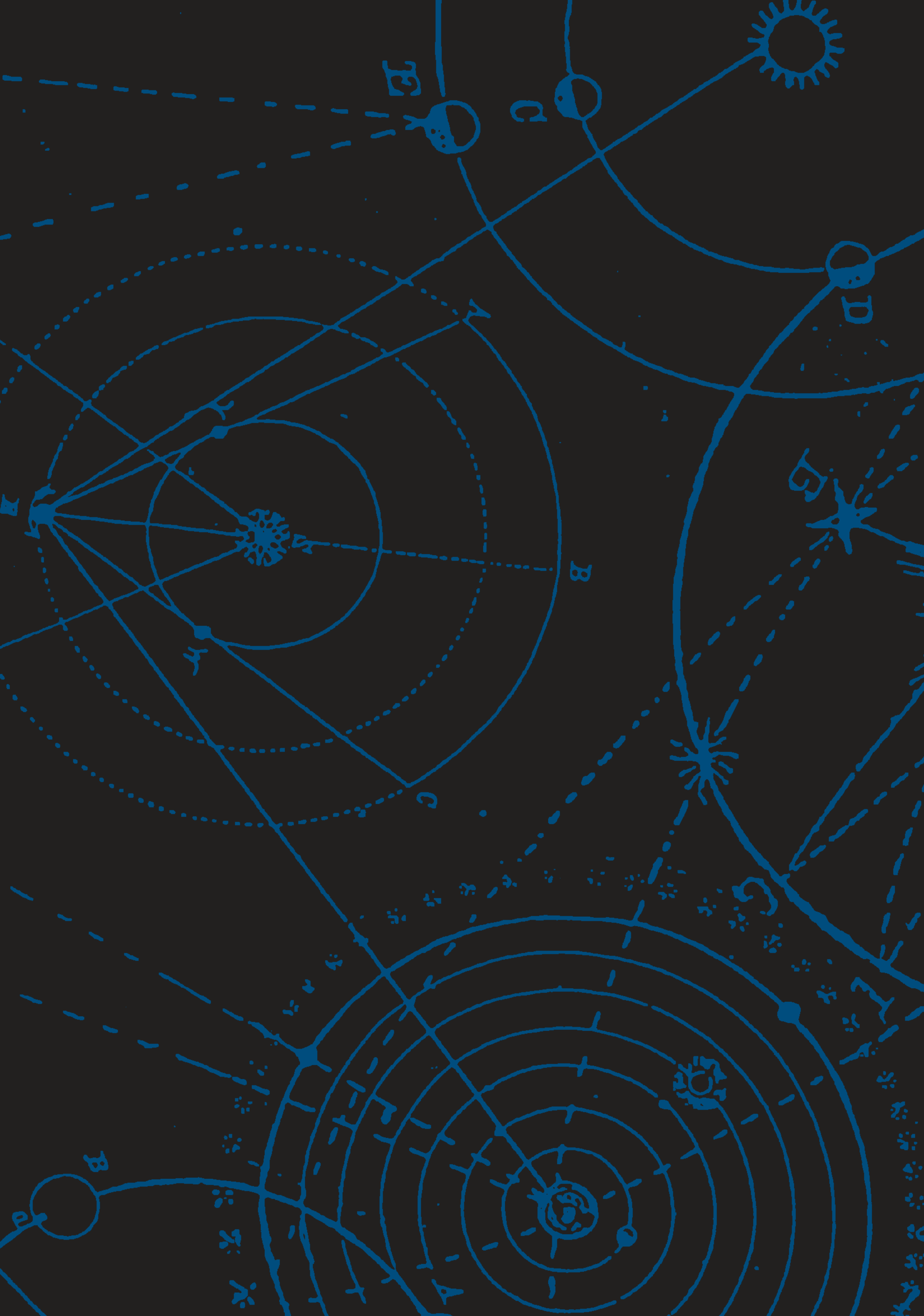
The Next Wave of Alliance Formations:

Forging Successful Partnerships with Emerging and Middle-Market Companies

Houlihan Lokey Howard & Zukin

INVESTMENT BANKING SERVICES



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Forging Successful Partnerships with Emerging and Middle-Market Companies

A Viewpoint by:

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Executive Summary

Alliance activity is exploding worldwide, driven by the rapid pace of technology innovation, development, and adoption, and the meltdown of barriers to global expansion. From the mid-1980s through the millennium, the leading companies in virtually every industry have dominated the alliance process. During this period, these large companies made substantial investments to institutionalize alliance skills, thus giving them a competitive mastery of the alliance formation process.

The wave of alliances is now moving downstream. Large companies have begun seeking alliances with "**breakout**" firms: early stage, growth stage, and smaller mature companies that lack certain resources and capabilities with which to overtake competition, capture new markets, and fuel growth. A surprising congruence in viewpoints by firms in both tiers propels this trend. Companies, regardless of size, have come to view alliances as engines for growth.

Superior alliance-focused companies — such as Cisco, Corning, Hewlett-Packard, IBM, Ford, Oracle, GE, Motorola, Monsanto, SmithKline-Beecham — can easily overwhelm the less seasoned, often smaller enterprises that view one or two alliances as essential to achieving their strategic objectives. These more experienced companies have learned from their early mistakes and honed their skills. They do not enter into alliances in an ad hoc manner, but instead follow rigorous, disciplined processes that are the result of capturing and refining best practices — practices that improve performance and increase success rates.

Interestingly, despite the obvious advantages they possess, skilled alliance companies can be reluctant to begin the alliance formation process with less experienced firms. They find reaching an agreement on the terms of an alliance — including the structure for functional governance of the alliance — to be sufficiently daunting with their peers; significantly more so with less seasoned parties. Clearly, alliance-building has, itself, become a core competency.

Breakout firms often do not have the time or the resources to develop best practices alliance skills in advance of, or in conjunction with, formal discussions to forge an alliance, thus leaving these firms underrepresented on such processes and key issues as:

- **Partner Solicitation**
- **Due Diligence**
- **Valuations**
- **Partner Trade-offs**
- **Structure and Governance**
- **Capital Access**
- **Negotiations**
- **Documentation and Closing**

This Viewpoint addresses the above processes and issues and provides the following:

- **Defines an alliance**
- **Explains why today's global environment makes alliances an imperative**
- **Reviews the skill base of major alliance companies**
- **Draws the roadmap to alliance success**
- **Examines specific governance issues**
- **Discusses raising co-investment capital**
- **Identifies the common-sense traps one should avoid**

The authors wish to gratefully acknowledge the contribution of Booz·Allen & Hamilton in the pioneering of alliance research. This article also owes a special debt of gratitude to John Harbison (President, Raytheon Commercial Ventures, Inc.) under whose direction, along with Dr. Pekár (former Senior Advisor to Booz·Allen & Hamilton), alliance information was gathered and analyzed.

