Chapter 17

International Alliances

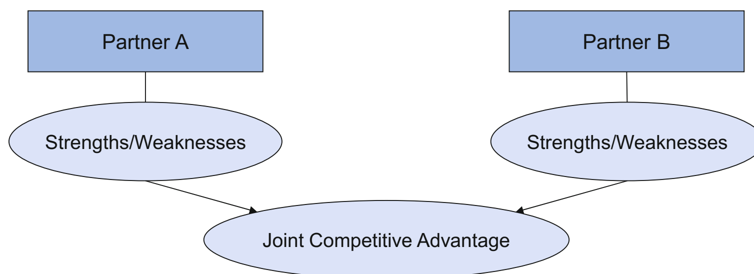
International alliances using cooperative relationships come in all shapes and sizes, often under the rubric of strategic alliances. This Chapter discusses the different types of international alliances and the motives and logic behind them.

Basic Types of International Alliances

Joint Competitive Advantage

In general, *strategic alliances* or *strategic partnerships* can be defined as "a coalition of two or more organizations to achieve strategically significant goals that are mutually beneficial" (Kotabe/Helsen 2014, p. 282). International alliances or *cross-border alliances* are partnerships of organisations/companies from different countries. By setting up a partnership, the companies strive for a *joint competitive advantage*. This joint competitive advantage is based on combining strengths or mitigating weaknesses (see Figure 17.1). From the point of view of *new institutional economics*, strategic alliances are positioned between the transactional options market and integration/hierarchy (see Chapters 15 and 18), or on a scale between externalisation and internalisation.

Figure 17.1 *Strategic Advantages of Alliances*



Co-opetition

Strategic alliances result in a new economic phenomenon: *co-opetition*. *Cooperation* and *competition* are no longer considered direct opposites. Rivalry, a basic feature of dynamic competition, is compatible with cooperation in order to achieve a common aim. This tendency also leads to a new perspec-

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tive or even a new *paradigm* in competition theory and competition strategy. From the perspective of legislation, strategic alliances are not only more tolerated than before but are even actively being encouraged. However, any cooperation that could lead to *collusion*, such as price fixing, is still considered a highly sensitive subject.

Critical Mass Alliances and Closing Gap Alliances

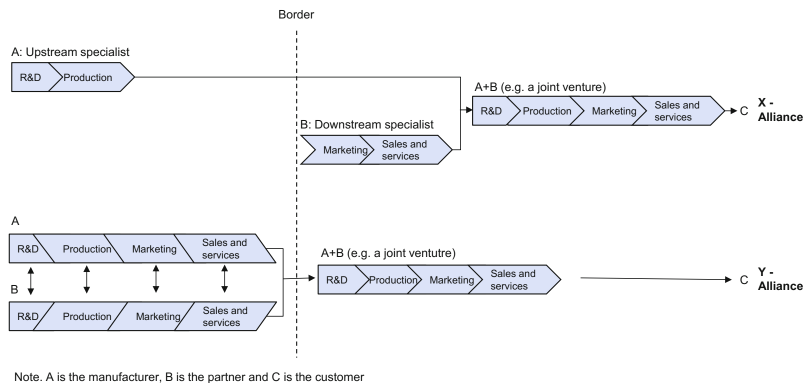
Y-Alliances

Critical mass alliances or *Y-Alliances* (Porter/Fuller 1986) achieve a joint competitive advantage by compensating for individual weaknesses. Companies in this case tend have similar strengths and weaknesses in their value chain activities. Critical mass can be achieved through cooperation in upstream- or downstream-based collaboration in the value chain (see Figure 17.2), for example, by bundling the partners' purchasing volume in a *buying group* or through joint R&D in creating an important innovation, such as in the field of semi-conductors, biotechnology or gene technology. The logic of this type of alliance is based on *economies of scale*.

