
The Why & How of Strategic Alliances for Financial Services Professionals

AboutPeople. Dallas, Texas

Many of us in the financial services industry are fiercely independent. And we tend to keep our business practices closely guarded. As a result, the industry as a whole progresses at a very slow pace. One of the smartest ways we can speed-up the pace, find opportunities and capitalize on them is through use of strategic alliance networks. What do we mean by “strategic alliance networks?”

The best way to understand strategic alliances is to look at the definition of each of the words. *Strategic* implies planning and directing forces with a long-term view. An *Alliance* is a “a relation or union between two more business entities where the complementary strengths create more value for the customer than derived independently. The differences between the companies are additive, and the objective could not be effectively achieved without the other party.” (*Association of Strategic Alliance Professionals: Alliance Workbook*)

More and more companies, across all industries find strategic alliances advantageous, even necessary. They forge partnerships, develop products, share resources and pool expertise. Done right, everyone wins. But, as you'll soon see, when it's not done right, everyone loses, and according to our research, it's the financial advisor who loses most often.

We can learn a great deal by looking at how other industries have used strategic alliances to grow their business. We'll do that in this report and take a look at how we can apply some of those strategies to our businesses.

The Facts

“Strategic alliances aren't new. What is new is the way they are fast becoming the instrument of choice for companies seeking to accelerate growth.” So says Forbes magazine in May of this year. (*Forbes. May 21, 2001*).

According to a recent Coopers & Lybrand study, there are 48 percent more alliances in existence today than there were three years ago. And the number of alliances per company is also increasing. Of the firms surveyed, 61 percent are participating in an average of four strategic alliances. One of the main reasons for alliances - 54 percent of firms that formed alliances did so for joint marketing and promotional purposes.

The fast pace of many industries, shrinking product cycles and changing technology are driving this trend. "The [motivation for] most alliances today is that markets [don't have] the patience to wait for internal growth," contends Robert Paglia, a partner at Coopers & Lybrand.

In order to adapt, many small firms will enter into strategic alliances to fund the growth of their business. Those who don't, run the risk of working harder, making less and struggling to keep their firms alive. *Mark Hurley – Undiscovered Managers*

In the financial industry, we've seen predictions that advisors will become one-stop shopping centers for anything having to do with money. What seems to be missing from this prediction, however, is the how. Financial advisors don't have to go back to school to become CPAs or lawyers. They simply have to partner with people who have the other components clients are looking for in their "one-stop-shop."

A Matter of survival

"For some small companies, alliances are a matter of survival," says Robert E. Spekman, professor of business administration at the Darden School of Business at the University of Virginia in Charlottesville. "It's becoming too complicated and expensive to develop expertise, and market access is becoming much too hard to come by." – *Entrepreneur Magazine* – April 1998

Alliances are particularly alluring to small businesses, like financial advisory firms, because alliance partners can provide the tools advisors need to be more competitive. Alliances enable the extended team. They enable a single advisor or small firm to offer their clients the full spectrum of money related services.

What's more, alliances provide access to clients you might not otherwise have or help you minimize the risk of losing clients. Here's an example: State Farm is identifying agents who don't have a securities license, and they're giving their clients to those agents who do have a securities license. That certainly represents a serious threat to the original agent. He has two choices – he can do all the work to get a securities license and hope that it gives him back the clients he lost (and provides new ones) or he can form a strategic alliance with a partner who has a securities license and thereby reduce the threat.

Here's an example from the health care industry. Traditionally schooled MDs are aligning with natural medicine physicians and practitioners in order to offer their patients the best of both worlds. They don't compete for a share of the patient's pocketbook; they work together to solve problems. They get more patients because they solve more problems. The odds are better with the two groups working together. The results are both parties achieve more by working together than they would working apart.

The Problem: You Can't Know Everything About Everything

Many of the advisors who talk with us about strategic alliances naively believe that it's a way to get new leads from someone else. That thinking is less than admirable. Today, an advisor's value is measured by the problems, needs and wants he can identify, and the quality of the solutions he can devise. Merely getting leads won't build success any more than filling a seminar with people who don't want to do business with you.

Things change too fast. You can't know everything you need to know. You can't have capabilities across the board or be able to offer your clients a broad range of services -- and yet this is required for survival.

What do you do? It would appear that alliances are an obvious conclusion. Especially when you look at what your target market is saying about what they're looking for in a financial advisor.

