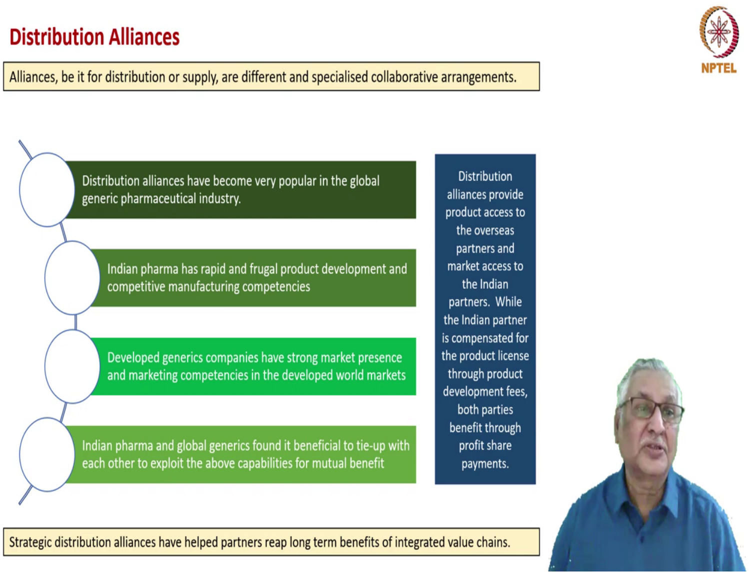

Let us look at some classes of alliances. Distribution alliances are different and specialized collaborative arrangements. Distribution alliances have become very popular in the global generate pharmaceutical industry. Indian pharmaceutical industry is known as the pharmaceutical capital of India.

One of the reasons why this industry has earned this credit is because of the rapid and frugal product development and competitive manufacturing competencies. Indian Pharma does not have the same level of resource base and expertise in marketing the products which are well-developed and well-manufactured by the industry in India.

Whereas, developed generic companies such as; Apotex, Hospira, Alpharma, Allergan used to have strong marketing presence and marketing competencies in the developed world markets. Together therefore, Indian pharmaceutical companies and those developed generic marketing companies join forces to make end-to-end value chain in the pharmaceutical industry.

And this distribution alliance model has helped Indian pharmaceutical industry occupy a strong and large space in the Western generic market space. And that is why distribution alliances became very important, not only for global pharmaceutical generic majors, but also for the Indian pharmaceutical industry.

Indian Pharma and global generics found it beneficial to tie up with each other, to exploit their mutual capabilities for the utmost benefit. Distribution alliances provide product access to the overseas partners and market access to the Indian partners. While the Indian partner is compensated for the product license through the product development fees and both parties benefit through profit share arrangements as they go on the distribution alliance model.

While the Indian partner is compensated for the product license through the product development fees, both parties benefit through profit share payments during the commercialization of the product. Strategic distribution alliances have helped partners reap long-term benefits of integrated value chains.

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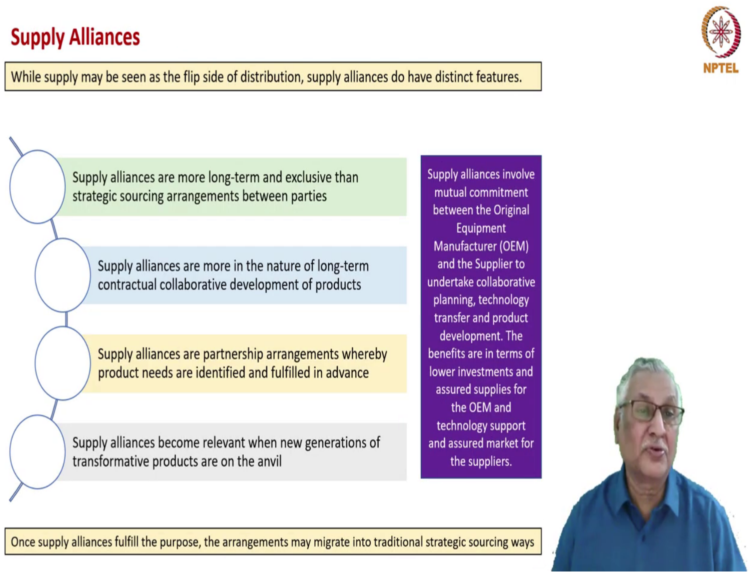

We have supply alliances as well. While supply may be seen as the flip side of distribution, supply alliances do have distinct features. Supply alliances are more long-term in nature and they are more exclusive than strategic sourcing arrangements between parties, because procurement has moved to strategic sourcing and we may believe that strategic sourcing itself is a kind of supply alliance.

While it may be partially true, strategic sourcing still has a short-term and medium-term view and strategic sourcing arrangements are renewed every year and they are also assessed in terms of normal procurement mechanics such as L1, L2, L3 classification of vendors.

On the other hand, supply alliances are much more long-term and they are much more exclusive. They have contractual collaborative development of products as they are underlying theme. These are partnership arrangements whereby product needs are identified and fulfilled in advance. Supply alliances become relevant, when new generations of transformative products are on the anvil.

Supply alliances typically involve, mutual commitment between the original equipment manufacturer that is the OEM and the supplier or the vendor to undertake collaborative planning, technology transfer and product development. Both parties have to share their resources, their technical capabilities and their understanding of the future business to be able to be successful in terms of supply alliances.

The benefits are in terms of lower investments and assured suppliers and supplies for the OEM and technology support and assured market for the suppliers. Once supply alliances fulfil the purpose, the arrangements may migrate into traditional strategic sourcing ways.

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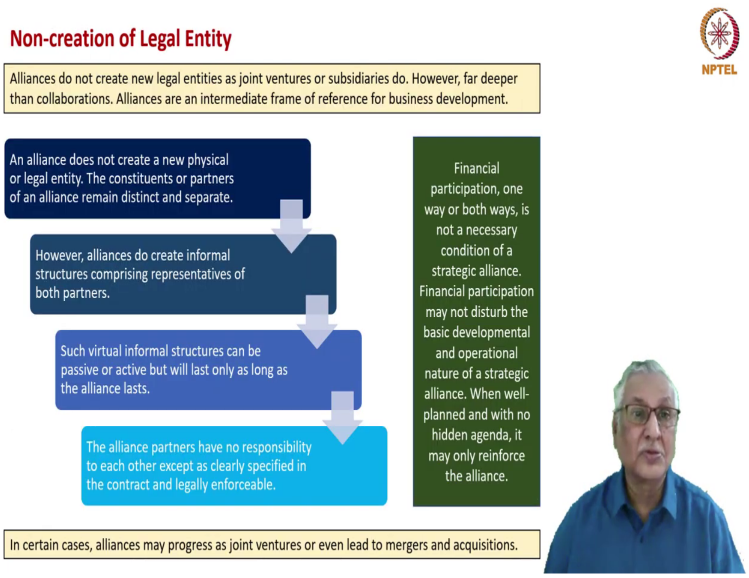

The important aspect of alliances is that alliances do not create any type of legal entity. They do not create any legal entities as joint ventures or subsidiaries do. However, for deeper than collaborations they are. Alliances are an intermediate frame of reference for business development.

Let us be very clear, that an alliance does not create a new physical or legal entity. There could be very few exceptions, which may create a legal entity, but still have the character of an alliance. You will consider one such example in this lecture. That does not mean that an alliance creates a new physical entity or a legal entity at all times. As a matter of fact, alliances do not have any legal binding new entity nature. The only legally binding aspect of an alliance is a contract.

The constituents or partners of an alliance remain distinct and separate. However, alliances do create informal structures comprising representatives of both the partners. Such virtual informal structures can be passive or active, but will last only as long as the alliance lasts. The alliance partners have no responsibility to each other except as clearly specified in the contract and legally enforceable.

