The Science of Alliances

Success factors in Joint Ventures and Strategic Alliances

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Contents

Alliances – an emerging trend…

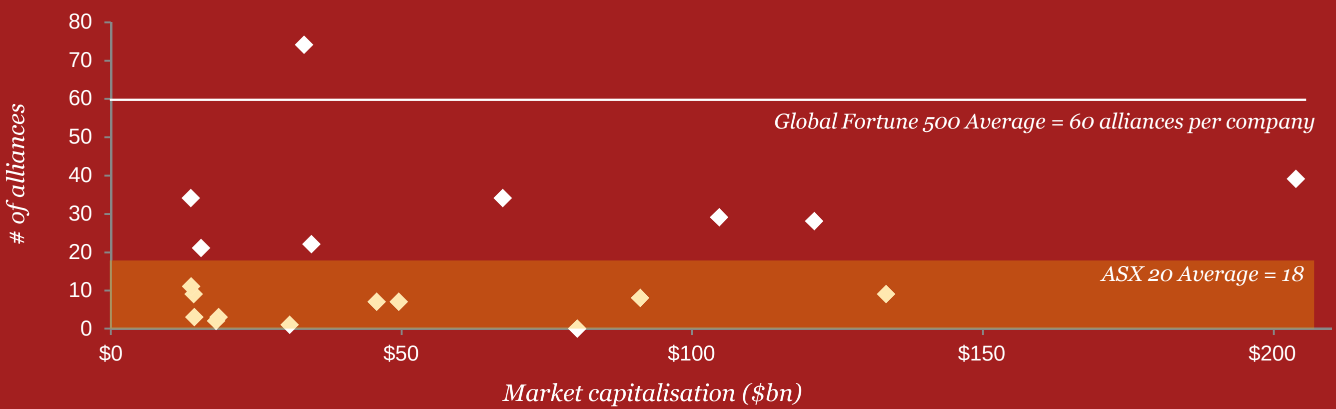
2014: alliances are on the rise…

- The first half of 2014 has seen a run of new joint ventures and strategic alliances[1] in Australia. For example:
  - Telstra announcing an intention to expand in Asia through partnerships with other regional players, and an expansion into the telesecurity industry through a JV with established player SNP Security;
  - Woolworths announcing a new financial services JV with Macquarie Bank and Visa, and an extension of its Masters JV with US player Lowes.
  - Coles announcing a major new financial services JV with GE Capital.
  - Echo Entertainment joining forces with two Asian partners to develop a Brisbane casino and entertainment complex.
  - UK retailer SportsDirect announcing a partnership with Australian online player MySale and a major retailer to enter the Australia & New Zealand market.
  - Aurizon's partnership with Chinese steelmaker Baosteel in a $1.4bn bid to acquire WA-based Aquila Resources.

…and set to continue, with potential for up to $100bn of alliance activity in Australia over the next few years

- With many Australian industries facing mature and consolidated markets, the onus is on Australian companies to find growth from emerging markets (in particular, in Asia) and/or adjacent industry sectors.
- Many will not be brave, or be foolhardy enough to deliver these opportunities by going it alone, or through outright M&A.
- We believe an increasing number of companies will join forces with a partner to seek the benefit of complementary capabilities to accelerate delivery times and mitigate risk.
- Supporting this view, recent PwC research found that 43% of Australian CEOs were planning to enter a new alliance in the next 12 months, up from 28% who had undertaken alliances in 2013. [2]
- This is in line with the trends seen in other developed markets such as US, where more than 40 per cent of business is conducted through alliances and partnerships, up from less than 5% in the 1990s [3] (see Figure 1).
- A similar trend in Australia could see up to $100bn in new alliances over the next few years.

Figure 1: Australia vs global: Number of Alliances, FY13



Source: PwC
# of alliances includes joint ventures, significant associates and partially owned subsidiaries <95 per cent ownership.

1. The term alliances is used throughout the document to describe both joint ventures and strategic alliances
2. Source: "17th Annual Global CEO Survey – Australian results", Q1 2014, PwC
3. Source: Wharton School of Business

...and a positive one

We think this is a good thing, with the rise of globalisation...

- As the recent acquisitions of ASX-listed icons such as Goodman Fielder, Fosters, David Jones, Australand, Warnambool Cheese & Butter by overseas acquirers demonstrates, the leading companies of the future are likely to be increasingly global in nature.
- Alliances offer Australian companies a way to expand and globalise without 'betting the farm' upfront on unfamiliar markets.

...and leading global companies proving the value of alliances

- Alliances, if done well, lead to outperformance and competitive advantage. An MIT study of 200 corporations with 1,572 alliances found that stock prices jumped approximately 1 per cent, or the equivalent of $54m per alliance, with each new announcement.
- A successful Australian example is SEEK, who have systematically grown their presence in international markets over time by entering a series of new alliances and growing their share over time.

Figure 2: Companies are turning to Alliances to drive growth and to benefit from a partner's complementary skills and capabilities

Source: PwC

But over half of all alliances fail…

Unfortunately, most alliances fail…

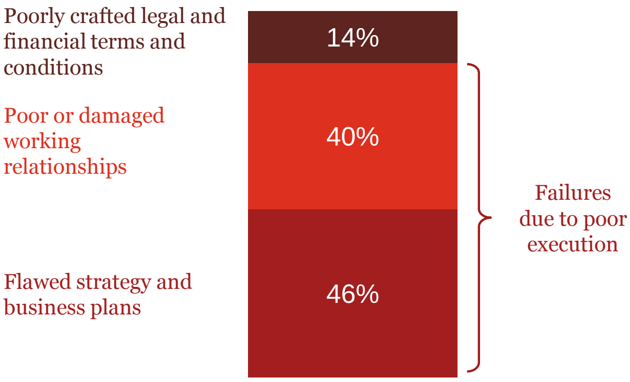
The rationale for alliances is usually sound. The participants are usually committed to making the alliance a success. Yet the failure rate is unacceptably high.