X-Alliances

Closing gap alliances or *X-Alliances* (Porter/Fuller 1986) are based on combining asymmetric but complementary strengths in value chain activities (see Figure 17.2). They therefore rely on mutual access to resources and potentials, such as local resources and capital, expertise, technologies, image, etc.

Figure 17.2 *International Y-Alliances and X-Alliance: Examples*



Source: Adapted from Hollensen 2014, p. 370.

One example is entering a foreign market by establishing a firm (equity joint venture) with a domestic partner in the target country. The domestic partner knows the local market and has access to distribution channels, while the "entering" partner has, for example, a strong brand and marketing expertise. Figure 17.2 illustrates the differences between Y-Alliances and X-Alliances.

Non-contractual Alliances, Contractual Alliances and Equity Alliances

A further distinction involves the formal structure of *cooperative arrangements:*

- non-contractual alliances
- contractual alliances
- equity alliances.

Non-Contractual Alliances

Non-contractual alliances are usually formed *ad hoc*, even if they are planned to continue in the long term. This informal cooperative relationship is used, for example, in joint-buying activities, such as in electronic *reverse auctions* on Internet platforms (see, e.g., Zentes/Morschett/Schramm-Klein 2011, p. 77).

Contractual Alliances

There are numerous forms of contractual alliances, also known as *contractual joint ventures*. The most well-known, described in this Chapter, are:

- licensing
- franchising
- management contracting.

Equity Alliances

Equity alliances are characterised by the capital investment made by the alliance partners or parental partners. This can be structured in a number of ways. The first is a form of *cross shareholding*, an instrument predominantly chosen to stabilise an alliance.

In *equity joint ventures* the alliance is institutionalised in a new legally independent unit, in which the alliance partners each hold an interest, jointly assuming the risk as well as the responsibility for the management. Equity joint ventures are not necessarily characterised by *equal ownership* (50-50 ownerships). Equity joint ventures will also be described in this Chapter.

Comprehensive and Functional Alliances

Scope of Strategic Alliances

Comprehensive alliances and functional alliances can be distinguished by their *scope*. *Functional alliances* are narrow in scope: Only a single function of the business area is involved. Functional alliances include procurement

alliances, R&D alliances, production alliances, marketing alliances or financial alliances.

Comprehensive alliances are characterised by a high degree of collaboration. The participating firms perform all or at least the main activities of the value chain together. The airline alliances *oneworld*, *Star Alliance* and *SkyTeam* are examples of this type.

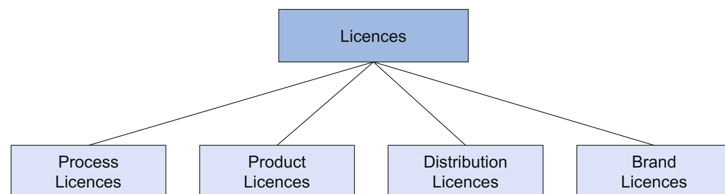
Selected Forms of International Alliances

International Licensing

Licensing Agreement

In licensing agreements the *licensor* grants the rights to intellectual property to the *licensee* for a defined period. The licensee pays *royalty fees* in return. The nature of licensing agreements varies depending on the value chain activity, e.g. production or distribution/marketing (see e.g. Hill 2013, pp. 274-276) (see Figure 17.3).

Figure 17.3 *Types of Licence Agreements*



In *process licences*, the licensor grants the licensee the right to use a specific production technology, often based on a patent, e.g. in the chemical or pharmaceutical industries. In the case of a *product licence*, the licensor grants the right to manufacture a product or certain products in accordance with specific procedures, processes or formulas. *Contract manufacturing*, a contractual agreement between a company and a foreign producer under which the foreign producer manufactures the company's product (see, e.g., Hollensen 2014, p. 369), is often combined with this type of licensing. In this case the licensee produces on behalf of the licensor and sells the products to him; the licensee has no *distribution licence*.

If a *distribution licence* has been granted, the licensee has the right to market the products in a specific territory. In the case of a "simple" distribution licence or a "pure" distribution licence, the licensor remains the manufactur-

er and therefore the supplier. These kinds of licensing are a *foreign entry choice*.