What it means, is that an alliance partner which manufactures a product would have various other products which are not covered by the alliance. And the company will be completely free to pursue those products within the country or outside of the country. Similarly, the generic marketing partner, who is part of an alliance, may have various other product lines and various other market occupancies and the alliance partner is free to pursue those kinds of marketing opportunities.

So, they are tied together only in respect of the product and the market space that they have mutually agreed to partner with. Financial participation one way or both ways is not a necessary condition of a strategic alliance. Financial participation may not disturb the basic developmental and operational nature of a strategic alliance that also we must be clear.

A company may take an investment in one of the alliance partners. It does not mean that the alliance partner is borne by ownership beyond what is set in the alliance agreement. When well-planned and with no hidden agenda, the alliance may get reinforced with such minor investments. In certain cases, well performing alliances may progress as joint ventures or even may lead to mergers and acquisitions.

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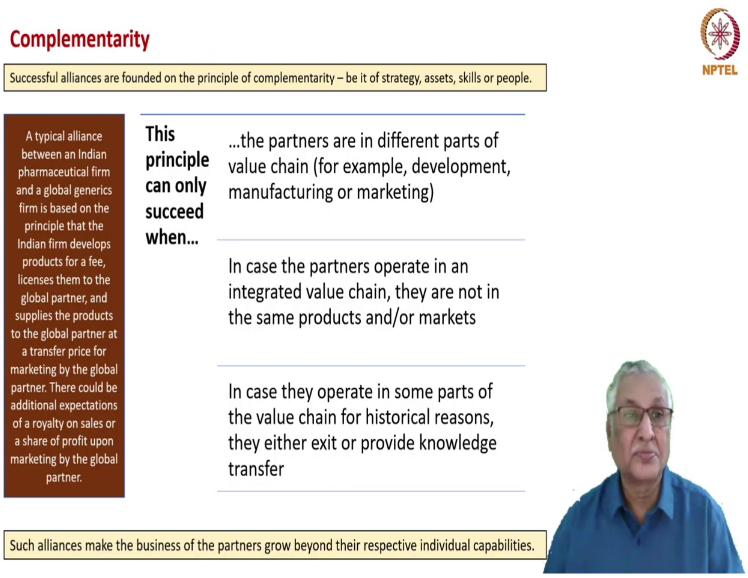

There is lot of complementarity that is involved in alliances. Successful alliances are founded on this principle alone and that complementarity could be in terms of strategy, assets, skills or people or all of these things. A typical alliance between an Indian pharmaceutical firm and a global generics firm is based on the principle, that the Indian product is developed for a fee exclusively for the alliance partner.

The Indian firm license the product to the global partner and supplies the products to the global partner at a transfer price for marketing by the global partner. There could be additional expectations related to royalty on sales or a share of profit upon marketing by the global partner. But this principle can succeed only when the partners are in different parts of value chain.

For example, development or manufacturing or marketing as far as the desired product and the desired market is concerned. There could be in overlapping product manufacturing and marketing lines as far as products and markets that are not covered by the alliance. In case the partners operate in an integrated value chain, they will not be in the same products and or markets therefore.

And in case they operate in some parts of the value chain for historical reasons, they either exit such value per chain parts or provide knowledge transfer. Such alliances which are founded on complementarity make the business of the partners grow beyond their respective individual capabilities and competencies. This is the principle of complementarity.

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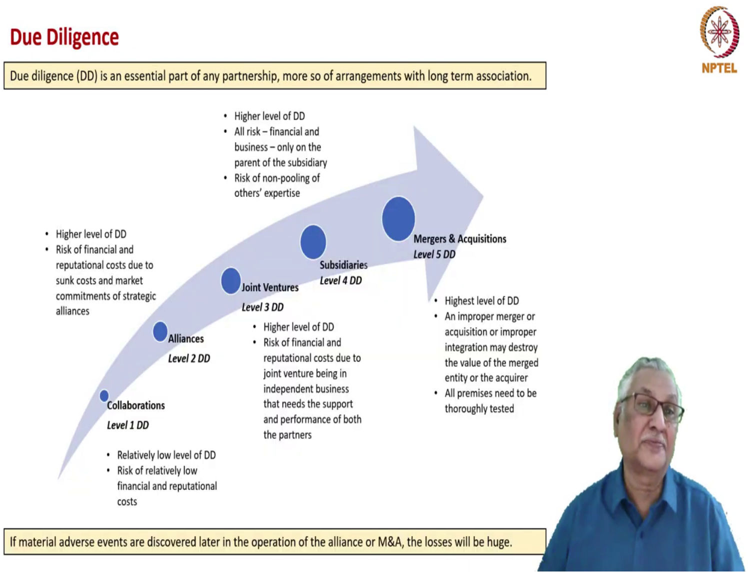

Every alliance requires due diligence. In fact, due diligence is an essential part of any partnership more so, of arrangements with long term association. We have not looked at some of the topics that are being projected here such as; joint venture, subsidiary, merger and acquisition. But because we are talking about the concept of due diligence, let me touch upon all these five aspects.

The first type of alliance or collaboration, which we have discussed earlier is the pure and simple collaboration methodology which may involve technical, financial or both. And the due diligence that is required for that can be talked about as level 1 DD. And what is due diligence? Due diligence is a process of determining that the claims made by a company are in fact, sustained by the physical operations and the financial numbers. That is the principle of due diligence.

But due diligence in practice also looks at several other facets, the value system, the skill levels of the people, the attrition levels, the loyalty levels, the brand values and the whole set of values and cultural anchors of the company. Due diligence is therefore, an all encompassing concept that includes; technical analysis, financial analysis, marketing analysis, other functional analysis as also value analysis with reference to the company.

So, when you look at level 1 DD for collaborations, it comprises relatively low level of diligence and also it carries relatively low level of risk in terms of financial and reputational costs. Because of somewhat inadequate due diligence if the collaboration fails, it is not going to be at shaking in terms of reputation for the partners.

Then alliances, strategic alliances which I talked about, they constitute level 2 due diligence. It certainly has a level, that is higher than the collaborative due diligence. There are certain risks of financial and reputational costs due to the sunk costs and market commitments that are accruing out of strategic alliances.

Next level of due diligence, level three is in respect of joint ventures. These joint ventures have high risk of financial and reputational costs, because the joint venture is an independent business. But it is also seen to be actively promoted by two different partners and who have joined together in public eye to constitute a new vehicle for a new business development.

So, when such a joint venture does not function well, it reflects on the reputation and capability of the partners. That is why the due diligence related to the joint ventures would be very high. And when you look at those due diligence aspects, there will be many aspects which will cover in one of the forthcoming lectures.

Then we have subsidiaries which has level four DD. If it is a wholly owned subsidiary, the level of due diligence is obviously lower. The Due diligence is kind of limited to the business that is going to be explored by the subsidiary. But if the subsidiary is going to take some investment by a new partner, then it will have high level of DD. Because there will be risk and that risk will be on the investor.

But there will be a risk of a different type, when the subsidiary is wholly owned because you are establishing that subsidiary for a brand-new business and which the parent company does not want to take care of. Let us think of a company which is all along into only bulk drugs or API.

And that company has decided to develop a subsidiary for the sterile injectable formulations. And that is much more rigorous than the bulk drugs in terms of the FDA compliance, regulatory compliance and also quality standards. If something happens to that new subsidiary, it automatically reflects on the parent bulk drug company.

Therefore, there is a risk that is involved in subsidiary formation, whether it is for own purpose or for investor purpose. The other risk is that the other's expertise is not available for pooling. In collaborations, alliances are joint ventures. The expertise of the partners is available for pooling into the platform. Whereas in respect of only owned subsidiaries particularly, the external expertise is not available.