In a study by Prince & Associates of 778 super affluent (5+ million) clients, the majority (65%) were only offered one service; i.e. retirement planning, estate planning, investment management, but where the advisor did offer more than one service, the study showed that - **the more services provided by the advisor, the more satisfied the clients.** Here's the breakdown:

3+ services – 96.6%
2 services – 73.6%
1 service – 39.9%

Source: Prince & Associates

There's no question about it. "Success in alliances translates into superior growth. More importantly, the alliance capability positions the company for faster growth. The successful growth companies expect about 35% of their future revenues to come from alliances."

Institutionalizing Alliance Skills. Strategy & Business. Second Qtr 98

In the financial industry, we predict advisors will look for 50% or more of their future revenues to result from alliances. Sadly, we have seen many advisors hit a "wall." They are discovering that the techniques and channels that built their businesses during the good years have ceased working. Traditional direct mail and seminars produce negligible results. The common tendency is to look for other marketing gimmicks instead of looking at what the client base needs and wants now.

The message is clear. Clients don't want to manage a multitude of relationships with service providers. They favor the SWAT team, single-point-of-contact approach. And the smart money is on providing this through strategic alliances. One of the best reasons for developing strategic alliances is to provide added value to clients. Here are several other reasons why you might want to consider strategic alliances:

Why develop Strategic Alliances?

1. Reduce risk

Strategic Alliances for the purpose of reducing risk are as old as capitalism - the English East India Company used it in the 17th century to finance risky voyages. In the 20th century, oil exploration companies often teamed up for similar reasons.

2. Less expensive access to needed competencies and complementary resources

"Trying to create competency your company lacks is costly, time consuming and often doomed to failure. Buying it through Mergers and Acquisitions is expensive and tricky. Partnering is the cheapest and safest way: no dilution, no dangerous leveraging of the balance sheet. If the deal doesn't work, dissolve it." -- *Forbes*, 5/28/01

Example: Amazon.com and Toys R Us – Amazon gets to spread its overhead over additional volume. Toys R Us gets an efficient distribution system, after failing to build one on its own. Even competitors: Borders drops its money-losing web venture and partners with Amazon. Borders gets the web; Amazon benefits from Borders' storefront association.

“Being a low-profit middleman for other people’s merchandise isn’t as glamorous as Amazon’s original goal of becoming America’s favorite store. But despite rumors to the contrary, you can’t lose money on every sale and make it up on volume. Thanks to strategic alliances, Amazon will probably survive.” – *Forbes*, 05/28/01

3. Credibility

Strategic alliances provide the up and coming company with opportunities to borrow credibility from partner companies whose reputations are already well-established.

4. Test new strategies

There is risk in setting off and stumbling badly, even if you are going in the right direction. Using alliances can let a company test out a new direction and retreat gracefully if it proves to be the wrong move. Of course, there's pressure to pick the right partners for psychological, values and product fit.

5. Hedge your bets

An example from mainstream is: Microsoft investing in a number of competing solutions (like AT&T for high speed internet access and Nextel for Wireless) because there is no way to know how this technology scenario will play out. An example from the financial industry might be alliances with both a mortgage firm and a residential leasing firm.

6. Reduce/share costs

Alliances are a great way to share expenses, especially those associated with marketing (assuming you share the same client base). What happens all too often however is that alliance partners don't share in the marketing cost. One person (usually the financial advisor) foots the bill alone. If you find yourself in this position, you may want to re-examine your choice of partners. Experience shows that firms who are reluctant to share costs and effort ultimately abuse your trust, drain your energy, and may even steal your clients.

7. Provide access to more potential customers

Strategic alliances can provide individual members with access to a broader client base. The customers of one partner can be made available to other alliance members and/or referrals made. Obviously this only works where alliance partners have a common customer base and are not in direct competition.

8. To broaden service offerings and increase customer satisfaction

Strategic alliances enable companies to offer their customers a broader array of services. In many industries, particularly financial services, this is particularly appealing. Clients don't want to manage a multitude of disjointed relationships, nor do they want a piecemeal approach to financial planning. Studies by Prince and Associates of 778 super affluent

(5+million) clients, found that the more services provided by the advisor, the more satisfied the clients.