Alliances Defined

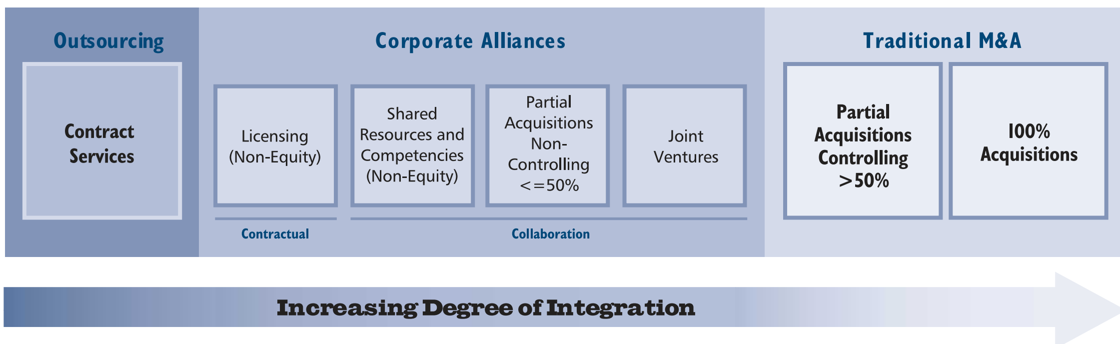
An alliance is an association based on common objectives, shared resources, shared risk, and mutual benefit. Most alliances, to some degree, result in the virtual integration of the partners through contracts defining roles, rights, and responsibilities, or through joint ownership of a third entity. Others result in actual integration, but usually delayed and in stages.

Alliances have many forms. The simplest form with the least degree of integration is licensing, followed by resource-sharing arrangements, partial acquisitions, and joint ventures — the latter being the most complex with the highest degree of integration (Exhibit 1).

EXHIBIT 1

Alliances Come in a Variety of Forms

Continuum of Transaction Types



Source: Houlihan Lokey Howard & Zukin.

We define partial acquisitions and joint ventures as equity alliances, typified by the following examples:

Joint Ventures (new entities): Fuji and Xerox, Microsoft and NBC, 3M and Siemens, Proctor & Gamble and Coca-Cola, Chevron and Texaco

Cross Equity (having a stake in each other): British Airways and American Airlines, GM and Fiat, Long-Term Credit Bank and Swiss Bank Corp., Mitsubishi and Volvo

Minority Positions (one holds a stake in the other): Mazda and Ford, American International Group and Blackstone, Amazon.com and HomeGrocer.com, Microsoft and DreamWorks

Group Acquisitions (partners acquire together): Johnson & Johnson and Merck, Diageo PLC and Pernod Ricard, Ameritech and Random House

A Brave New World

Only two decades ago, competition had simple rules: Companies needed to excel in only one or a few differential capabilities and serve one major market region to succeed. Technology's pace of change was placid compared to that of today; industry had well-defined boundaries and did not aspire to global reach.

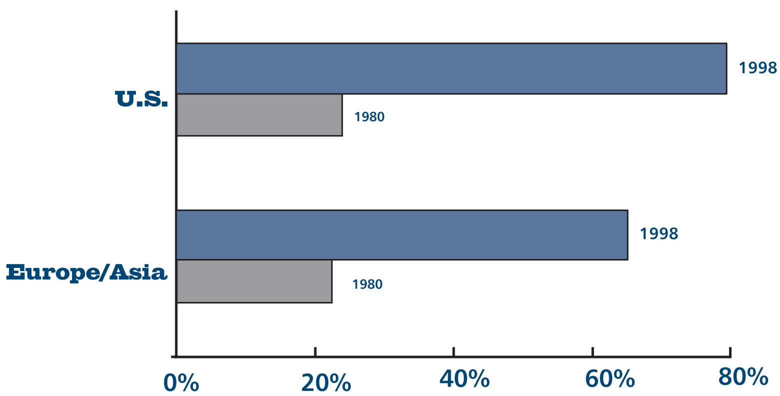
If a firm lacked a capability, it either developed it internally or bought it. Shareholders were (relatively) patient and expectations for growth, profitability, and stock gains were more modest than today.

From the dawn of the Industrial Revolution to the early 1980s, companies subscribed to the command-and-control business model of top-down management punctuated by the not-invented-here philosophy of dismissing anything not originated inside a company's domain. Prior to the 1980s, conglomerates dominated the business environment. Diversification was the order of the day. The core businesses of top companies generated only one-fifth of the companies' total revenues (Exhibit 2).

EXHIBIT 2

U.S., European and Asian Firms Have Retrenched into Their Core Businesses

Percent of Revenues from Core Businesses



Source: Dr. Peter Pekár, Jr. 1980 and 1998 studies of top 2000 U.S., European and Asian firms.

Ironically, although firms diversified across industries and products, they had yet to expand into global markets and remained concentrated in their home countries. In 1980, only 14 percent of the largest U.S. companies' revenues came from offshore markets (23 percent for the largest European and Asian firms). This combination of aggressive diversification within a firm's home country seemed the key to success, or so everyone thought.

But something was wrong. Companies such as GE, 3M, Ford, and Philips began to experience a flattening of sales growth coupled with a weakening of returns on investment and slipping market values. A new set of gurus emerged — Michael Porter, Gary Hamel, and W. Edward Deming — who began to focus attention on competitive strengths and core competencies.

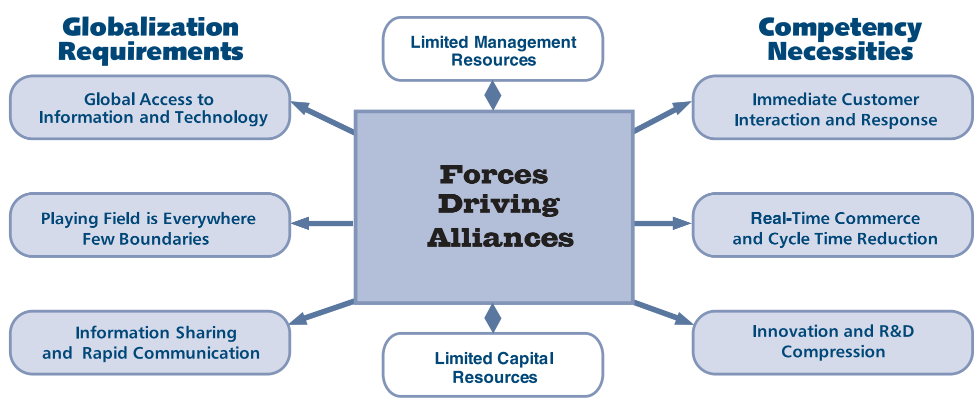
Management heard these voices and the concerns of their stockholders. Armed with new sophisticated planning and analytical tools, management was shocked to find that it had fostered an elaborate corporate welfare system that sapped strong, core business units of capital needed to maintain competitive advantage to shore-up disparate business units with marginal and flagging utility, thus weakening the total enterprise. This realization fueled the divestures of non-core businesses, which sparked the LBO/MBO era of the 1980s.

One can see the results everywhere. In the last 20 years, major U.S., European, and Asian companies have rapidly retrenched into their core businesses. Products and services have improved. Firms regained control over costs and increased productivity. These companies strengthened their competitive positions and increased both their market shares and their profit margins. Shareholders rewarded managements' efforts through higher share prices.