Then you have mergers and acquisitions when two companies become one, because of the merger process or acquisition process, the challenge of due diligence is the highest. An improper merger or an improper acquisition, which will be followed by an improper integration logically may destroy the value of the merger entity or the acquirer.

Therefore, before you undertake a merger or an acquisition, you got to conduct deep due diligence which counterchecks, verifies all premises and all claims. If material adverse events are discovered later in the operations of the alliance or M and A, the losses will be huge. Therefore, due diligence has to take care of as many aspects of potential risks as possible. At times, a risk may not be quantified. A risk may remain as an assumption rather than as a tangible risk.

In such cases, there will be a reference that is made to the agreement, whereby you try to reduce the level of risk impact on the principle. There are cases where foreign companies acquired certain of the Indian sterile manufacturing companies and they were not very sure whether the FDA risk will impinge on the company after the buyout.

Therefore, they incorporated a class saying that a particular portion of the deal value will be withheld and it will be provided if the first inspection after the takeover is successful or if no adverse events, which are traced to the management of the previous regime arise. So, these are some of the aspects by which the risks that are there in the due diligence and which may exist in spite of the due diligence are properly taken care of in any alliance discussion.

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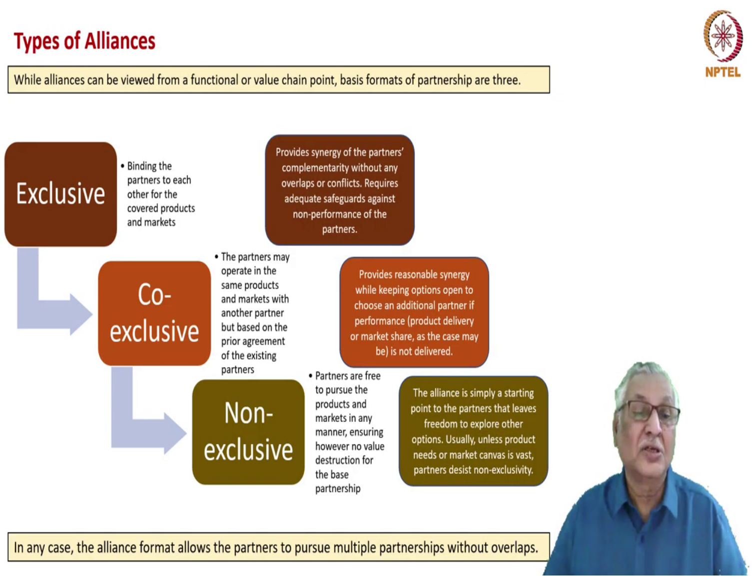

So, we talked about different types of alliances from the theme of the alliance that is; whether it is distribution alliance, manufacturing alliance or a supply alliance. So, Alliances can definitely be viewed from a functional and value chain point of view. But there are also certain basic formats of partnership, which we need to look at. The first type of partnership or alliance is exclusive that is, it binds the partners to each other for the covered products and the covered markets.

The second is co-exclusive that is, the partners may operate in the same products and in the same markets with another partner, but generally based on the prior agreement of the existing partners. Then you can have non-exclusive arrangements, that is the partners are free to pursue the products and markets in any manner ensuring however, no value destruction occurs for the base partnership.

That is you may market to any other customer, but not at a price lower than the price that is being offered to the other customer. That is how non-exclusivity serves to improve the volume based, but at the same protects the interests of the basic partnerships. The exclusive partnership provides synergy of the partner’s complementarity without any overlaps or conflicts.

It requires adequate safeguards against non-performance of the partners. Whereas, a co-exclusive agreement provides reasonable synergy, while keeping options open to choose an additional partner if performance. Product delivery or market share as the case may be is not delivered and in the case of non-exclusive partnerships it simply is a starting point to the partners that leaves freedom to explore other options.

Usually unless product needs a market converse is vast partners resist from non-exclusivity. Non-exclusivity could exist, when the whole product space or the market space is highly commoditized and it does not really matter whether you are exclusive to a partner or your non-exclusivity with their partner.

In case the alliance format allows the partners to pursue multiple partnerships without overlaps, then there is always this risk of dividing the product line much further. It is always better to choose a partnership which is as exclusive or as co-exclusive as possible. So, the important thing to note is that, under the alliance format you can pursue multiple partnerships as long as you do not have conflicting overlaps that is to be marked as one of the important aspects.

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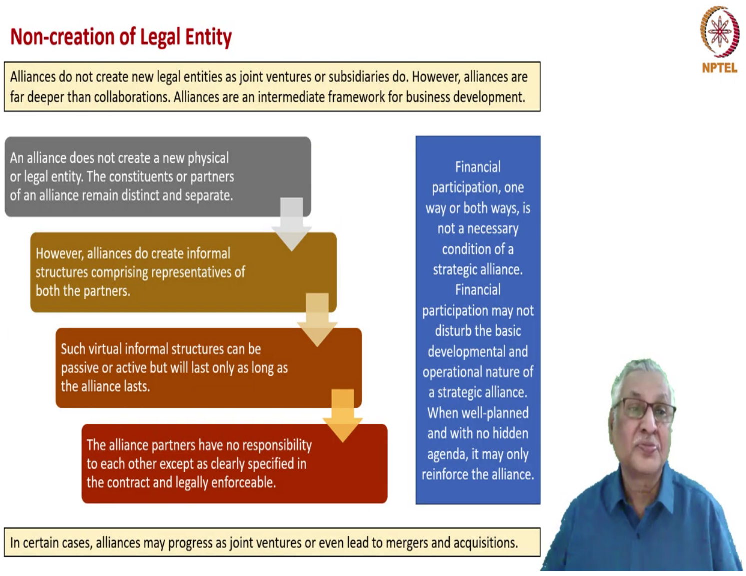

We should also discuss the non-creation of legal entity. Alliances do not create new legal entities, just as subsidiaries and joint-ventures do create legal entities. However, alliances are far deeper than collaborations which we have considered in the previous lecture. Alliances therefore, are intermediate framework for business development. To repeat an alliance does not create a new physical or legal entity. There is no new company structure that is formed.

The constituents or partners of an alliance remain distinct and separate and their liabilities are limited to what is written in the contract and what is executed. As I said alliances do create informal structures and they comprise representative of both the parties that could be a staging committee, that could be a governance committee, that could be an operational committee.

These virtual informal structures can be passive or active, but will last only as long as the alliance starts. The alliance partners have no responsibility to each other except as clearly specified in the contract and legally enforceable. Financial participation one way or both ways is not a necessary condition of a strategic alliance.

Financial participation may not disturb the basic developmental and operational nature of a strategic alliance. When well-planned and with no hidden agenda It may only reinforce the alliance. In certain cases, alliances may progress as joint-ventures or even need to mergers and acquisitions.

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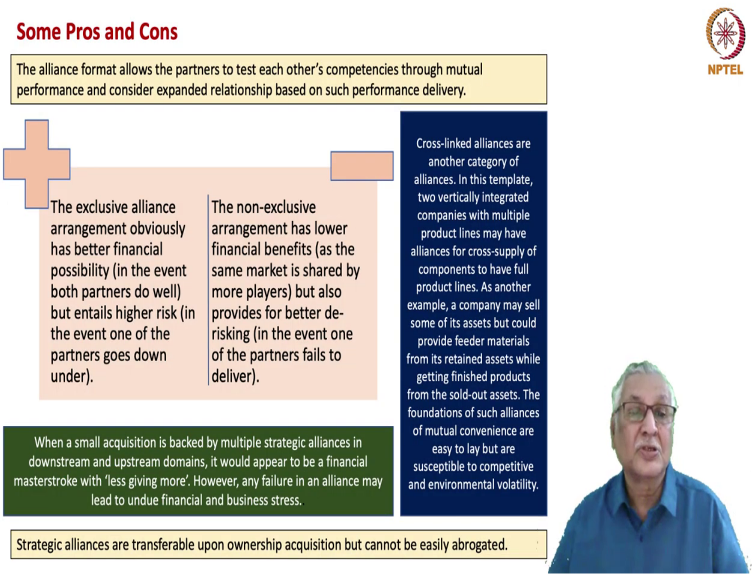

There are pros and cons of alliance format. The alliance format allows the partners to test each other's competencies through mutual performance and consider expanded relationships based on such performance delivery. Obviously, the exclusive alliance arrangement has better financial possibility, when both the partners do well, but it also entails higher risk.