Over half of alliances do not meet their objectives, and two-thirds end within 2 years of formation.

Why?

The answer, as many experienced M&A practitioners will suspect, lies in the execution process (see Figure 3).

Figure 3: Causes of alliance failure



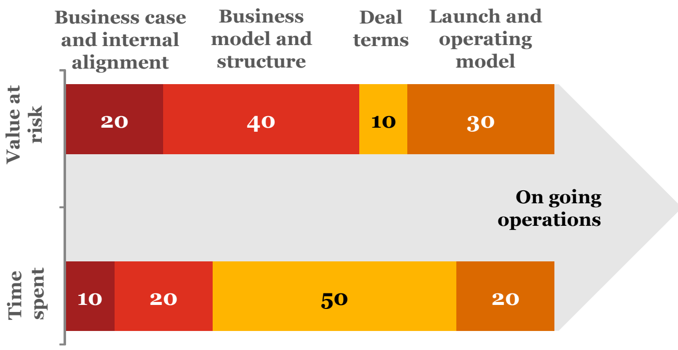
Source: Vantage Partners

…usually due to flawed implementation

- Often, too much time is spent on low value adding activities (see Figure 4) when planning and executing the alliance. Legal and deal issues can consume approximately half of management's time. These often protect the parties upon dissolution, but are not sufficient to drive success.

" Our agreement sets out, in plain English, clear JV principles and each party's role . It is a good fall back, but not a document we often need to reference."
Lucas Dow, Asset President, BMA

Figure 4: Time is often spent on low value activities



Source: McKinsey

The competitor mindset

- Partners are often historic competitors, and find it hard to escape this mindset. Political behaviour and hidden agendas commonly eventuates. Protection of one's own interests, and fighting for the largest share of the pie, often then becomes more of a focus than growing the pie itself.

"We align individual and team objectives to an overriding concept of 'total venture return', which reduces the risk of silo thinking & behaviours."
Brian Mumme, President, North West Shelf

Common pitfalls

- *Breakdown in trust*
- *Incentives for destructive behaviour/ 'cheating', e.g. cost-plus*
- *Mindset of partner as a competitor*
- *Alignment of people at working level*
- *Politics (especially in cross-border alliances)*
- *Hidden agendas, e.g. 'learning race'*
- *Cultural misalignment*
- *Lack of due diligence on partner – check their alliance track record*

"Differences between partners are essential to the value proposition of nearly every alliance, yet these same differences often lead to mismatched expectations, inefficient decision-making and often outright conflict" [3]

3. Source: Vantage Partners

...eroding value when they do

The importance of trust

Most companies enter into alliances driven by a desire to achieve certain strategic objectives. However problems can ensue if these objectives are not aligned with those of their partner. In such cases, the alliance can become a behaviourally destructive 'learning race' with each party seeking to out-run the other.

Often, the inability to align competing agendas leads to a breakdown in working relationships and trust, rendering the alliance unworkable.

"If there is a strong relationship between JV operators with a high degree of transparency and trust then you can make almost anything work…without transparency and trust even the best planned JVs will fail."

Andrew Warrell, Director, ExxonMobil Australia

The alliance paradox

Most alliances are born from the need for the different qualities that a partner brings. Yet those differences – in culture, objectives and decision-making – can often cause friction and conflict, and derail success.

Alliances are often likened to marriages. This analogy has some basis in truth. There is no 'winner'. Both parties need to work collaboratively toward a common goal and grow the strength of their mutual relationship to deliver success.

"Both partners have an aligned long term view. Neither would prioritise short term profit over long term success"

Lucas Dow, Asset President BMA

Impact of alliance failure – example : Suzuki / Volkswagen

Suzuki's Chairman and CEO Osamu Suzuki:

- "Today Suzuki terminated the partnership with Volkswagen. Suzuki will be seeking the return of its shares from VW in arbitration.
- I am disappointed that we have to take this action but VW's actions have left us no choice. They have continued to refuse our attempts on numerous occasions to resolve these issues through negotiation.
- I am more disappointed that having shaken the hand of Dr Winterkorn in agreeing to this partnership, he has not honoured his commitment to grant Suzuki access to what was originally agreed.
- In the absence of VW's cooperation and given its failure to do what was agreed, there is no basis for the partnership to continue.
- With the cessation of the partnership there is also no basis for VW to hold on to Suzuki's shares.
- We will now work to restore the relationship between Suzuki and VW to its original state as independent parties who do not restrict each other's business. I call on Dr Winterkorn to honour this."

Source: Suzuki press release – 18 Nov 11

"Alliances are often said to be like marriages. The partners have to understand each other's expectations, be sensitive to each other's changes of mood and not be too surprised if their partnership ends in divorce."

The Economist

Alliances vs M&A: in some ways similar, but the differences are key

The Professionalisation of M&A

Over the last 5-10 years, many Australian corporates have developed repeatable processes for mergers, acquisitions and divestments. These 'playbooks' provide step-by-step guidance for most typical transactions.

Can a typical M&A approach be applied to alliances?