Today, major U.S., European, and Asian companies generate around two-thirds of their revenues from their core businesses. Business has also expanded globally, with over one-third of U.S. companies' revenues and nearly 50 percent of European and Asian companies' revenues being generated outside their home countries.

While these companies were refocusing on their core businesses, they were confronted by two extraordinary phenomena: an unprecedented explosion of technology innovation, development, and adoption, and the meltdown of barriers to global expansion. The rise of alliances correlates directly with the pace of such changes in technologies and markets (Exhibit 3).

EXHIBIT 3 **Globalization and Competency Forces Driving Alliances**



Source: Booz·Allen & Hamilton/Oracle/Houlihan Lokey Howard & Zukin.

Constrained by limited capital and managerial resources, many companies addressed these phenomena by teaming with other companies to access needed competencies rather than repeating the mistakes of the conglomerate era. Former go-it-alone companies — such as IBM, GE, Ford, Philips, Pepsi, British Telecom, AT&T, Procter & Gamble, Corning, and Merck — embraced the new reality and moved to the forefront of alliance building.

The two-centuries-old command-and-control corporate model began to crumble in favor of this less rigid, more collaborative model. Where companies previously chose between build or buy, a third option to team and bond began to emerge. This new realization and the willingness to shed old biases in favor of collaboration ushered in the era of "co-opetition," as evidenced by the following statements:

"If you think you can go it alone in today's global economy, you are highly mistaken."

Jack Welch, CEO of GE

"Microsoft can't make it alone, but together anything is possible."

Bill Gates, CEO of Microsoft

"Our approach is to develop long-term relationships with companies that offer a unique advantage with General Motors. The alliance strategy is our major thrust and it is clearly a different approach to growth than most people have associated with GM."

John F. Smith Jr., Chairman & CEO of GM

"I think it is impossible, even for a company of HP's size, to have competence in every area. It is very important to find alliance partners"

Lew Platt, CEO of Hewlett-Packard

"No company possesses all the competencies or global reach to compete. We have entered an era of co-opetition."

Ray Lane, President of Oracle

Impact of Alliances

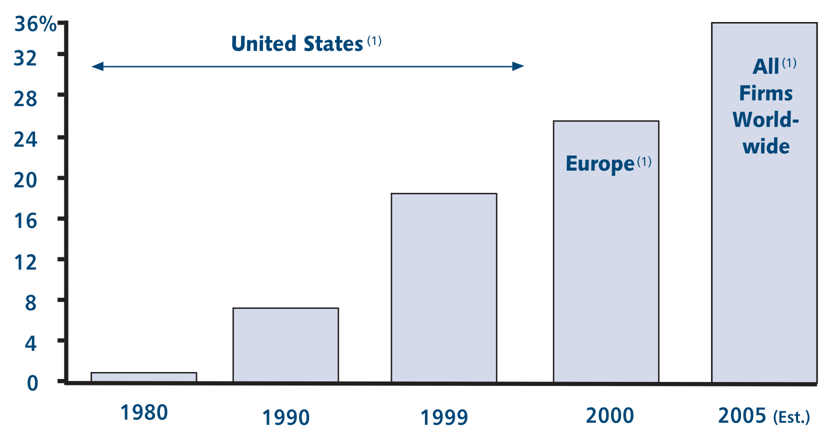
In the past two years, more than 20,000 alliances have been formed worldwide, with nearly 70 percent of them advancing beyond contractual relationships through equity participation by the partners. As Exhibit 1 illustrates, equity alliances come in many forms, such as joint ventures, cross equity, minority positions, and group acquisitions.

Alliances are generating a dramatically increasing percentage of revenues for companies worldwide. In 1980, alliances in the United States generated less than 1 percent of revenues; today the figure is 18 percent and it is expected to climb to 33 percent by 2005. European firms have experienced even more dramatic growth: alliances currently contribute 25 percent of revenues and that percentage is expected to increase to 40 percent by 2005 (Exhibit 4).

EXHIBIT 4

Alliances Contributing a Growing Share of Revenues

Percent of Revenues From Alliances



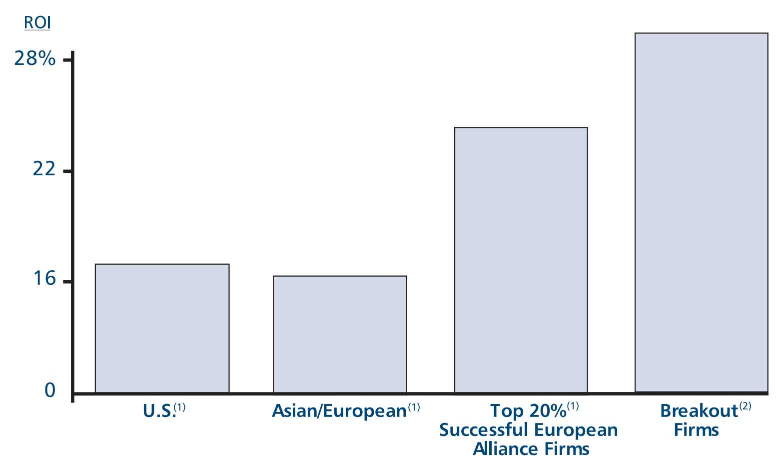
(1) *Top 1,000 public corporations in United States, Europe and Asia respectively.*
Source: Columbia University/European Trade Commission/Booz·Allen & Hamilton.

More than 90 percent of the executives recently polled predicted the percentage of revenues that comes from alliances would continue to grow, reaching an average of 35 percent worldwide in just five years. For example, IBM has recently stated that it expects to generate 50 percent of its revenues from alliances by the end of this decade.

The effect on the bottom line is equally dramatic. Returns on investment for alliances average nearly 17 percent as compared to the average ROI of 11 percent produced by the top 1,000 largest U.S. companies. Moreover, the best European alliance companies currently generate even higher alliance ROIs — reaching almost 25 percent. But the story does not end there; recent studies show that alliance ROIs for breakout firms are pushing 30 percent (Exhibit 5). Research by Bharat Anand (Yale School of Organization Management) and Tarun Khanna (Harvard Business School) also shows that alliances outperform mergers and acquisitions in terms of post-transaction stock market performance.

EXHIBIT 5 **Companies are Achieving Higher ROIs on Alliances than from Their Core Businesses**

Average Alliance ROI (Pre-Tax and Pre-Interest)



(1) *Top 1,000 public corporations in United States, Europe and Asia respectively.*

(2) *Survey of 1,300 United States and European Breakout Companies.*

Source: Dr. Peter Pekár, Jr./Booz·Allen & Hamilton/Association for Corporate Growth.

Other recent studies have revealed the link between alliances and market capitalization. For example, Ernst & Young's Center for Business Innovation in partnership with the Wharton Business School found that alliances were critical to increasing market capitalization across all industries (Exhibit 6). They found that alliances were ranked among the top five critical factors to increasing market capitalization for durable and non-durable manufacturing, ahead of such factors as brand investment and technology. The study identified alliances as the number one factor in driving market value in e-commerce.