In case one of the partners goes down, in terms of business performance then the other partner is impacted because the alliance is exclusive to each other. The non-exclusive arrangement has lower financial benefits because the market is split between more than one partner and there could also be some loss of focus and commitment because of the non-exclusivity. But non-exclusivity provides for better de-risking, in the event one of the partners fails to deliver you have always other partners to bank upon.

When a small acquisition is backed by multiple strategic alliances in downstream and upstream domains it would appear to be a financial masterstroke with less giving more. However, this will not be true at all. Any failure in an alliance may lead to undue financial and business stress on other alliances as well. Cross-linked alliances are another category of alliances.

In this template two vertically integrated companies with multiple product lines may have alliances for cross-supply of components to have full product lines. We have examples of Apple, Samsung and Sony in the smart devices. They are entry and capable, but yet they exchange their components, they will exchange their exclusive items such as sensors of displays across the companies and they benefit from that kind of alliance management.

As another example a company may sell some of its assets, but could provide feeder materials from its retained assets while getting finished products from the sold out assets. The foundations of such alliances of mutual convenience are easy to lay, but are susceptible to competitive and environmental volatility.

It is easy to think of these cross alliances, but in actual practice the pricing of the components, the sourcing of the components and the leveraging of the components for greater impact in the marketplace could be enormous. Let us think of a sensor which is high-cost sensor and that is provided by a company to another company. Ideally the price of the company's product when it buys the sensor from somebody else should be higher than the company which is having the sensor internally manufactured and integrated with its product.

However, if the company which has bought the sensor chooses to under-price its product, there will be complexity and there will be mistrust that comes out of the work arrangement. Therefore, cross-linked alliances while they look good requires some kind of trust and some kind of stability in operational thinking and market play. Strategic alliances are transferable upon ownership acquisition cannot be easily abrogated.

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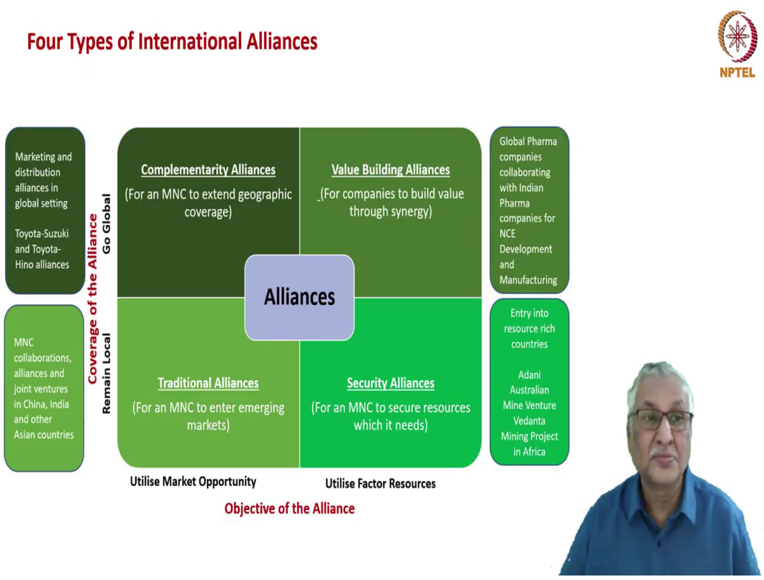

There are four types of international alliances that are possible and there are two types of dimensions that are existing any in any international alliance. The first is the objective of the alliance and the second is the coverage of the alliance. The objective of the alliance could be utilising the market opportunity or utilising the factor resources. And the coverage of the alliance could be in terms of remaining local or going global.

So, if the objective is to utilise market opportunity and the intent is to remain local the alliances could be seen as traditional alliances. Example an MNC wants to enter an emerging market. It is wholly in the nature of a traditional alliance of remaining local and utilising a market opportunity. On the other hand, an MNC enters a country, to secure resources which it needs then it becomes a security alliance that is it wants to make its factor resources safeguarded for its business development.

There are examples of this entry into resource rich countries by companies such as Adani and Vedanta. Adani has entered the Australian mine venture and Vedanta has a mining project in Africa for its metals and minerals. The traditional alliances which I spoke about earlier are always there for us to see MNC collaborations, alliances and joint ventures in China, India and other Asian countries.

Now, let us look at it third option, which is the utilisation of the market opportunity, but on a global scale. And this may be called complementarity alliances for an MNC to extend geographic coverage these kinds of alliances will become useful. Marketing and distribution alliances in global city an example being Toyota Suzuki and Toyota Hino alliances in passenger cars, sports, utility vehicles and trucks respectively.

Then you have value building alliances, that is the alliance objective is to utilise factor resources and they are alliance objective is also to global. So, globalization through availability of factor resources from different regions and this helps the companies build value through synergy. Global Pharma Companies collaborating with Indian Pharma Companies for new chemical entity development and manufacturing, they come in the nature of value building alliances.

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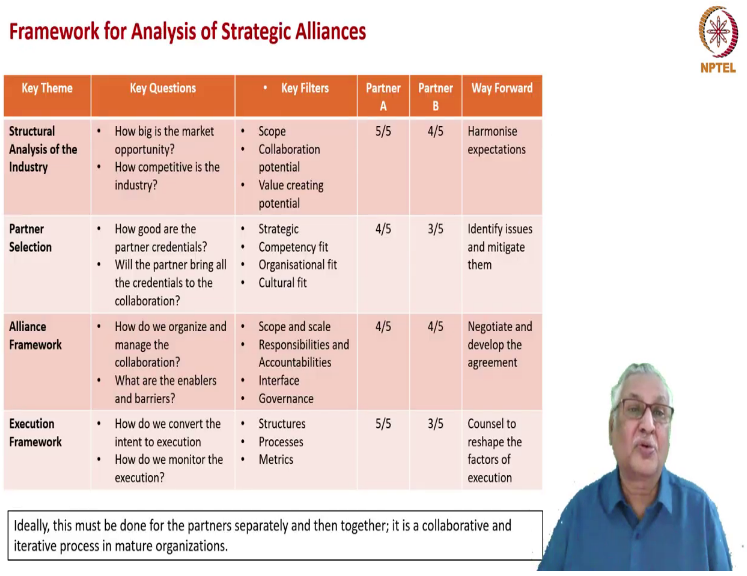

So, we have four types of international alliances that are possible. When you want to analyze a strategic alliance in terms of its doability, its feasibility, its desirability you got to ask yourself certain standardized questions. First you must conduct a structural analysis of the industry. Is this industry appropriate for a strategic alliance? How big is the market opportunity? Is it so, big that I cannot fulfil it all by myself?

Or the functionality is so vast that my value chain is not sufficient to take care of the market opportunity. How competitive is the industry? If I want to enter this industry or the market through a strategic alliance, is it worthy effort or there too many players already operating in the industry. Then when you think about it you also have to think about the key filters, what should be the scope of the alliance, what is the collaboration potential in that industry and what is the value creating potential in that industry?

All these questions are from the industry perspective and have to be answered from the industry perspective. This analysis typically has to be done for the partner A and partner B independently and then harmonized. Let us look at partner selection as the second platform. You got to think about as well as research on the partner.