Alliances vs M&A: in some ways similar…

At first glance, alliances share some similarities with M&A.

- Rationale for entry is often similar – inorganic growth.
- High failure rates, predominantly due to poor execution (it is well known that 2/3 of mergers also fail).
- A structured and well planned execution improves the likelihood of success.

…but the difference is key

Unlike traditional M&A, in which the acquiring or majority party takes operational control, alliances require **collaborative** strategy and planning. A failure to collaborate can destroy trust and lead to the dissolution of the alliance.

In contrast to M&A, alliances share benefits & risks equitably between participants. The alliance and its parents may feature different cultures and governance processes. Alliances are finite in nature and need to be reviewed regularly to ensure they are on track to meet each party's objectives. They may evolve over time and as such, benefit from flexible contractual agreements.

"BMA is a true partnership of equals based on clear, agreed, complementary roles. Both parties feel equally treated, have pride in the venture and have mutual respect for each other. "

Lucas Dow, Asset President, BMA

Figure 5: Understanding the key differences between alliances/ JVs and M&A is important to deliver both successfully

	Strategic alliances/JVs	M&A
	Collaboration and co-creation	Unilateral planning
Agreement negotiation	Flexibility	Rigidity
Duration	Finite	Infinite
Benefit & risk allocation	Shared	Individual
Governance	Numerous management teams	One management team
Culture	Alliance culture different to partner	One prevailing culture
Strategic alignment	Regular review of alliance	Integrate acquisition

Source: PwC

What good looks like

Despite there being no 'silver bullet' to the success of an alliance, there are a number of factors that are paramount for success

Alliances are high risk and high maintenance. The execution process is where success is won and lost. Significant commitment from the senior leaders of each parent is required to maintain rigorous, professional end-to-end execution.

A true end-to-end approach encompasses four distinct stages of an alliance lifecycle: exploration, establishment, execution and ongoing evaluation.

Long term success comes from building enterprise capability

Leading practitioners use alliances as a complementary tool to traditional M&A to drive growth.

They develop an enterprise wide alliance culture and capability, systematically manage the alliance process and continuously learn from their experience.

This leads to a higher alliance success rate, more and better alliance partners and higher stock market gains upon alliance announcements. The end result is a more successful approach to growth.

Based on our research and experience, we offer 7 keys to success which will not guarantee success, but certainly help participants avoid the most common pitfalls.

Figure 6: 7 drivers of alliances success that apply to your next alliance and the longer term

Rigorous execution of each alliance	*1*	***Strategy first***	• Start with a strategy, not a partner. • Be clear on ***why*** and ***how*** this Alliance helps execute your strategy more effectively than organic growth or M&A • Consider the big picture and alternatives - market trends, competitor actions, whether the Alliance would be better as a JV or acquisition, before considering potential partners
	2	***Invest in joint upfront planning***	• Invest in time upfront to plan collaboratively with your partner and get to know them • Jointly develop a compelling business case • Agree desired culture and behaviours, and appropriate incentives to drive these. Choose the right people. • Establish clear governance, responsibilities and decision rights
	3	***Plan the end***	• Consider the circumstances that might lead to dissolution, and agree what will happen to any shared assets and people
	4	***Create trust***	• Adopt a 'win-win' mindset'; focus on growing the whole pie, not securing the biggest slice • Make and live up to small, ongoing commitments; ensure equity, reciprocate co-operation and transparency and be willing to adapt
	5	***Start small***	• Begin with a narrow, achievable shared objective for early success • As trust and confidence grows, learn, adapt and evolve
	6	***Keep track***	• Circumstances change, and alliance success is based on learning, evolution and adaptation. Regularly assess performance against the alliances' objectives, supported by agreed metrics
Long term advantage	*7*	***Build enterprise -wide capability***	• Leading companies implement a dedicated corporate alliance management function • Such functions codify & share best practices, drive collaboration and ultimately create an enterprise wide 'alliance culture' • They leverage leading technologies and innovative solutions to remotely collaborate and establish efficient ways of working

Start with a strategy, not a partner

Each alliance is complex and unique.

However we believe there are seven core drivers that underpin good alliance execution.