Conditions of Alliance

According to the experts, **three conditions must exist** for an alliance to work:

1. There must be an advantage to combining the capabilities. Each firm must be unable to develop internally the capability offered by the other firm; for example, it may be constrained in doing so by its resources, by its skills, or by time. Also, the combination of capabilities must yield a total value that is greater than if the capabilities were used separately.
2. It must be more costly or impossible to combine the capabilities through pure market transactions.
3. A full merger between the firms must be costlier than a series of alliances as a way to govern the incomplete contracts. When there are limits to the size and complexity of the firm (i.e., when integration generates high costs) then an alliance is a more efficient solution. Alternatively, there may be regulatory or political barriers that preclude full integration and drive firms to an alliance as a “second-best” solution.

Buckley, Peter J. and Mark Casson, “A Theory of Cooperation in International Business,” in *Cooperative Strategies in International Business*, ed. Farok J. Contractor and Peter Lorange (Lexington, Mass.: D. C. Heath, 1988).

Gomes-Casseres, Benjamin. *The Alliance Revolution: The New Shape of Business Rivalry* (Cambridge, Mass.: Harvard University Press, 1996).

Tips for Developing Successful & Sustainable Alliances

“In many ways, partnering is relatively uncharted territory. It isn’t taught in most management schools. There are a lot of unknowns and potential pitfalls. As a discipline partnering is still undeveloped.” – *Forbes*, May 21, 2001

So give yourself a little slack if you don’t know everything there is to know about partnering. You’re certainly not alone.

Here are several ideas that will help you:

1. Look for Complementary Partners.

Dr. Meredith Belbin, a British management expert did extensive research at what makes a successful partnership. He originally thought that putting together a group of clever, critical thinking individuals was the path to success, but he found, quite unexpectedly, that the all-star teams performed much less successfully than teams composed of less extraordinary but more complementary members. The problem was that the all-star teams were made up of

individuals who all wanted to perform the same function. They spent most of the time trying to persuade partners to adopt their ideas.

Don't make the mistake of surrounding yourself with a cadre of people who think like you, and have the same capabilities and objectives. Find partners with compatible goals and complementary capabilities.

An important aspect in selecting potential strategic partners is identifying organizations that sell other products or services to the same target client base but may not have yet created their own advisory units (recognizing that one of the biggest things the Financial Advisor has to offer is advisory and relationship management skills). CPAs for example may have no "advisory units," so teaming with Financial Advisors would be advantageous to them. Some insurance agents have specialized product knowledge but may not have a securities license. An alliance between an employee benefits expert and a planner could benefit them both.

2. *Do Your Homework.*

Ask current and past partners how they were treated; if they weren't equitable partners in the past, chances are they won't be with you, either.

Look at the company's culture. While locating an alliance with a culture exactly like yours isn't the goal, it is important that you look objectively at management styles, work ethics and values. Admit where potential clashes could occur, says Richard Hagberg, Ph.D., a corporate psychologist and president of Hagberg Consulting Group, an executive development and organizational assessment company in Foster City, California.

The key questions to ask include: How are decisions made? How controlling is management of its employees and relationships? At what pace do employees work? How competitive or aggressive is the company?

Honestly answering these questions leads to a better match. Some companies, for instance, are known for their tight reign on employees and controlling attitude with suppliers and alliances. If your style isn't similar to theirs, you could be headed for problems. Hagberg says. If you're considering an alliance, you must feel comfortable with their tactics and style. In the end, it's a matter of considering all the information and deciding if you can all get along.

3. *Watch your reputation.*

Remember that you link your company's reputation to your alliance partner. If you align with a firm that could damage your reputation, you're trading something of value for something worthless, and you're degrading the value of what you had going into the partnership (specifically – your reputation).

4. *Make sure it makes sense.*

Be clear with yourself 1) why you're entering into the alliance--and 2) what you expect to gain from it. Though the reasons may seem obvious to you, many companies often rush into agreements unclear about how an alliance will prove beneficial. That's an invitation to failure.

The psychological. How can you determine if a firm or person will fit with you and become a valuable resource? How can you safeguard against aligning yourself with an albatross? It is

vital to build a psychological profile of your potential alliance partners. Until you do that, you're reduced to guessing, and you're setting yourself up to fail. This is a two-step process: 1) get a comprehensive profile of you and your firm. This gives you a standard. 2) get a profile of all your potential alliance partners. This shows you how well (or poorly) they match how you think, work, communicate and make decisions.

5. *Develop on-going methods for clear communication. Develop incentives for cooperation. Make sharing information a regular part of the process. Resolve problems quickly.*

An alliance is rarely a match made in heaven. Misunderstandings, compromises and disagreements are natural. Developing methods for clear communication and conflict resolution will put you on the path to creating an enduring partnership.