How good are the partner credentials physical as well as financial? Will the partner bring all the credentials to the collaboration? A company may be a huge leader, but will the leader bring all the capabilities to the collaboration. So, the key filters here are strategic filter, competency fit organizational fit and cultural fit.

Then the third aspect is the alliance framework. How do we organize and manage the collaboration? What are the enablers and what are the barriers for the successful operation of the alliance? And here we think of scope and scale responsibilities and accountabilities interface and governance. And finally, execution framework. How is it that we can convert this intent into good execution?

How do we monitor the execution? Are we water supplementing companies or we are in two distinct lands. How do you manage this distance? And to be able to do that we need to have filters such as structures, processes, metrics, milestones. Now, when you have these questions on these four modules and when you have the key filters you can easily rate the partners in respect of these aspects.

Let us look at a partner A and partner B rated. Partner A is rated 5 by 5 while B is rated 4 by 5 in terms of the structural analysis of the industry. What should we do? We should harmonize the expectations through discussions. In respect of partner selection that is the partners capabilities and partner fit. Partner A ranks in 4 by 5 and partner B ranks in only 3 by 5. Then you have to identify the issues and mitigate them.

Let us look at the alliance framework, the maturity of management. The maturity of process partner A is ranked 4 by 5; partner B is also ranked 4 by 5. Then we can negotiate and develop the agreement. Not only that we may think of elevating ourselves together to a higher standard. As far as the execution framework, let us assume that the partner A is greater to execution, whereas partner B is somewhat medium or high medium in terms of execution 3 by 5.

Then we have to council to reshape the factors of execution. Partner A cannot be an engine without compartments. And that partner B cannot be thinking that because of the compartments being there, the compartments are moving somewhere. No, the execution capabilities also have to be aligned mutually. And for this to happen the partners must think about the partnership separately and then together. It is a collaborative and iterative process that happens in mutual organizations trying to partner with each other.

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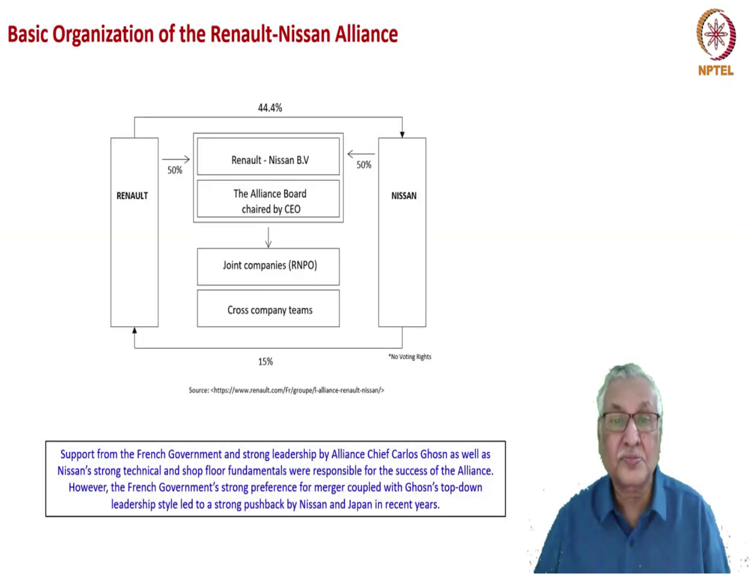

Now, let us look at a very important example of international partnership or international alliance. Renault and Nissan agreed to form an alliance at the highest level with some specific purpose. The specific purpose was that Nissan should be turned around and for Renault the purpose was that Renault should become more global and more technically savvy.

At that time Nissan was in dire straits. Its debt was mounting. Its capabilities to globalize were diminishing, but it has its technical capability. Renault had strong cash balances; it is a government backed company. Therefore, it is in a position to provide support to any a-link or maker as Nissan was at that point of time. But it cannot be just loose investment. Therefore, they decided to create a Renault-Nissan BV company. And it will have an alliance board, which is shared by the CEO.

And these two companies are going to work as joint companies, but also as individual companies. Nissan was to have 15 percent shareholding in Renault, but without any voting rights. And Renault was expected to have a 44.4 percent voting rights in Nissan along with the equal shareholding. And the venture itself is constructed as 50 percent joint venture.

This is taken from the Renault dot com website. Support from the French government and strong leadership by alliance chief Carlos Ghosn, as well as Nissan's strong technical and sharp floor fundamentals were responsible for the success of the alliance. However, the French government's strong preference for the merger eventually coupled with Ghosn’s top-down leadership style led to a strong pushback by Nissan and Japan in recent years.

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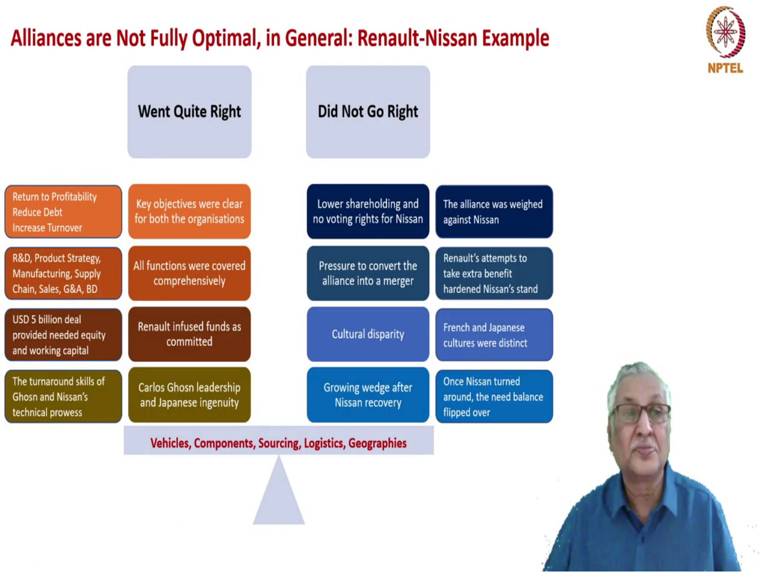

As you take the example of Renault Nissan you will find that alliances are not necessarily fully optimal. In the case of this alliance something went right; quite right actually while some things did not go right. What did go right? Key objectives were clear for both the organizations from the time the alliance was zinced. These were returned to profitability, reduced debt, increased turnover essentially for Nissan. And all these objectives were met in a handsome manner and in an accelerated manner as well.

The second all the functions were covered comprehensively in the alliance; R and D, product strategy, manufacturing, supply chain, sales, general, administration and business development. As a result, the entire value chain benefited. Similarly, the capabilities of Japanese in terms of their value chain management also benefited Renault. Renault infused funds as committed a 5-billion-dollar deal provided the needed equity and working capital resources.

Carlos Ghosn leadership and Japanese ingenuity made an impeccable combination. Ghosn had got turnaround skills of very high order and Nissan had technical prowess of a very high order. These two together ensured that the combination provided a new range of products with better cost-competitiveness and higher market coverage.

What did not go right? Lower shareholding and no voting rights for Nissan because Nissan was known under when the alliance was constructed. The major partner or the dominant partner Renault did not provide equal voting rights and equal shareholding for Nissan.

Therefore, from the beginning the alliance was weighed against Nissan. Then as the alliance became more valuable and the value that Nissan brought to the table was better understood. There was a pressure from the Renault side, as well as from the French government side to convert the alliance into a merger. And Renault's attempts to take extra benefit hardened Nissans stand. And that hardening became very visible once Nissan reached a level of self-assurance and self-financial capability.

Then there was of course, the cultural disparity. French and Japanese cultures were quite distinct. And the growing wedge after Nissan's recovery was something which ensured that there would not be the objectives that could be met as originally thought by the French government. Once Nissan turned around the need balance flipped over that is Renault needed more of Nissan than Nissan needing more of Renault.