1. Strategy First

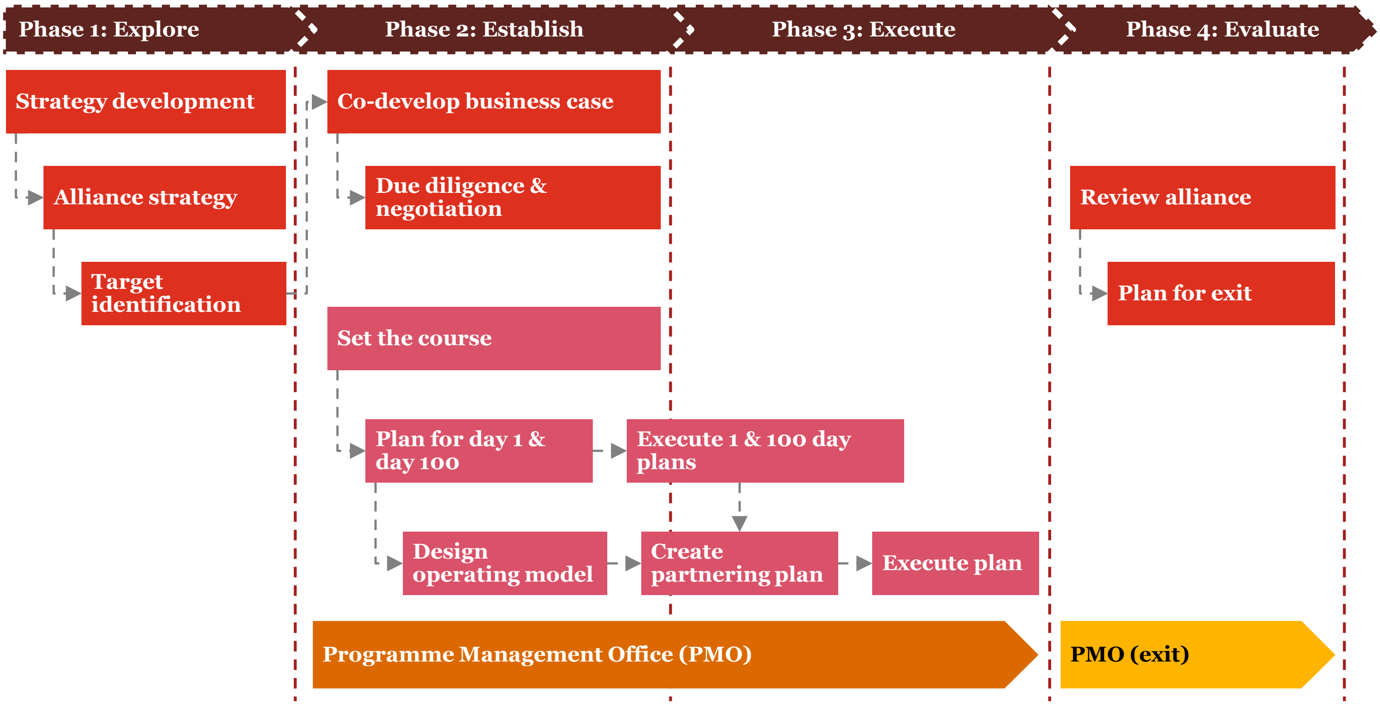
- A well understood strategy underpins each step in the critical path to success for an alliance. Start with a strategy, not a partner – and ensure clarity around core capabilities, trade-offs and strategic priorities.
- Be clear on why and how this alliance helps execute your strategy more effectively than organic growth or M&A.
- Consider the bigger picture and the alternatives – market trends, competitor dynamics, whether the Alliance would be better as a JV or acquisition and the potential partners.
- Due diligence on potential partners is of course essential to establish financial & operational background. A review of the partner's historic alliance track record is also recommended.
- The alliance's business plan needs to reflect the input and agreement of each participant and should be clearly and comprehensively documented in a form that is monitored & revised over the life of the arrangement.
- When all parties to an alliance understand the respective strategic rationale and objectives motivating the alliance, there is a far great likelihood that the participants will be able to build a sense of mutual trust. This then facilitates the negotiation of the transaction and means there is a greater likelihood the participants will be able to establish a framework for the ongoing monitoring and management of the alliance, benefiting everyone involved.

"The greater the clarity, for both parties, on the strategy and purpose of the JV, the more likely joint success will be achieved."

Andrew Warrell, Director, ExxonMobil Australia

- There may be many structuring options available, ranging from incorporated JV to non-incorporated strategic alliance. These should be carefully considered as the commercial structure of an alliance may impact management of working capital and results of the organic businesses of the partners involved. The alliance can be structured to either absorb the asset base and results of the alliance into the partners' businesses, or quarantining the asset base and performance of the alliance to avoid "clouding" of the working capital and performance of the organic businesses.

Figure 7: PwC JVs & Alliances Methodology (outline)



Build alignment and trust

2. Invest in joint upfront planning

- Invest in time upfront to plan collaboratively with your partner; get to know them, their experiences and previous learnings in alliances, and their operational perspectives and culture.
- Each interaction pre-close provide opportunities to explore alignment of short- and long-term objectives.
- Bring both sides to the table early and often to confirm the strategic aim of the venture and how each partner complements the other, and what they will contribute, to deliver an alliance that is stronger together.
- Cultural conflicts are known to be a major challenge to successful deal making, so it is often helpful to conduct an objective cultural assessment of both parties to understand similarities and differences, and perceptions on both sides, to mitigate potential friction.

"While staff come from all participants, we have a clear set of behavioural standards for the JV – one 'entity policy manual' - and an aligned set of office rules."

Brian Mumme, President, NWS Australia LNG

- Identify the assets, people, resources and IP essential to the success of the business alliance and reach consensus. Alliances work best when its partners have differentiated roles and when economic benefits to seen to be equitable based on each partner's input.
- Pre-close agreement should be reached surrounding the partner contributed assets, gain/loss recognition as well as clear organisation and governance structures. It is important that both parties are aligned prior to close, and that a detailed integration plan is developed to enable immediate execution post close.

3. Plan the end

With an average duration of 4 years, alliances are finite. Consider the circumstances that might lead to dissolution, and agree what will happen to any shared assets and people – the 'pre-nup'.

"It is inevitable that JVs will come to an end. This is a good thing, as businesses need to continually evaluate their positions in a changing environment. Parties need to be able to exit JVs in an orderly fashion when they stop delivering mutual benefits".

Andrew Warrell, Director, ExxonMobil Australia

- Exit triggers are often poorly defined or misunderstood from the outset of the alliance. Clarity around the circumstances allowing any participant to divest their ownership or interest in the structure, and the related valuation formula, should be negotiated and agreed to in the formation phase of the alliance.
- The exit plan should cover situations of termination in the case of poor performance, changing environmental conditions or a predefined period/objective reached. It should clarify how alliance partners will distribute assets at the dissolution of the alliance. Cover issues like the transition process and timeframe, asset valuation methodology, asset protection and asset entitlement.