Brand Licences

Brand licences are very important for marketing as they entitle a licensee to use a brand name. A specific kind of brand licensing is to grant a licensee the right to use a *trademark* for products other than those the licensor produces. An example of this kind of licensing of intellectual property rights is the American *Coty Group*, which sells world-famous perfume brands like *Calvin Klein, Cerruti, Vera Wang, Chloé* and *Davidoff* on the basis of brand licences. *Coty* bought the division of luxury perfumes from the Dutch-British *Unilever Group*. Advantages and disadvantages of licensing in international markets are listed in Table 17.1.

Table 17.1

Advantages and Disadvantages of Licensing

Advantages	Disadvantages
• Increases income on products already developed as a result of expensive research. • Permits entry into markets that are otherwise closed on account of high rates of duty, import quotas and so on. • A viable option where manufacture is near the customer's base. • Requires little capital investment and should provide a higher rate of return on capital employed. • There may be valuable spin-offs if the licensor can sell other products or components to the licensee. If these parts are for products being manufactured locally or machinery, there may also be some tariff concessions on their import. • The licensor is not exposed to the danger of nationalization or expropriation of assets. • Because of the limited capital requirements, new products can be exploited rapidly, on a worldwide basis, before competition develops. • The licensor can take immediate advantage of the licensee's local marketing and distribution organization and of existing customer contacts. • Protects patents, especially in countries that give weak protection for products not produced locally. • Local manufacture may also be an advantage in securing government contracts.	• The licensee may prove less competent than expected at marketing or other management activities. Costs may even grow faster than income. • The licensee, even if it reaches an agreed minimum turnover, may not fully exploit the market, leaving it open to the entry of competitors, so that the licensor loses control of the marketing operation. • Danger of the licensee running short of funds, especially if considerable plant expansion is involved or an injection of capital is required to sustain the project. This danger can be turned to advantage if the licensor has funds available by a general expansion of the business through a partnership. • Licence fees are normally a small percentage of turnover, about 5 per cent, and will often compare unfavourably with what might be obtained from a company's own manufacturing operation. • Lack of control over licensee operations. • Quality control of the product is difficult - and the product will often be sold under the licensor's brand name. • Negotiations with the licensee, and sometimes with local government, are costly. • Governments often impose conditions on transferral of royalties or on component supply.

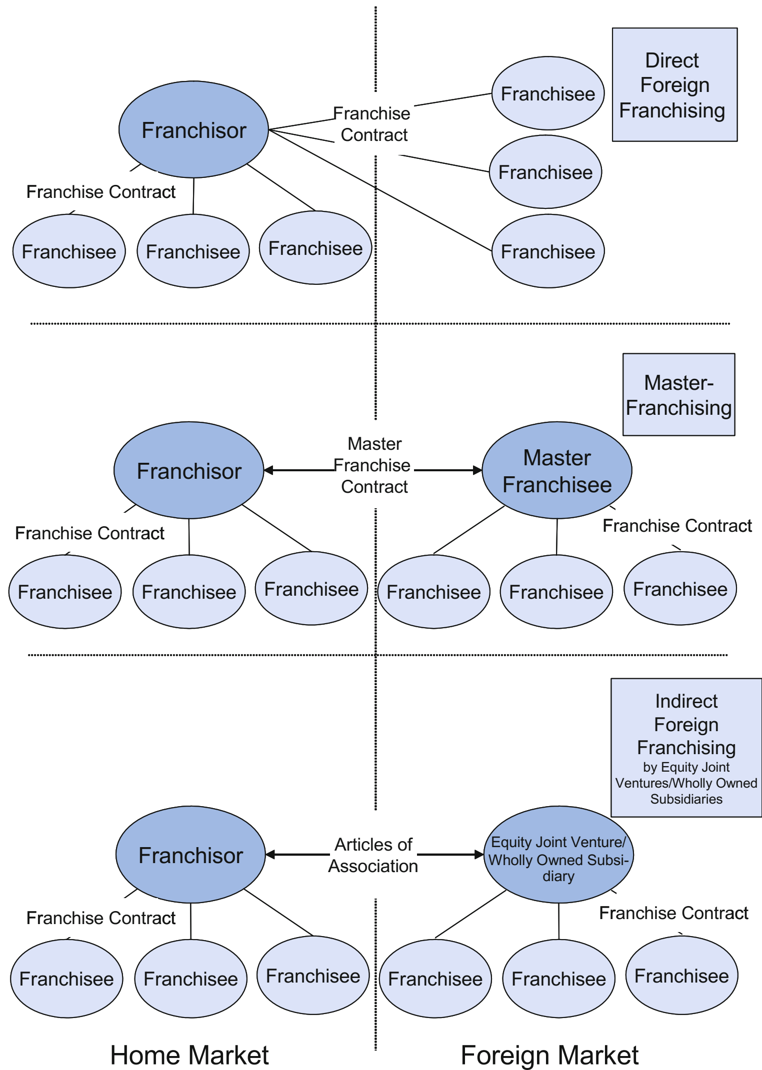
Source: Hollensen 2014, p. 390.