The coverage was perfect vehicles, components, sourcing, logistics and geographies. So, from an operational perspective whatever needed to go right did go right. But from a cultural aspect and from a ownership aspect and from equity aspect certain things did not go right as I discussed. Therefore, we have to ensure that the alliances are well balanced.

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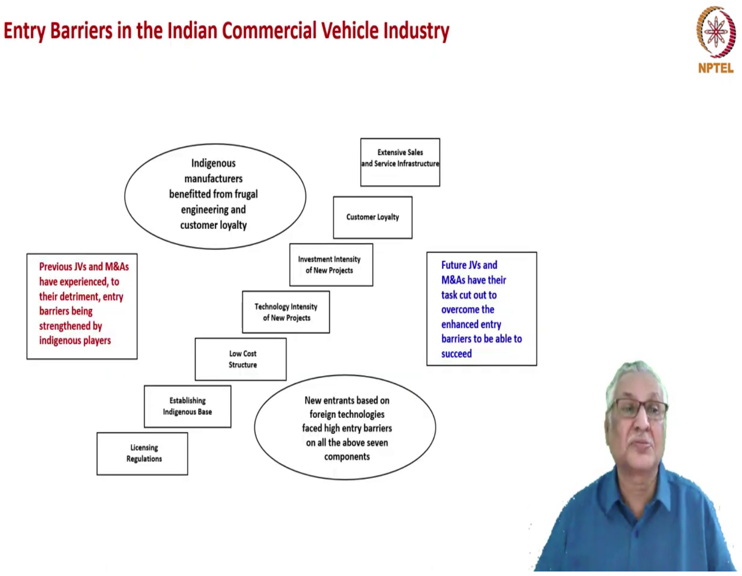

Now, let us look at why alliances have not been very successful in the Indian commercial vehicle industry. In India we have licensing regulations, we have the challenges of establishing indigenous base, we have the challenges of low-cost structure, technological intensity of new projects, investment intensity of new projects, customer loyalty, extensive sales and service infrastructure. These were very prevalent and very strong barriers to entry in Indian commercial vehicle industry until the whole industry was liberalised from 2000 onwards.

Indigenous manufacturers benefited from frugal engineering of Indian vehicle designs and from customer loyalty. And the foreign partners needed the indigenous manufacturers for entry into India and for overcoming some of these entry barriers. And without such alliance new entrants based on foreign technologies had high entry barriers on all the above 7 components.

Therefore, people preferred a JV route by which they could bring those capabilities within the JV system and overcome those entry barriers. That was one of the reasons why there were fewer alliances than giant ventures and M and As in the commercial vehicle industry. So, the structure of the industry becomes very important when you look at whether you should go the alliance route or any other route including only one subsidiary.

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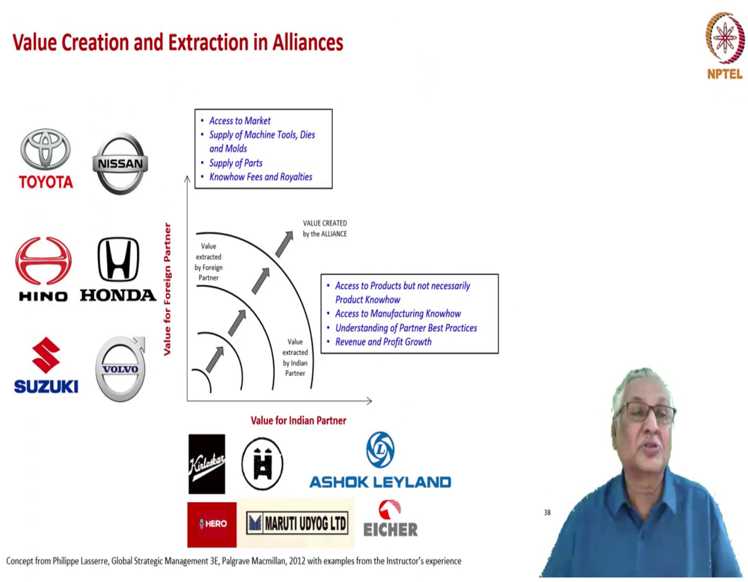

How does value creation and extraction happen in alliances? This is a example I have taken from Philippe Lasserre, global strategic management is the book and I recommend that for you to read. But I have prepared this model with various examples from India. What is the value for the Indian partner is the one-dimension and what is the value for the foreign partner is another dimension.

So, typically an Indian partner in an automobile alliance gets access to products, but not necessarily product know-how, access to manufacturing know-how is provided. Understanding of partner best practices happens, revenue and profit growth happens. What does the foreign partner get? The foreign partner gets access to market. He gets to supply machine tools, dies and molds particularly when they are outdated in the parent country and could be transferred.

The foreign partner gets value from the supplier of parts, from being a supplier of parts. The foreign partner also earns know-how fees and royalties. So, there is a value extracted by the Indian partner, there is a value extracted by foreign partner. But what is important is that this alliance creates cumulatively and jointly. For More alliance than the alliance that is extracted or leveraged by the Indian partner or the foreign partner.

You can see the examples of Toyota Kirloskar alliance, Nissan's alliance with Renault in India, Ashok Leyland’s alliance with Hino, Hero Motor Cup alliance with Honda, Maruti Suzuki alliance in its early days before it became a Suzuki owned Company and Eicher Volvo alliance.

You can find that all of these value components have been extracted by the Indian partners as well as the foreign partners. But overall, the alliance is count out a place for themselves in the Indian automobile industry and in the automobile market. And therefore, they built better value for the companies, than what each company would have built for itself by itself.

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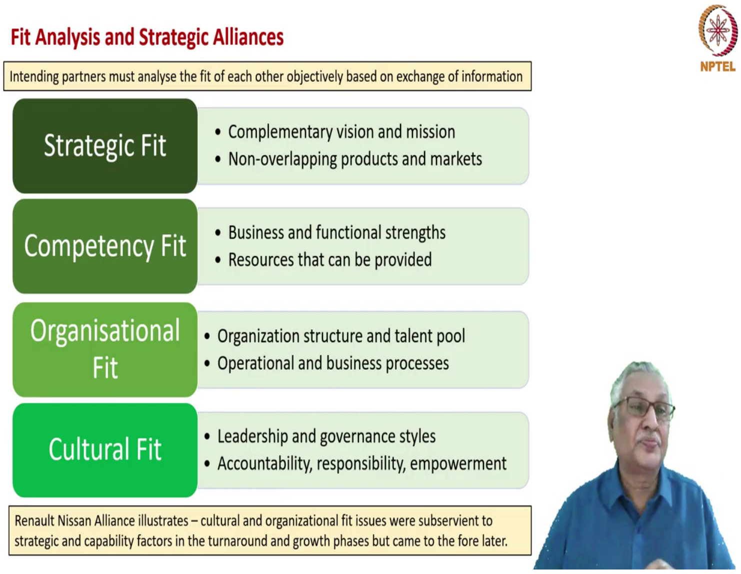

Now, let us look at the Fit Analysis and Strategic Alliance as a topic. Intending partners must analyse in the fit of each other, objectively based on exchange of information. What is the strategic fit in this context? Complement revision and mission. That is the Indian partner should not look at Latin American markets where the foreign partner is already strong. There is no point in entering the parent country, when the parent itself is coming to provide you technology.

However, where cost effective products are involved makes sense for the foreign partner to take products from the Indian partner because of the cost competitiveness. That is where the complementarity lies. Non-overlapping complementary, non-competitive complementary, vision and mission help in the strategic fit. The second one is the competency fit. The business and functional strengths should be better once they are combined.