4. Create trust

- As in marriage, trust between alliance partners is fundamental. Adopt a win-win mindset where the focus is on growing the whole pie, not securing a bigger slice of the pie. Make commitments to further the alliance, and honour them.
- Work closely and reciprocally together, including being open, transparent and willing to adapt. This trust begins during the negotiations process, from how leaders communicate to how they gain consensus. The ability to work collaboratively while engaging in the inevitable confrontations involved in reaching the right terms is fundamental to building and sustaining trust.
- Stimulate the right sort of behaviour. It is important to create situations that promote the attitudes and behaviours the leaders want – such as establishing a reporting structure that requires reporting to both organisations. This encourages staff to identify with the alliance, reduce uncertainty and set expectations.
- Both alliance partners need to incentivise the other parts of their organisation to create an internal environment that supports the alliance / JV rather than creating barriers and blockages.
- Identify key stakeholders in the alliance process and ensure that the rationale for the alliance is communicated and understood. Face-to-face communications by the leaders of the each company at the offices of the partner company are particularly productive in building valuable relationships.

"Parties may be fierce competitors outside the JV, but within the JV the outcome must be win-win. Industry has a long memory and your reputation as a partner is critical"

Andrew Warrell, Director, ExxonMobil Australia

Evolve and monitor

5. Start small

- Begin with a narrow, achievable, and shared objective and deliver early success. It is important to build early momentum to increase buy-in to the alliance and the ongoing change process. Manage expectations and as trust and confidence grows, learn, adapt and evolve to larger ambitions.
- Alliance management should feel sufficiently empowered to make decisions quickly without being slowed down by the parents. The focus is on achieving the 'ideal state' of synergy while maintaining sufficient independence for agile day-to-day decision making.

"Both parties have a willingness to learn from the other and have benefitted from the perspective that the other partner brings"

Lucas Dow, Asset President BMA

6. Keep track

- During the early days of the alliance, everyone from the top to the bottom of the alliance needs to behave consistently despite historic differences. It is therefore essential to establish clear, tangible shared objectives which can be used to align the organisation and be tracked against.
- Alliances are a challenge to structure, negotiate and implement, however, they are often most challenging once established and operating. It is vital to have a clearly defined reporting framework that tracks business performance and enables both parents to monitor progress against their objectives.
- Similarly, it is crucial to develop key performance measures to guide employee incentives, assess employees' contribution to the alliance, and to enable fair distribution of rewards. Attention to softer issues should also be recognised.
- Governance agreements that set out how and when participants can exert influence over decisions of the JV management team are important. Alliance partners should take advantage of the ingrained optionality of alliances by regularly reviewing the alliance's progress against its objectives, and alignment to their organisational strategy. Circumstances change, and alliance success is based on learning, evolution and adaption. An alliance is not forever and the option to redirect the alliance or dissolve it is always available.

"For ongoing success, managing potential conflicts between parties and preserving alignment/neutrality with regards to the JV is critical. We constantly monitor such pressures and mitigate these on an ongoing basis"

Brian Mumme, President, NWS Australia LNG

Embed long-term capability

☑ 7. Build enterprise wide alliance capability

Leading alliance practitioners such as HP, Cisco, Philips and Eli Lilly have implemented a dedicated corporate alliance management function. The role of such a function is to act as a corporate centre of expertise and to embed alliance capability and culture across the organisation.

This can include:

- Alliance learning and sharing of best practices/ intellectual capital.
- Internal coordination and initial evaluation.
- Decision-making guidance on new proposed alliances.
- Sounding board for alliances facing problems.
- Ongoing alliance governance and if required resolution of escalated issues.
- Leveraging latest technologies to embed efficient and innovative ways of working.
- External visibility (e.g. to the investor community).

Such functions establish a structure and culture that transcends individual alliances.

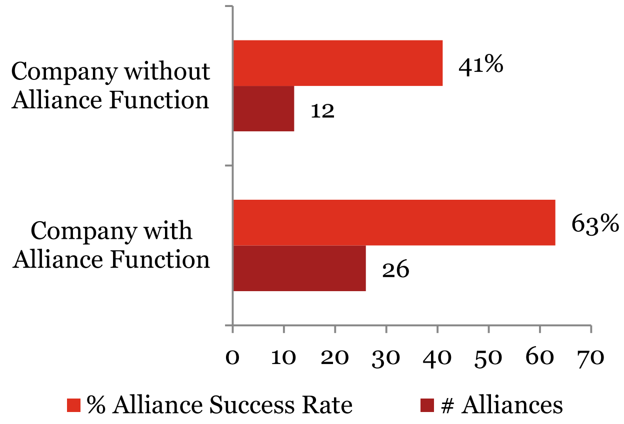
They tend to evolve their role and influence over time:

- Initially, the function normally assesses the logic for alliances, evaluates potential partners based on strategic and organisational fit and facilitates ongoing alliance performance assessment.
- In the medium term the function starts to codify key learnings, develop templates and tools for alliance assessment and decision making and provide point expertise.
- In the long term it drives collaboration, identifies alliance target partners and opportunities, co-ordinate relationships with key partners and ultimately creates an enterprise wide 'alliance culture'.