EXHIBIT 6

Alliances are Critical to Driving Market Value in All Industries

Critical Factors by Order of Importance

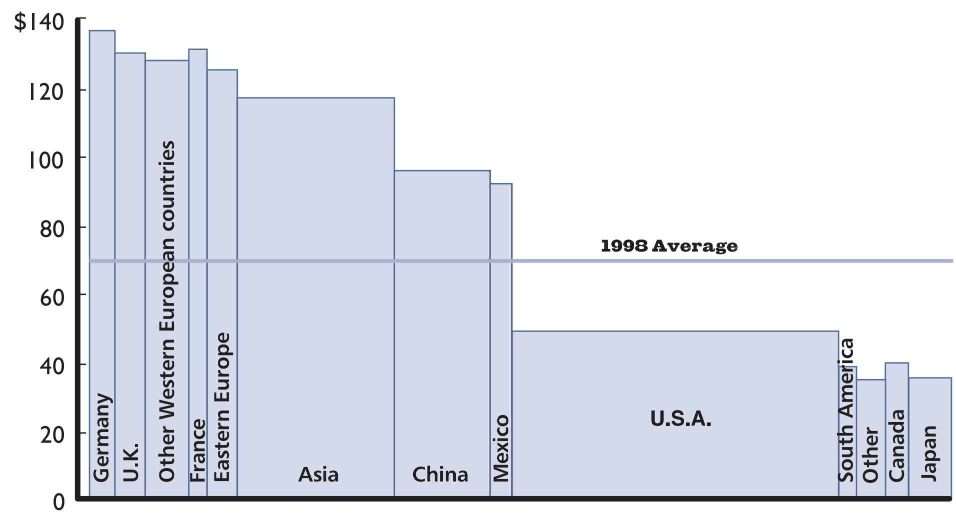
DURABLE MANUFACTURING	NON -DURABLE MANUFACTURING	E-COMMERCE
• Innovation	• Innovation	• Alliances
• Ability to attract talented employees	• Employee management	• Innovation
• Alliances	• Quality	Usage traffic
• Quality	• Environmental performance	• Brand investment
• Environmental performance	• Alliances	• Minutes spent on web sites
• Brand investment	• Brand investment	
• Technology	• Technology	

Source: 2000 study by Ernst & Young Center for Business Innovation and Wharton Research Program on Value Creation.

Recognizing all of the above, it should surprise no one that capital invested in alliances averaged over $70 million per alliance worldwide in 1998 (Exhibit 7).

EXHIBIT 7 **Alliances Average $70 Million Investment Globally**

1998 *Average Alliance Investment by Country($ U.S. millions)*



Width reflects country's relative number of alliances versus total.

Source: Alliance Analyst/SDC Booz·Allen & Hamilton/Houlihan Lokey Howard & Zukin.

Major Companies Build Alliance Skill Bases

Companies of all sizes agree that the principal benefit of forming alliances lies in accessing needed competencies, but the ability to form an alliance is itself a competency. A 1998 study of 1,000 U.S. companies revealed that companies new to negotiating and structuring an alliance achieve only a **10 percent** success rate. However, those firms that have developed alliance skills as a core competency achieve an **80 percent** success rate with their alliances.

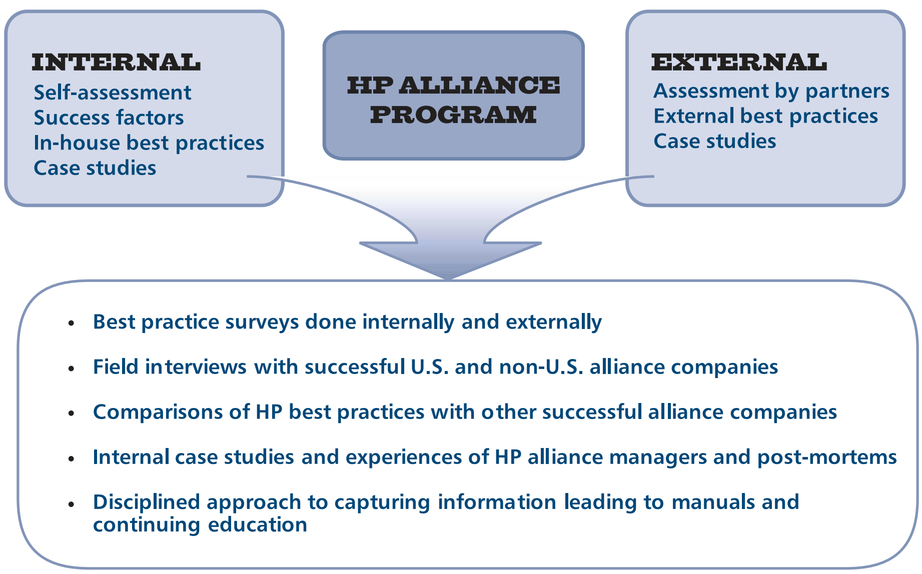
As research indicates, returns only improve as a company develops alliance skills and gains more experience. Improvement through repeating common mistakes is hardly an attractive concept. We believe an alternative exists. But first let's examine how large companies build and institutionalize their internal alliance skill base.

Consider Hewlett-Packard. The company recognized that alliances were an important element in their value-creation strategy. The firm formed scores of alliances through the late 1980s, but many did not live up to expectations and frustrated managers recognized the need for more training to form and manage an alliance relationship. HP initially responded by sending alliance managers to external alliance seminars, conferences, and academic workshops.

But these field troops quickly learned that these types of venues were superficial at best and not helpful for those in the trenches. Consequently, HP embarked on a four-year internal training effort. Today, HP has an internally and externally driven alliance process.

The firm has an in-house program that includes training sessions, case histories, internal reviews, and extensive reference materials. This process is reinforced by assessments by partners, comparisons to practices of other successful companies, and outside case studies. In short, HP has adopted a disciplined approach to the development of best practices and sees it as a success differentiator between itself and other companies (Exhibit 8).

EXHIBIT 8 **Hewlett-Packard Builds an Alliance Skill Base**



Source: *Alliance Analyst/Booz·Allen & Hamilton/Houlihan Lokey Howard & Zukin.*

Nortel offers another example. After a failed alliance, the company decided that training should become part of its alliance program. The program was built on three legs: (1) dedicating resources to the alliance process, (2) three-day workshops, and (3) fostering a collaborative environment. HP, Nortel and many other major companies are discarding what does not work and embracing what does — in short, institutionalizing best practices.

The alliance function is typically separate from planning and business development functions and reports to top management. Consider Xerox and Unisys. Xerox has a centralized alliance function as well as alliance managers in each of its major business units. On the other hand, Unisys rejected centralizing the alliance function and instead chose to embed the alliance function within each of its business units. Unisys achieves coordination across business units though a corporate oversight committee (Exhibit 9).

The substantial investments by large companies in building alliance competencies has leveled the playing field among these fierce competitors, thus eliminating any advantage one may have hoped to gain over another. The advantage remains, however, when large, skilled, and experienced firms deal with breakout companies that do not have equivalent alliance competencies. Indeed, a recent study by Houlihan Lokey of 1200 emerging and middle-market companies revealed that over 90% of such companies have no internal alliance skills.