“Nothing sours an alliance faster than the notion that one party is giving everything while the other is getting a free ride. Both sides have to feel as if they’re being treated fairly. The relationship must be developed to the point where both parties can be honest, regularly evaluate progress and offer recommendations for improvement.”

- *Entrepreneur – April 1998*

6. *Give it Time – but not too much.*

Relationships, and in particular partnerships, require time. Don’t try to measure the success of partnerships in short time frames.

“As is true of any good relationship, you can't measure an alliance's success by one incident or moment. The measure of any successful alliance is what you gain from the relationship over time.”

Entrepreneur – April 1998

The Paradox: Reducing Business Risk While Adding Relationship Risk

*From Alliances and risk: securing a place in the victory parade.
Financial Times, May 9, 2000*

Today's alliance companies face an unpleasant paradox. To manage the business risks they face, they are choosing an organizational strategy that is itself notoriously risky - many joint ventures and other alliances end in nasty divorce or mutual disappointment. In a sense, alliance strategies enable companies to buy protection from business risk only by taking on additional "relationship" risks.

As a rule, alliances enable companies to make incremental commitments to an unfolding strategy, a useful feature when environmental uncertainties preclude decisions that are more definite. In addition, the partial commitments involved in alliances leave the company with resources to invest in more than one such arrangement, thus spreading and diversifying the risk.

At the same time, however, the open-ended nature of an alliance means that if it is not managed carefully, it can unravel and nullify all the potential benefits. If the partial commitments of

members are not enough to compel them to act co-operatively, the alliance can be a recipe for strategic gridlock.

Relationship risks in alliances

1. Avoid "co-opetition": the risk of conflict is high in alliances between rivals.
2. Define the scope carefully: Even among companies that are not direct rivals, good fences make good neighbors, to borrow a phrase from the poet Robert Frost.
3. Do not ignore governance: careful structuring of the alliance in advance of the deal and continual adjustment thereafter is key to building a constructive relationship.
4. Build multiple bridges: enable relationships among partners to grow at many levels of their organizations.
5. Pay attention: Personal chemistry is good and needed, but it is no substitute for monitoring mechanisms, co-operation incentives and organizational alignment.
6. Success begins at home: without a support system within your own organization, your external alliances are doomed to fail.
7. Don't stare at the downside, watch for the upside: Failed alliances may not achieve what they set out to do, but successful alliances achieve much more than originally planned for.

Dealing With Problems

Source: Future of the Financial Advisory Business Report

All partnerships are fragile and fraught with danger of failing. Arrangements that make perfect sense on paper often are disasters in execution. In addition, if an advisory firm becomes too dependent on its partner for the marketing of its services and its partner is acquired and/or breaks off the partnership, the advisory business could face a difficult time attracting new clients.

An important factor to any successful long-term partnership is insuring an alignment of interests that includes a significant stake in the future success of the relationship for both firms. Should the partnership structure provide greater benefits to one partner or both partners do not deliver their end of the bargain, the partnership is doomed to failure.

In Conclusion

We sincerely hope you have enjoyed this Report. We developed it as an in-house guide for us to use with our clients. With it, we help them structure alliances and pick the right people to partner with now.

We have also formed a close alliance with our dear friend and mentor Rodger Bailey, developer of the Language and Behavior Profile, a psychological assessment methodology used internationally to create highly accurate psychological profiles of people, businesses, target markets and even countries. Rodger's work is what Southwest Airlines uses to hire flight attendants. Imagine if you could pick alliance partners as accurately as that!

If you want to do a more effective job and get more performance from your alliances, we look forward to talking. Until then, I hope you appreciate this information, that it serves you well and helps you to thrive.

About Michael Lovas and Pam Holloway

Lovas and Holloway are the co-owners of AboutPeople in Dallas, Texas. It's a firm whose main job is to help you get inside the heads of people who are important to you. That's typically your customers, employees, and strategic alliance partners. Then, Lovas and Holloway use that knowledge to: 1) build an irresistible picture of you, 2) sell your services, and 3) help you put the right people in place to make it happen.

How we work for you

We employ a complex combination of disciplines, strategies and techniques that are unique to the financial industry: Applied Socio-Psychology, Neuro-Linguistic Programming, Semantics, Non-Verbal Communication, Public Relations and Selling Concepts. The result is a mix of Business Therapy and Communication Strategies second to none. When you want to do a better job of communicating – think about calling us.

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