Such functions have been shown to benefit organisations through:

- Increased rate of success for alliances (up to 45% higher success rates).
- Advantaged position for future alliances (better partners, more alliance opportunities identified, greater ability to execute).
- Higher abnormal stock market gains (external recognition of alliance capability).

Figure 8: The impact of an alliance function



Source: Wharton School of Business

"The most critical component of building a JV capability is to have dedicated people who form strong working relationships and work towards achieving common objectives to create shared value."
Andrew Warrell, Director, ExxonMobil Australia

For alliances in emerging markets there are some nuances to consider

The implementation of a JV or alliance in an emerging market can be fraught with complex issues. These markets can present cultural, regulatory and economic challenges that must be anticipated early. All too often, participants in JVs and alliances in these markets will be required to exercise considerable judgment and that may mean difficult trade-offs become necessary in order to navigate the conflicting perspectives of key internal stakeholders. There are many nuances in each and every emerging market, so participants should enter into these arrangements with their eyes open. Here are some of the key themes that require careful consideration:

- Are foreign investment conditions for JVs at risk of changing (i.e . percent of domestic share, management composition requirements, entry/exit conditions)?
- Are market access arrangements or similar commercial policies relevant to your business expected to change?
- How will sovereign risk be monitored, and which models will be used to assess, predict and prepare for potential issues?
- How are government relations and lobbying efforts to be managed?

- Can your partner help you tailor your products or service offerings for local market needs & dynamics (e.g buyer behaviour, product design, brand, specification, pricing, quality, channel, revenue or fee restrictions)?
- Do local policies and commercial requirements impact your business model and competitiveness?
- Do you and your partner agree on business practice standards that apply to the JV (i.e. business practice governance, consequence of departure, performance standards)?

- How will financing occur and how will capital be allocated?
- What is the structure and extent of financial entity regulation and supervisory oversight?
- Has the profit repatriation process been defined?

- Are differences in working styles truly understood (e.g. process of decision making, hierarchy, attitude to time, expression of opinions, conflict management)?
- To what extent are deep business relationships required to be cultivated to do business?
- Is religion a significant factor of doing business in the region?

- Will local employees be available and skilled for the role?
- Are the partnership's hiring practices in line with local labour laws and procedures?
- What are the partnerships' remuneration and benefit policies (i.e. expatriate cost sharing arrangements, compensation levels)
- What are the safety precautions being taken for employees working in these emerging markets?

- What are the necessary legal frameworks, contractual and compliance requirements?
- Is the JV legal entity structure aligned to available tax benefits?
- Are there any differences in governance standards and business practices (i.e. legal, taxation, authorisations/ permits) in the partnership that need to be reconciled?
- Will intellectual property transfer and control occur between partners?

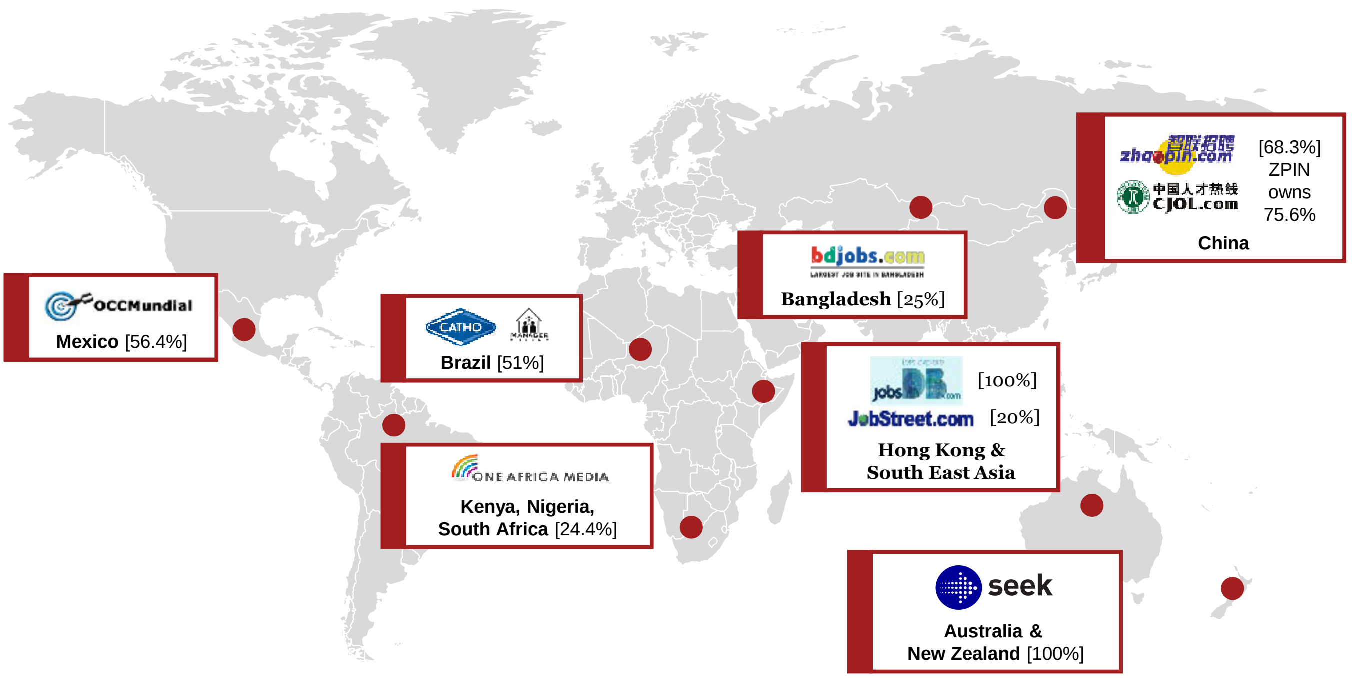
Care and caution are required as corporate cultures and operating styles can be dramatically different from one emerging market to another – there is not a one-size-fits-all solution.