EXHIBIT 9 **Companies Have Adopted Different Alliance Organization Structures**

Company	**XEROX Alliance Activity**	**UNISYS Alliance Activity**
Structure	• **Embedded in corporate and strategic operating units (SOU)**	• **Embedded only in strategic operating units (SOU)**
Characteristics	• Senior executive champion • Six corporate alliance managers • Each SOU has alliance manager • Corporate tools and policies • Corporate knowledge repository • Advisory council overseer • Assistance to SOU • Coordination across alliance partners • Knowledge and staff available to SOU • Monitoring of key alliances	• Corporate advisory council • No corporate alliance team • SOU manager reports to corporate advisory council • Alliances driven from SOU • Informal cross-SOU communication • No corporate organization • Limited bureaucracy • Fast decision making • Experienced SOU alliance managers

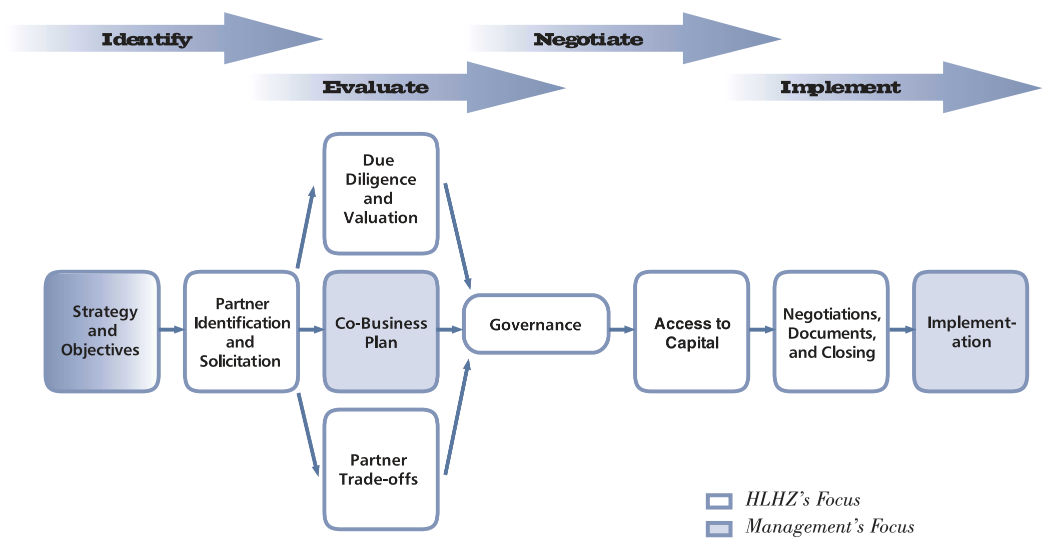
Source: Alliance Analyst/SDC/ Booz·Allen & Hamilton/Houlihan Lokey Howard & Zukin.

A Disciplined Approach to Alliance Formation

Exhibit 10 illustrates typical steps in the alliance formation process. Many executives underestimate the magnitude of the time and effort required to forge sustainable alliances. Unless alliance skills are a core competency, the typical breakout company will find it an overwhelming challenge to bridge the gap between strategy and implementation. Specific processes and issues include:

- **Partner Solicitation:** fostering competition, partner screening, and initiating contact
- **Due Diligence:** assessing attributes and confirming expectations
- **Valuations:** assigning values to assets contributed
- **Partner Trade-offs:** communicating and allocating value
- **Structure and Governance:** finding the optimal architecture
- **Capital Access:** obtaining required co-investment or working capital
- **Negotiations:** seeking resolution for disparate positions
- **Documentation:** memorializing the agreement

EXHIBIT 10 **Alliance Formation Schematic**



Source: Booz·Allen & Hamilton/Houlihan Lokey Howard & Zukin.

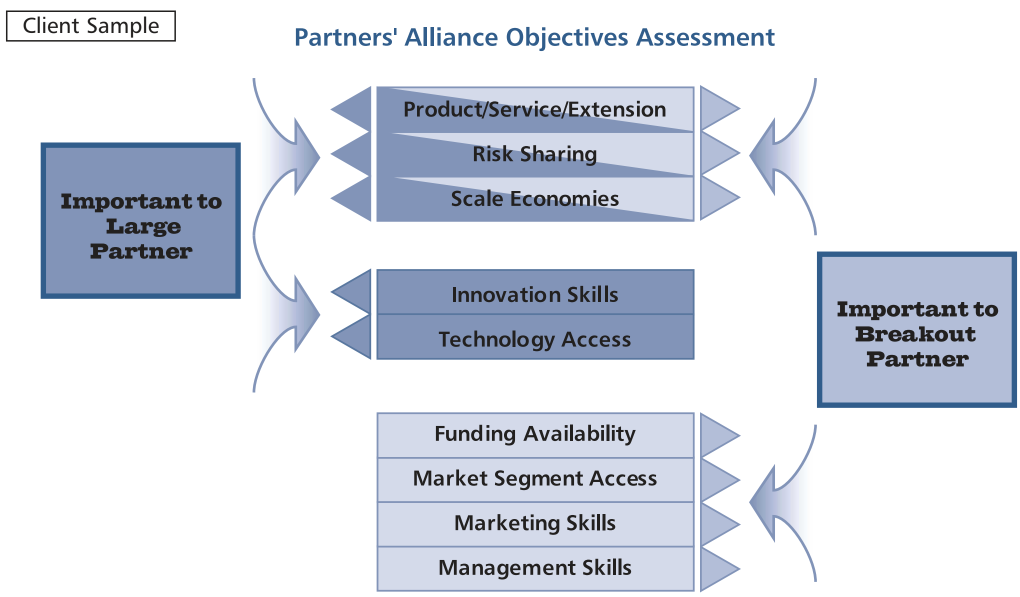
If firms lack the internal expertise to address these issues, they should retain expertise from outside specialists. Not only can such experts help find creative solutions to many of the complex issues that arise, but they can also act as a buffer between the parties to deflect or absorb the impact on the prospective partnership of disputes that almost certainly will arise during negotiations (Exhibit 11).

EXHIBIT 11 **Alliances Rely on a Variety of Skills**

Source: Houlihan Lokey Howard & Zukin.

Sometimes alliance objectives (such as risk sharing) are the same for the parties, but often they differ (such as one party seeking access to technology; the other wanting access to markets) (Exhibit 12).

EXHIBIT 12 **Understanding Both Partners' Perspectives**



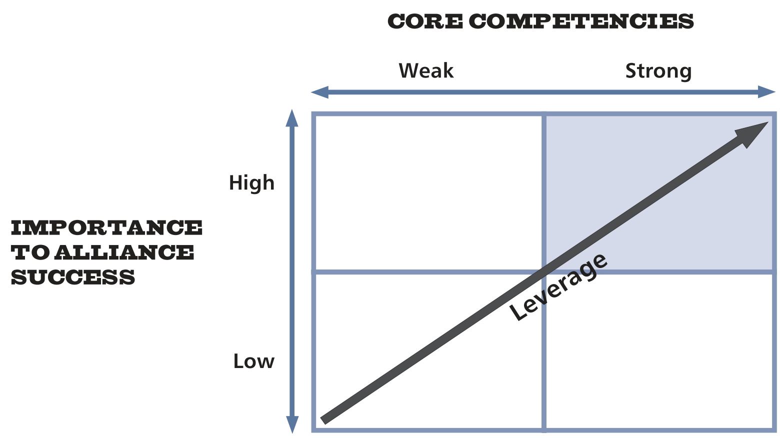
Source: Houlihan Lokey Howard & Zukin.