If there are shortages of business and functional strengths the other partners should be able to provide. So, that a holistic set of business and functional strengths become available for their needs. The resources can be provided and must be provided in line with the business requirements. These resources need not always be financial resources. Land that is owned by the Indian partner could be a huge resource. Similarly, the machine tools that are transferred could be a huge resources.

Intellectual property talent which is brought from both the parties could be resources. Then the organizational fit. The structure of the organization and the talent pool. You cannot easily marry a company which is in the strategic business unit format with a company which is in the functional management format. So, organization structures have to be suitably realigned and the operational and business processes must also be aligned.

If the budgeting process takes 1 month in one company and it takes 5 months in another company it would not be an appropriate fit, you got to harmonize. Then cultural fit the leadership and governance type, accountability, responsibility and empowerment that are provided in respective organizations. These could be having an impact in the way how the alliance operates.

The alliance between Renault and Nissan illustrates that cultural and fit organization fit issues were subservient to strategic and capability factors in the turnaround and growth phases. But they came to the fore later when the basic purposes of the alliance have been fulfilled. It is almost like Maslow's need hierarchy.

Once the basic and security needs are fulfilled, the interest of the individual moves to the higher order needs that was recognition needs, self-actualization need, etcetera. Similarly, in respect of strategic alliances as well, once the basic views are fulfilled the alliance partners look for more involved, more evolved strategic needs.

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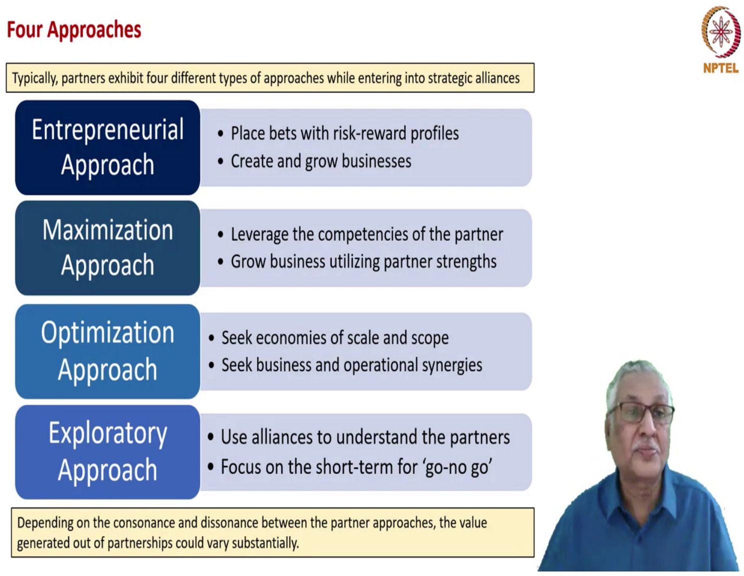

There four approaches when you are looking at an alliance, the first is an entrepreneurial approach, that is you are placing bets with risk reward profiles which you understand, a priory or you hypothesis. And the approach is one of creating and grow businesses that what an entrepreneur does.

The second is maximization approach, that is each of us as partners has some capability. Why not leverage those competencies to the fullest extent? And why not we grow the business utilizing the partner's strength to the fullest extent the third approach is the optimization approach that is together we must have economies of scale and scope. We should see business and operational synergies not just growth of top line or control of middle line. We should do something different and that is the optimization approach.

And the fourth one is exploratory approach. I would like to be in India or China, but I do not to know the market yet. Let me see how it goes by having an alliance with one of the local partners. So, use of alliances to understand the partners focus on the short term for a decision on go or no go for the long term. Depending on the consonance and dissonance between the partner approaches, the value generated out of partnerships could vary substantially.

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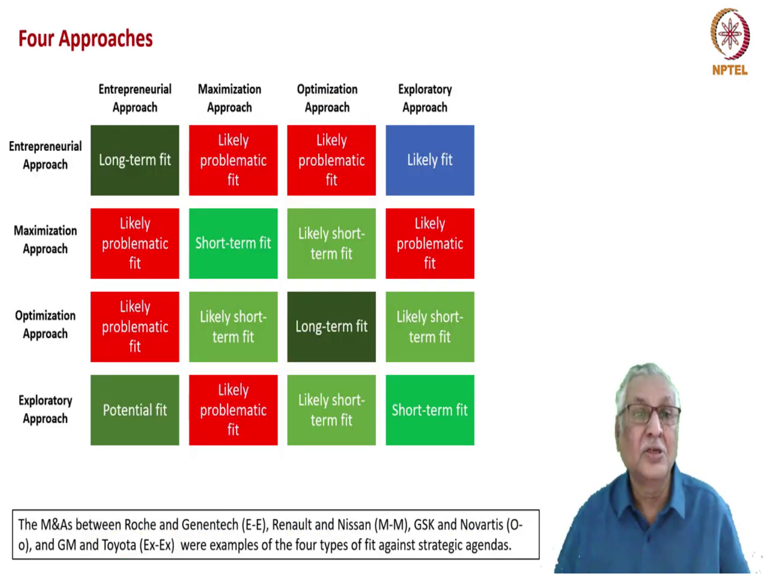

So, if you combine these four approaches from the point of view of partner A and from the point of view of partner B. You will easily find out where there could be long term fit and where there could be potential fit, where there could be problematic fit, some of it certain problematic fit and some of it likely problematic fit. So, if both the partners have entrepreneurial approach, it could be a really a long-term fit.

But if one partner has entrepreneurial approach and the other partners have either maximization approach or optimization approach, it could be a likely problematic fit. If one partner has entrepreneurial approach, but the other partner has exploratory approach, there could be a potential fit. Let us say the partner has maximization approach, but the other partner has entrepreneurial approach, then it would be a likely problematic fit. If both have maximization approaches, it would be a short-term win win for the companies.

If one has maximization and the other has optimization as respective approaches, it will be likely short-term fit. And if one is wanting to look and feel, but the other is wanting to have maximization, it will be a problematic fit in all probably. When you have optimization approach on the part of the partner A and you have entrepreneurial approach on the part of partner B, you will have a problematic fit.

But there could be varying degrees of fit, short-term, long-term or likely short-term, depending upon whether the optimization approach of one partner is seconded by maximization approach or optimization approach or exploratory approach of the other partner. Then when you look at the exploratory approach of one partner and when you combine it with entrepreneurial approach, you will get a likely fit.

But when you look at the exploratory approach, with the maximization approach, you will have a problematic fit and you could have a short-term fit, or likely short-term fit when it combines with exploratory approach or optimization approach. In general, if both the partners share the same kind of approach, then you are likely to have better fit in terms of generating value in the marketplace.

The mergers and acquisitions that have happened between Roche and Genentech is classified as an entrepreneur to entrepreneur approach. Roche wanted to get into the biosimilars field decades ago and Genentech was a pioneer in the biotech field. But at that point of time, neither could and you see that biologic drugs would be as prominent constituting as much as 80 percent of the pharmaceuticals developed in the 2020s.

But they thought about it entrepreneurially and decided to join hands and eventually Genentech became a Roche company and it has been a very successful partnership. And finally, an M and A. Renault and Nissan has been a maximization approach, where Nissan's position and Renaults position was sought to be maximized based on mutual resources.

GSK and Novartis have been optimization to optimization approach and GM and Toyota when they first combined for a automobile venture in United States, they were exploring each other. It was exploratory to exploratory approach. These are the four types of fit that could be seen in actual practice against the strategic agendas that are possible in terms of these combinations.