Case study: SEEK – driving growth from emerging markets

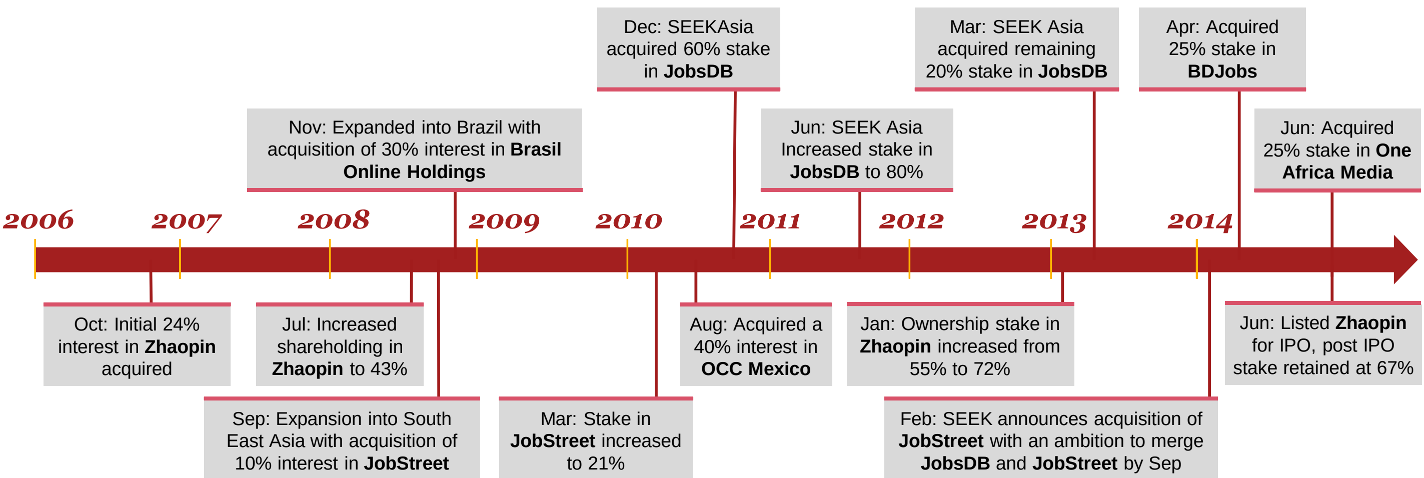
Overview of SEEK Limited ('SEEK')

ASX-listed SEEK is the world's largest online employment marketplace by market capitalisation. Since 2006, SEEK has expanded its global footprint through a series of equity investments in partners in Mexico, Brazil, SE Asia, China, Bangladesh and Africa, in addition to its business in Australia & New Zealand. It has interests in market leading businesses that are exposed to a combination of over 2.5bn people in emerging markets. The organisation has progressively invested in new businesses as well as growing its stake on existing businesses. SEEK's International businesses now represent over half of SEEK Limited's revenues.

SEEK around the world



SEEK's journey into Emerging Markets



Discussion with Jason Lenga, Managing Director, Seek International

On strategy…	*"We have a clear 'top-down' strategy - choose large markets with favourable internet penetration trends and competitor dynamics; then select partners based on quality of management, and alignment of their philosophy and objectives with ours"*
On joint planning…	*"We have learned to consider each market as unique, and to be guided by local management. If we can't Persuade management to do something that we think is a good idea, it probably shouldn't be done."* *"We have made mistakes and learned from our experience .We are forever adapting on the international front as a result."*
On planning the end…	*"We want to invest and have significant presences in international markets for the long term, but things sometimes change and you need to keep an open mind."*
On trust…	*"Trust is absolutely fundamental to success. I've learned that the best approach is to put yourself in your partner's shoes – ask yourself why they should trust you? They are taking as much risk as you. "* *"In the early days, we had to force our way into opportunities. Now we have built a reputation as trustworthy partner, opportunities come to us."*
On starting small…	*"We often initially take minority interests to manage risk and learn about the opportunity from the inside. Once we become more comfortable, we are happy to increase our share. We don't see the need to control and operate from Day 1."*
On keeping track…	*"We apply the governance we need but without stifling management. Managing risk is easier if you ensure you are backing people you can trust. We do a lot of due diligence but have learned to live with risk."* *"Equity incentives are good for aligning interests. It's important that management feels a level of ownership and control over their own destiny."*
On building enterprise capability…	*"Knowledge used to be in the heads of a few people, but as we've grown, we've embedded and institutionalised that capability across a wider team. We've consciously built our capability, brought the right people on board and we now feel much more comfortable about executing on the international opportunities."*
Parting shot – advice to others…	*"Go out and do it. It will be hard, but don't fear it. Persevere. It's worth it and the rewards are there if you are patient."*

Conclusion

Alliances are emerging as a key part of Australian companies' growth strategies

- Leading Australian corporates are increasingly using alliances to drive growth in emerging markets and adjacent industry sectors, where traditional M&A approaches are too risky or not available.
- In an increasingly globalised business environment, alliances will become a more important tool for growth as Australian companies compete for survival against international competitors.
- These factors are likely to drive increased growth in alliances, with up to $100bn of new alliances estimated in the next few years.