Without a recognition of each party's reasons for participating in an alliance, failure will surely result. During negotiations, each entity should anticipate and solicit the other's objectives and communicate its own. Many executives find this part of the alliance process most intimidating.

Explicitly understanding each party's immediate and long-term objectives provides the basis for maximizing overall alliance value. Once each has clearly articulated its alliance requirements and expectations, the alliance negotiating team can formulate performance measures and milestones that synthesize a common set of objectives. This helps eliminate many performance ambiguities and misunderstandings between the parties that can surface as the alliance moves forward.

It also sets the stage for better negotiations among the parties through a realistic assessment of each company's core competencies. One of the keys to successful negotiations lies in a leverage analysis. A proper leverage analysis differentiates each company's core competencies based on both the importance of a competency to the alliance and each company's relative advantage or disadvantage with regard to a particular competency (Exhibit 13).

EXHIBIT 13 **Calculating Where the Leverage Exists**



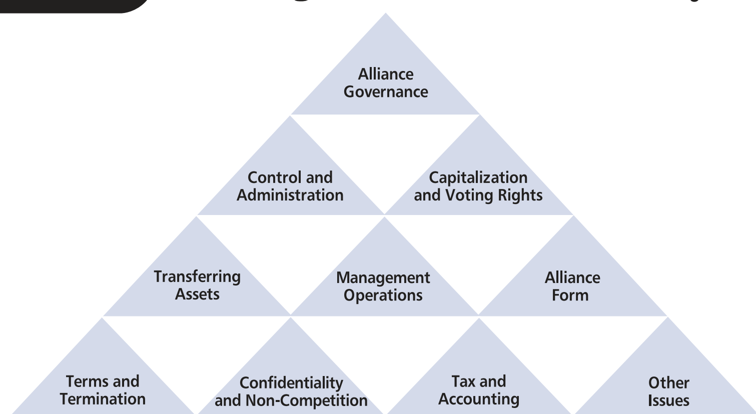
Source: Houlihan Lokey Howard & Zukin.

For example, Ford and Mazda felt they each had the advantage in product development when they had to decide which company would develop a new transmission for the Ford Probe. Subsequent analysis and interactions convinced Ford that the advantage belonged to Mazda.

Issues In Structuring The Alliance

The alliance pyramid (Exhibit 14) highlights the key building blocks in structuring successful alliances. Many managers lay a weak foundation for an alliance when they do not adequately deal with these building blocks. If the parties do not address these issues at the outset, the pyramid may come tumbling down.

EXHIBIT 14 **Building Blocks — The Alliance Pyramid**



Source: Booz·Allen & Hamilton/Houlihan Lokey Howard & Zukin.

A small sample of the issues that will need to be addressed are:

- **What legal form the alliance should take ("C" corporation, general partnership, limited partnership, limited liability company)**
- **Whether operational control will be delegated differently than organizational control**
- **Whether interests in the alliance may be transferred to other parties and if so, under what procedures and circumstances**
- **How profits (or losses) are to be allocated**
- **What each party's responsibility may be for future capital requirements of the alliance**
- **When and how the alliance may be terminated and what each partner receives upon termination**

However, the capstone of the pyramid is governance — the most frequently mishandled and inadequately addressed element in alliance building. Alliance governance presents the greatest challenge because of the many rights, privileges, procedures, and obligations that must be addressed to form a functional and sustainable structure. Dispute resolution is a particularly thorny issue, requiring consideration of tie-breaking measures such as special directors, mediation, arbitration, and dissolution.

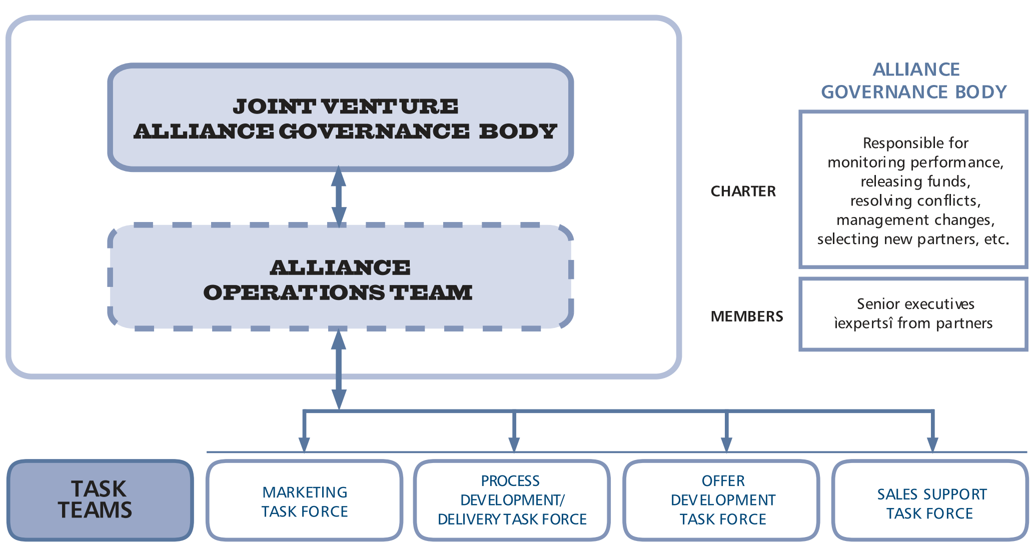
Good governance provides the bridge from strategy to implementation. The stronger that link is cast, the higher the alliance success rate. Experienced alliance managers know that each alliance type requires different governance structures. No one form fits all situations.

Exhibit 15 characterizes a situation where an alliance required a joint venture structure. The partners created a governance board to which the alliance operating team reported. This type of structure required strong, relatively autonomous governance. Partnership agreements covered issues such as:

- **Membership criteria, tenure, and compensation**
- **Decision powers and performance measures**
- **Voting procedures and rights (including supermajority/unanimity requirements)**
- **Initial capitalization and future increases**
- **Buyout formulas and procedures**
- **Performance review and audit processes**
- **Drag-along, tag-along and other rights and privileges**
- **Confidentiality agreements and information-sharing limits**
- **Dispute resolution procedures**
- **Breaches and remedies**
- **Approval of new partners**
- **Transfer of rights and intellectual property**
- **Conditions triggering termination**
- **Separation and "child support"**
- **Exit strategies**

EXHIBIT 15 **Joint Venture: Equity-Based Alliance Model**

Client Sample



Source: Houlihan Lokey Howard & Zukin.

It also should be noted that although governance and ownership are separate components of an alliance, they are not unrelated issues. Most parties instinctively equate equal governance with equal contribution.

However, alliances do not require equal equity participation to allow 50:50 representation on governance and operating boards. Conversely, unequal representation on governance and operating boards need not significantly disadvantage a minority partner.