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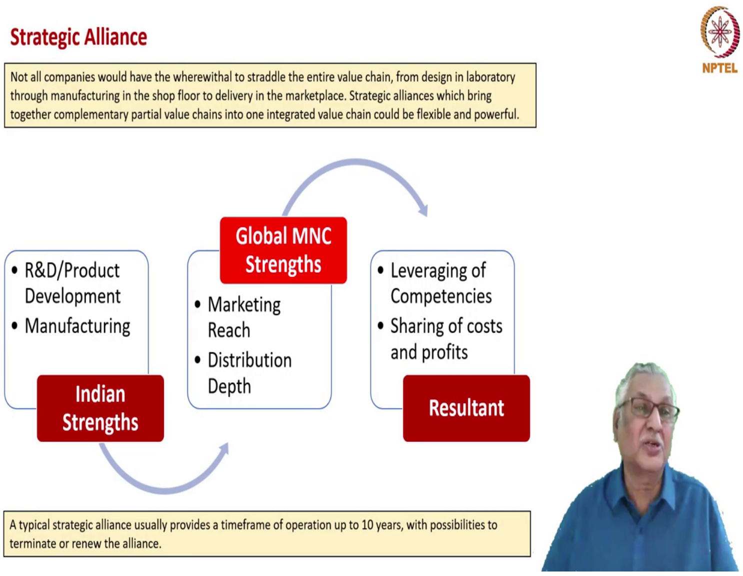

Not all companies having the strategic alliance would have the wherewithal to straddle the entire value chain from design in laboratory through manufacturing the shop floor to delivery in the marketplace. Strategic alliances which bring together complimentary partial value chains into one integrated value chain could be flexible and powerful.

So, if you look at an Indian MNC, allowing with a global MNC, the strengths will get multiplied as follows. Indian strengths are in terms of R and D and product development and in terms of manufacturing. Global MNC strengths are in terms of marketing reach and distribution depth.

And the resultant of this combination would be leveraging of competencies and sharing of costs and profits. A typical strategic alliance provides usually a timeframe of operation up to 10 years with possibilities to terminate or renew the alliance.

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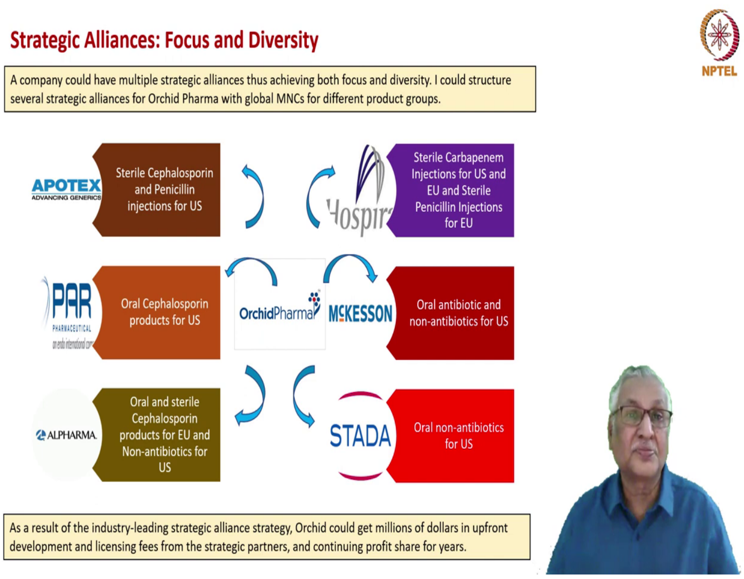

Let us look at some examples of strategic alliances and how focus and diversity are supported by strategic alliances. A company could have multiple strategic alliances thus achieving both focus and diversity. I could structure personally, several strategic alliances for orchid pharma with global multinational co-operations for different product groups.

And that was made possible because the company could generate its development and manufacturing capabilities through assets and intellectual capability across multiple product groups, across multiple therapeutic groups and also multiple asset classes and intellectual capabilities. So, we teamed up with Apotex, a major generics company based out of Canada, but operating in the US and Europe as well as Canada for sterile cephalosporin and penicillin injections for the United States.

We teamed up with Par Pharmaceuticals for oral cephalosporin products for US. We also teamed up with Alpharma for overall and sterile cephalosporin products for European Union and non-antibiotics for the United States market. I teamed up with Hospira for sterile carbapenem injections for US and EU and sterile penicillin injections for EU teamed up with McKesson for overall antibiotic and non-antibiotics for US and with Stada for overall non antibiotics for US.

So, one company, orchid pharma, could tie up with six global majors in the generic space covering overall and sterile products in antibiotic and non-antibiotic space and in different kinds of dosage forms. And that is the power of strategic alliance for a company which has got a value chain which is diversified and unified in certain part of the overall value chain.

As a result of the industry leading strategic alliance strategy, orchid could also get millions of dollars in terms of upfront development and licensing fees from the strategic partners and also continuing profit share for years. So, it has been a game changing strategic alliance strategy for orchid pharma.

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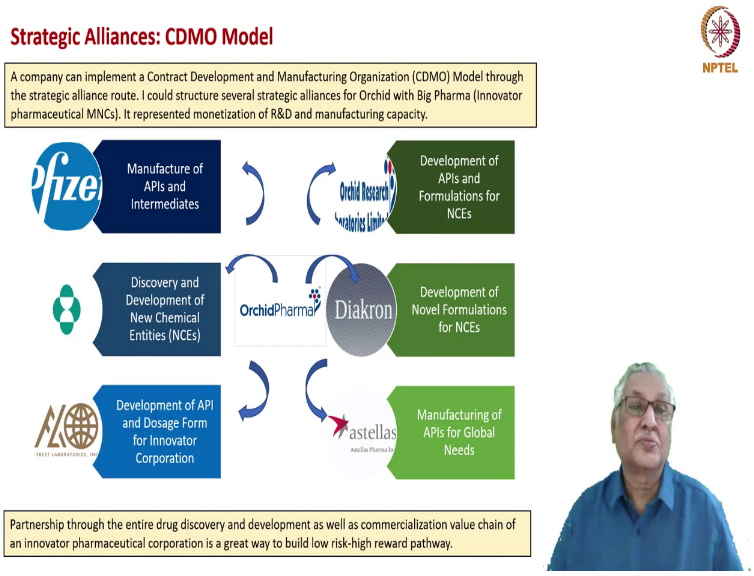

You can also have the same kind of approach in the CDMO model as well. So, it is very unusual for a company to be a major partner for generic companies, but also be a major partner for big pharmaceutical companies and that is something which I could achieve. Thanks to the diversified infrastructure that orchid pharma put in place. I could simultaneously therefore, implement a contract development and manufacturing organization CDMO model through the strategic alliance route.

Several strategic alliances for orchid with big pharma that is innovative pharmaceutical MNCs could be structured by me and it represented monetization of R and D and manufacturing capacity. So, with Pfizer we had manufacture of APIs and intermediates.

With Merck we had discovery and development of new chemical entities NCEs as we call. With forest laboratories we had development of a novel API and dosage form for an innovator corporation and also for a new cephalosporin antibiotic that was just discovered.

We had a capability in terms of orchid research laboratories a wholly owned subsidiary for developing APIs and formulations for NCEs which was available for a wide spectra of companies entered into a strategic alliance with background for development of novel formulations for the new chemical entities, which it could take up to a particular point.

Then we had provided a manufacturing support capability for as well as a global big pharma company operating largely in US, Europe and Japan for manufacturing and supply of APIs for their global needs. So, partnership through the entire drug discovery and development as well as commercial value chain of an innovator pharmaceutical corporation is a great way to build low risk high reward pathway.

But the due diligence that will be conducted by these companies particularly the big pharma companies would be stupendous. The company has to measure up to the exacting benchmarks and the exacting quality standards that the innovator companies have for themselves and also for their partners. With this we come to the end of this lecture. I hope you enjoyed the insights and you benefited from the insights that have been provided for you as part of this lecture.

Thank you very much. I hope to see you in the next lecture.