Companies need to reduce the likelihood of failure by focusing on execution excellence

- Over half of alliances fail; and two-thirds end within two years of formation.
- Poor execution is the major factor in failed alliances.
- This causes financial, operational and reputational damage to both parties.
- Taking a collaborative approach, particularly pre-close, built on trust and gain sharing is central to the success of any alliance.
- Alliances are designed to be finite and an exit plan is vital.
- Proper governance, structures, performance metrics and review cycles enable successful alliances.

In the longer term, leading practitioners will use alliances to complement traditional M&A

- Leading global companies understand the pitfalls and key success factors associated with alliances.
- They focus on the execution process, and embed a collaborative approach to their alliances.
- Many Australian corporates have professionalised their approach to M&A, but not yet to alliances, increasing risks of failure .
- In the medium to long term, leaders will become as adept at alliances as traditional M&A by systematically building a structured approach and enterprise wide capability.

Are you ready?

Is your alliance strategy underpinned from a structured strategic plan – or did you start by considering a partner?

Does your alliance partner selection process and due diligence include a cultural assessment as well as financial measures?

Do you and your alliance partner agree on how you complement each other, your distinct contributions and how you will share risks & benefits ?

Have you jointly developed and signed off on a business case, set of shared objectives and operational plan ?

Have you agreed an initial set of objectives and commitments that you can both clearly deliver against?

Are processes in place to regularly review and report performance based on the alliances' strategic objectives?

Alliance healthcheck diagnostic
Illustrative framework

Figure 9: Alliance Maturity Diagnostic

Underperformance ◄ ··· ► **Best practice**

	5	4	3	2	1
1. Organisation strategy development	*Alliance / JV was entered into with limited consideration of and linkage to the overarching organisation strategy and capability (reactive approach)*				*A strategic robust process was followed that provided a clear link from strategy development to capability assessment to deciding that an alliance / JV is necessary*
2. Alliance/ JV strategy development	*Limited clarity on risk and control parameters, duration and success criteria*				*Clear on duration and success criteria (and exit criteria)*
3. Identifying and screening targets	*Limited understanding of the needs/ wants, strategic and financial profile of potential partners*				*Robust selection criteria (and "deal breakers") in place*
4. Co-developing business case and financial model	*Limited collaboration with separate working groups meeting sporadically*				*Governance process for both parties understood*
5. Due diligence, negotiation and agreement	*Inefficient and ineffective negotiation process*				*Due diligence scope drawn up to support strategic plan, decision making and identify key risks*
6. Establish governance framework	*Dispute resolution process unclear and not agreed*				*Dispute resolution clearly articulated*
7. Operational planning	*Limited operational planning for Day 1 to Day 100 including:* • *Overall fundamentals (vision, strategy, objectives etc)* • *Resourcing (including roles and responsibility)* • *Internal and external communications plan/content* • *Day 1 plan* • *100 day plan* • *Cultural assessment* • *Incentive rewards*				*Detailed operational planning for Day 1 to Day 100 including:* • *Overall fundamentals (vision, strategy, objectives etc)* • *Resourcing (including roles and responsibility)* • *Internal and external communications plan/content* • *Day 1 plan* • *100 day plan* • *Cultural assessment* • *Incentive rewards*
8. Execution of alliance (transition to BAU)	*Limited view of longer term plan and key milestones*				*Ongoing review and reporting of performance vs objectives and alignment with strategy*
9. Evaluation of alliance	*Limited reference to and evaluation of alliance strategy/alliance business case/alliance agreement*				*Periodic and structured review of alliance performance vs alliance strategy/alliance business case/alliance agreement* • *Is the alliance meeting our objectives?* • *Is the alliance still the best way of achieving our objectives?*

About our contributors

JVs and Alliances have been a longstanding feature of the Energy & Mining sectors . To help us compile this report , PwC sought the views of three senior industry executives with significant JV and Alliance experience.

Lucas Dow

Asset President BHP Billiton Mitsubishi Alliance (BMA)

Lucas has over 15 years of global experience in the Mining industry with BHP Billiton. His experience includes technical, business planning, operational and executive roles in owner operated, contracted and joint venture environments. He is currently Asset President for the BHP Billiton Mitsubishi Alliance, Australia's largest coal producer.

Andrew Warrell

Director, ExxonMobil Australia

Andrew is a senior executive at ExxonMobil and is currently leads their Refining business in Australia and New Zealand. He has worked on a number of JVs of various scales, held positions on JV operating committees, has negotiated a number of JVs and is the Chairman for 2 ExxonMobil JVs with Viva Energy (formerly Shell).

Brian Mumme

President, NWS Australia LNG

Brian has spent over 24 years with BP in various operational and management roles, predominately in the areas of LNG, refining, supply and trading. In his current role he leads the marketing arm of Australia's largest oil and gas development project, a $30bn JV between BHP Billiton, BP, Chevron, Shell, Japan Australia LNG (MIMI) and Woodside Energy which has been in operation for over 30 years.

In addition, JVs and Alliances are an increasingly important tool for companies seeking growth in emerging markets. SEEK's Jason Lenga was kind enough to share some insights from his experience.

Jason Lenga

Managing Director SEEK International

Jason has overall stewardship of SEEK's international investments and international corporate strategy including new investment opportunities in emerging markets. He has been with SEEK since 1999, since when he has played instrumental roles in developing SEEK International's growing presence in Asia, Africa and Latin America.

PwC would like to express our sincere thanks for the input of all of our contributors.

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