For example, consider Fuji Xerox. Fuji Xerox, which is based in Tokyo, is an $8.5 billion (U.S.) 50:50 joint venture between Xerox Corporation and Fuji Photo Film Co., Ltd. The board of directors has 15 members, of which four are Americans and the rest Japanese. The breakdown by company is: Fuji Xerox (five), Xerox (four), Fuji Photo (two), independent directors (four). Yotaro Kobayashi, who started his career at Fuji Photo, is the current chairman of Fuji Xerox Co., Ltd., and is also a member of the board of directors of Xerox Corporation, as is the vice chairman of Fuji Xerox.

Raising Co-Investment Capital

Parties to an alliance do not necessarily invest equal sums of monetary capital. However, the party contributing the greater share may expect the other party to contribute a meaningful sum as a show of good faith and to better align incentives. The second party's inability to contribute the required initial capital places the formation of the alliance itself at risk, or at a minimum, will alter the relationship between the parties.

In many cases, alliance agreements make provisions for the infusion of additional capital to nurture a new venture as it matures. This capital may be sourced from one or more partners or from third parties; it may be contributed as equity or funded as debt. The initial agreement often specifies some financial tests for whether additional funding is truly needed. However, the inability of one partner to contribute additional equity or to secure loans as required by the agreements may be dilutive to that party's original ownership percentage.

For example, an alliance between IBM and a midsize firm required that each partner contribute $20 million in alliance capital. For the midsize firm, this requirement came at an awkward moment when the company was stretching its own internal resources to upgrade its current operations. However, because the alliance advisors who had helped negotiate the arrangement and shape the structure also had private placement expertise, they helped the midsize firm obtain the needed funding and maintain its original ownership position.

Common-Sense Traps to Avoid

Pragmatic executives are often suspicious, and rightly so, about simple success formulas. Some executives even maintain that seat-of-the-pants management and pure luck play an important role in any alliance. We agree that luck always helps a business venture to succeed. However, the "luckiest" and most successful firms are those that learn from others.

Searching through the rubble of failed or failing alliances, we have identified four common-sense traps to avoid:

- **Love at First Sight**
- **The One True Way**
- **The Terrible Twos**
- **Relying on NATO Peacekeeping**

Love at First Sight: Sampling the Field Before Commitment
Many newcomers approach only one prospective partner, placing all their hopes on a single outcome. However, selection of a partner may ultimately foreclose other options — even in unrelated areas. For example, one multi-segment company forged a promising relationship with a Japanese Keiretsu, only to find that another Keiretsu subsequently refused to discuss more optimal alliances with the company's other operating units.

To flush out the best and most appropriate alliance partner, many potential alliance partners should be approached through an intermediary to identify many possible opportunities and to promote a competitive atmosphere for the opportunity presented.

The Terrible Twos: Domineering Child Syndrome
An alliance can overcome the domineering child syndrome by emphasizing value creation over control. Too many alliances fail to materialize because the parties place undue emphasis up front on who owns what share, rather than how much incremental value can be created through the partnering. Mutual benefit is critical to success, as is the alignment of incentives.

The One True Way: Russian-Style Governance
Too many companies fail to choose the appropriate structure and governance for the needs of the alliance and its partners. The alliance structure needs to be tailored for each alliance because the critical issues, challenges, and degrees of freedom differ significantly from one opportunity to another. Governance structures vary by the alliance type chosen, as does operational decision-making.

Relying on UN Peacekeeping: No Process to Keep the Peace
Without constant, clear and thorough communications, the progress of many alliances screeches to a halt due to mounting frustration, tension, and suspicion. In these situations, managers often turn to unbiased third parties for help to resuscitate the alliance.
This rarely works. A successful alliance requires a variety of responses to break logjams — a planned communication process, executive resolution committees, veto powers, supermajority voting rights, mediation, arbitration, penalties, and separation provisions.

Conclusion

Never before have so many opportunities and threats simultaneously challenged corporate management. Management is under pressure to act faster and more shrewdly while using fewer resources and capital. Under these circumstances, it should surprise no one that alliances, which are predicated on shared risk and shared resources, are an increasingly important tool used by companies for increasing shareholder value and gaining competitive advantages.

The important question for breakout companies is no longer whether or not to considering forging corporate alliances. Instead, these companies now face other questions: What type of alliance arrangement is most appropriate? How do we bring all possible partner-candidates to the table? How do we successfully negotiate the alliance? What works and does not work? Have we engaged the best advisors available to place our firm in a strong, competitive position?

Houlihan Lokey Howard & Zukin

Houlihan Lokey Howard & Zukin is an international investment banking firm that concentrates its resources on a select range of corporate finance and advisory services that include mergers and acquisitions, private placements of capital, corporate alliance formations, financial restructuring and valuations, and financial opinions — all areas in which Houlihan Lokey's professionals have widely recognized expertise.

With a staff of over 500 professionals located in ten offices in North America and Asia, the firm has served more than 1,000 clients annually across virtually all industries since its founding over 30 years ago. Last year, Houlihan Lokey entered into a strategic alliance with Close Brothers Corporate Finance, a London-based investment bank and the leading advisor on public takeover offers in the United Kingdom, to provide our clients with financial advisory and investment banking services throughout Europe.

The following highlights a few of the firm's recent accomplishments:

- **Served more than 1,100 clients**
- **Advisor on $39.2 billion in announced U.S. M&A transactions**
- **Ranked among top 20 M&A advisors for ninth straight year**
- **Ranked #3 advisor in middle-market transactions**
- **Agent in over 40 middle-market financings totaling over $1 billion**
- **Advised on over 100 restructuring transactions**
- **Rendered over 100 fairness opinions**
- **Manager/investor of more than $1 billion of merchant banking capital**

Corporate Alliances Group

Houlihan Lokey's Corporate Alliances Group (CAG) facilitates alliance formations for late-development-stage and growth-stage technology, communications, media, biotechnology, and "new economy" companies, as well as for mature companies in virtually any industry that possess proprietary technologies, demonstrate unique talents, or are prominent in a niche. CAG assists clients entering into joint ventures, partial sales, and other forms of equity alliances. CAG advises clients and negotiates on their behalf through the various stages of the alliance formation process, including candidate identification and solicitation, valuations, transaction structuring, due diligence, capital access, governance structuring, and documentation.

Houlihan Lokey created CAG in response to its clients' requests for assistance in negotiating with large companies experienced in forming alliances. These clients recognized that they were at a disadvantage when confronted with opportunities to ally with such companies. Houlihan Lokey's involvement on behalf of less-seasoned companies levels the playing field in terms of skills, resources, and experience, and facilitates effective collaboration. For further information, please call Dr. Peter Pekár, Jr. or Marc Margulis at Houlihan Lokey in Los Angeles at (310) 553-8871.