International Franchising

Franchise Agreements

Franchising is defined as a contractual agreement between two legally and financially separate companies, the *franchisor* and the *franchisee*.

Figure 17.4 *Types of International Franchise Agreements*



Source: Adapted from Zentes/Swoboda/Schramm-Klein 2013, p. 250.

In franchise agreements the *franchisor* not only grants intangible properties, e.g. a trademark, to the *franchisee*, but it also includes advice and help in the management of their business. In addition, the franchisees can profit from

the experience of all other franchise partners, (see Zentes/Morschett/Schramm-Klein 2011, pp. 99-100).

Direct Franchising

There are different options for *international franchising* (see Zentes/Swoboda/Schramm-Klein 2013, pp. 247-250) (see Figure 17.4). In *direct foreign franchising* the franchisor signs individual contracts with partners in the different countries. In *master franchising*, the franchisor signs a *single contract* with the *master* or *general franchisee* in a country-market or in a region, which is then allowed to grant franchises (sub-franchise relationships) in that market.

Indirect Franchising

An *indirect franchise structure* is characterised by a wholly owned subsidiary or an equity joint venture created in a foreign country-market, which operates as a franchisor in that market. In this case, franchising is a mixture between a contractual alliance and an equity alliance or ownership strategy in the foreign market.

Franchisor's Perspective

From the franchisor's perspective, franchising in international markets offers a higher degree of control and is associated with lower risks and lower overhead costs. It also lets companies expand more quickly over a wider area. This is especially the case with new and distant international markets that may be accessed relatively quickly and on a larger scale. The franchisees are usually highly motivated business partners. They act as entrepreneurs that invest their own monetary resources, offer local market knowledge and (often) experience in their field of business. Also, the franchisor can avoid being confronted with day-to-day business details and instead rely on the skills of people with local knowledge and regional experience (Hollensen 2014, p. 390).

However, franchising can also have several disadvantages for the franchisor. To guarantee the reputation and (often global) image of the franchise system, they need to monitor the franchisees' business operations, despite lacking a full level of control. Additionally, if single franchisees underperform, the franchise system's brand and (international) reputation are at risk. Thus, costs for protecting the brand name and the franchise system's reputation result. Because the main business activities and customer contact are handled by the franchisees, the company is only passively involved with the international markets. It also opens up its internal business expertise to its franchisees, thus possibly creating future competitors.

Franchisee's Perspective

The advantages from the franchisee's perspective include retaining entrepreneurial independence due to the relation based on *partnership*, the great variety of support activities and frequently the guarantee of *"territorial sovereignty"* in the local market. Therefore, franchising can be a very attractive option for SMEs.