About the Authors

MARC S. MARGULIS

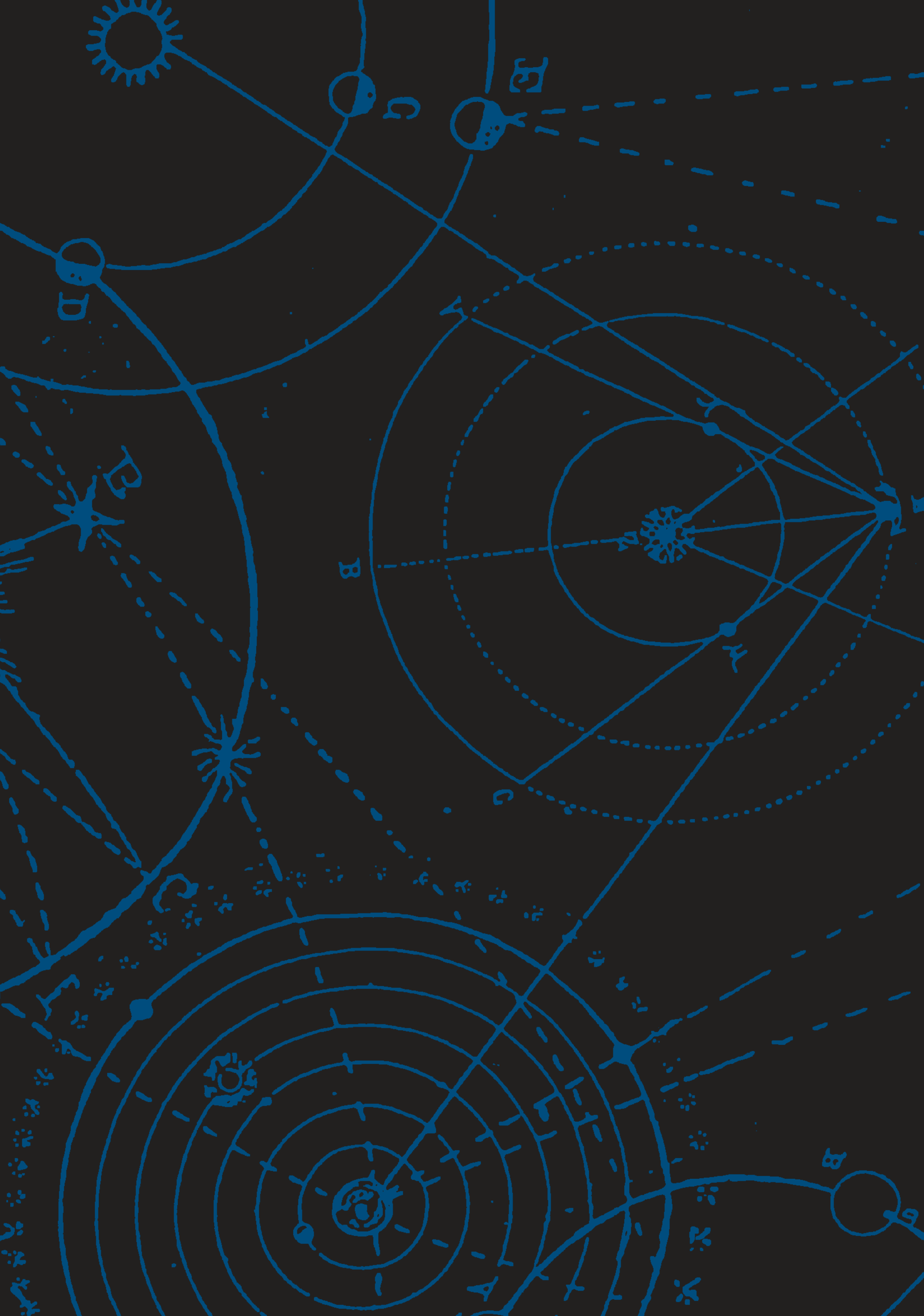
Mr. Margulis is the Managing Director of the Corporate Alliances Group. He has over 20 years of investment banking experience, including: (i) serving as the principal advisor and lead negotiator in numerous mergers, acquisitions, divestitures, and alliances; (ii) rendering fairness opinions in publicly announced transactions; and (iii) analyzing corporate strategic alternatives. Mr. Margulis has negotiated numerous alliances, particularly equity alliances in the healthcare, biotechnology and professional services industries. He is a recognized expert in the analysis and valuation of businesses, securities, intellectual property, and other intangible assets. Mr. Margulis has qualified and testified as an expert witness on the subject of economic damages in numerous court proceedings in various state and federal jurisdictions. Mr. Margulis earned his Bachelor's degree in Political Science and Economics at the University of California, Santa Barbara, and an M.B.A. at the University of California, Los Angeles.

Mr. Margulis is a Chartered Financial Analyst (C.F.A.) and an Accredited Senior Appraiser (A.S.A.). He is licensed with the Securities Exchange Commission through the NASD as a Registered Investment Advisor (Series #2) and a Registered General Securities Representative (Series #7, #63). He is also a senior member of the American Society of Appraisers, and a member of the National Association of Forensic Economists and the Association for Investment Management and Research. Mr. Margulis is a frequent lecturer and the author of several published articles.

PETER PEKÁR, JR., PH.D

Dr. Pekár is a recognized expert in strategic alliances. His familiarity with the alliance phenomenon comes not only from an academic and consulting perspective, but also from hands-on experience as the operating manager of many successful alliances. Dr. Pekár is the National Director of Corporate Alliances for Houlihan Lokey Howard & Zukin. From 1993 through 2000, Dr. Pekár was a senior advisor to Booz·Allen & Hamilton in the area of strategic alliances. His work covered numerous world-class client assignments and research in Asia, Europe, Latin America and the United States. He was also a visiting professor at the London Business School and is an Adjunct Professor at the Peter F. Drucker Graduate School of Management. Dr. Pekár has been a guest speaker on alliances for such organizations and groups as Business Week's CEO and President's Forum; the Conference Board; National Association of Corporate Directors; Association for Corporate Growth; the Los Angeles, New York and Chicago Bar Associations; Booz·Allen's senior advisory board, which Henry Kissinger chairs; and at Stanford, Chicago, Northwestern, and Columbia universities, and other schools.

Dr. Pekár has published over fifty articles and coauthored five Viewpoints on strategic alliances and strategic management which have been distributed globally to over 30,000 senior executives by Booz·Allen & Hamilton, to over 5,500 corporate directors by the National Association of Corporate Directors, and to over 5,000 members of the Association of Corporate Growth in the U.S. and Europe. He coauthored a book sponsored by Booz·Allen & Hamilton entitled "Smart Alliances: A Practical Guide to Repeatable Success," *published by Jossey Bass. The book is the number one selling alliance book in the world and is listed in Booz·Allen & Hamilton's alliance web site,* smartalliances.com. *Dr. Pekár's business career spans more than two decades. Before coming to Houlihan Lokey and prior to his position as senior advisor to Booz·Allen & Hamilton, he was president of BT-U.S.A. Inc., a U.S. holding company for a global Dutch conglomerate. Prior to that, he was head of alliances and venture capital for Dun & Bradstreet. He also has held senior management positions in the Fortune 500 firms, Esmark and Quaker Oats. He holds an M.A. degree in mathematics from the University of Illinois (Urbana) and a Ph.D. degree in business and economics from the Illinois Institute of Technology's Stuart School of Business.*



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