International Management Contracting

Management Service Contracts

Using international management contracts or *management service contracts* a company is allowed to be involved in the management of a firm in a foreign market of which the managing company has no shares (see, e.g., Hollensen 2014, p. 389). Through such agreements a firm provides managerial expertise and operates the daily business of the second firm for a specified period in return for monetary compensation. The managing firm gets a commission based on the revenues or profits of the managed firm and/or yearly (minimum) lump-sum payments.

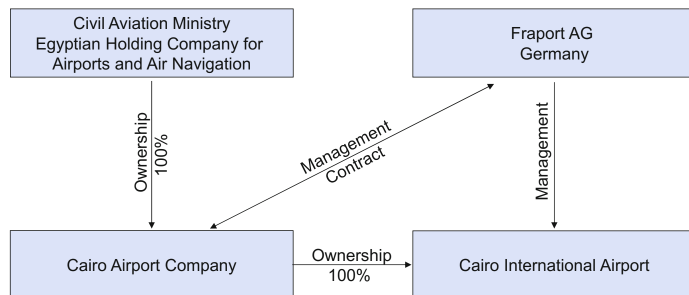
In the case of international management contracts there is a clear distinction between the investors or shareholders and the company which manages the operations, sometimes simultaneously training national managers until they are able to take over. Recent examples of management contracts can be found in industries like hotels (e.g. *Accor* or *Marriott*), hospitals, airports, seaports and public utilities.

Managed Firm and Managing Firm's Perspectives

International management contracts are a way for managed firms to attain expertise and/or experience in a new field (Czinkota/Ronkainen 2013, pp. 303-304). For the managing firm, such a contract serves as a *source of income* as well as an opportunity to scout a new market and establish the company or its brand there. This occurs when the managed firms appear externally as part of a *global chain*, usually under an internationally recognised name.

Figure 17.5 illustrates the structure of the management contract system used by German Fraport AG in managing Cairo International Airport.

Figure 17.5 *Structure of a Management Contract System in the Airport Industry*



Source: Fraport AG 2014.

International Equity Joint Ventures

The reasons for establishing an equity joint venture with foreign partners, i.e., a firm that is jointly owned by two or more otherwise independent firms, are legislation or the need for the other partner's skills, competences or assets. Some governments, mainly in less developed countries, insist on joint ventures with local partners. This policy restricts the *ownership strategy alternatives.* Access to the local partner's assets, such as capital, is another reason for entering into an equity partnership.

Access to Complementary Resources

Equity joint ventures may provide access to *complementary resources*, e.g. technology, market knowledge, property rights or well-known international brands. Local partners may even accept such assets as a substitute for monetary resources as a payment for shares of the subsidiary's equity (Robock/Simmonds 1989, p. 216).

The main disadvantages of equity joint ventures are potential conflicts in managing the business and transaction costs in coordinating the foreign operations. This situation is typical for equal ownership rather than acquiring a majority stake. The advantages and disadvantages of international equity joint ventures are summarised in Table 17.2.

Advantages and Disadvantages of Equity Joint Ventures

Table 17.2

Advantages	Disadvantages
• access to expertise and contacts in local markets • typically, international partner contributes financial resources, technological know-how or products, the local partner provides local skills and knowledge • reduced market and political risk • shared knowledge and resources, shared risk of failures • overcomes host government restrictions • may avoid local tariffs or non-tariff barriers • possibly better relations with local governments through having a local partner (meets host country pressure for local participation)	• objectives of respective partners may be imcompatible, resulting in conflicts • contribution to joint venture can become disproportionate • loss of control over foreign operations • partners may become locked into long-term incvetments from which it is difficult to withdraw • transfer pricing problems as goods pass between partners • importance of venture to each partner may change over time • loss of flexibility and confidentiality • problems of management structures and dual parent staffing of equity joint ventures

Source: Adapted from Hollensen 2014, p. 391.

Organisational Structure of Strategic Alliances

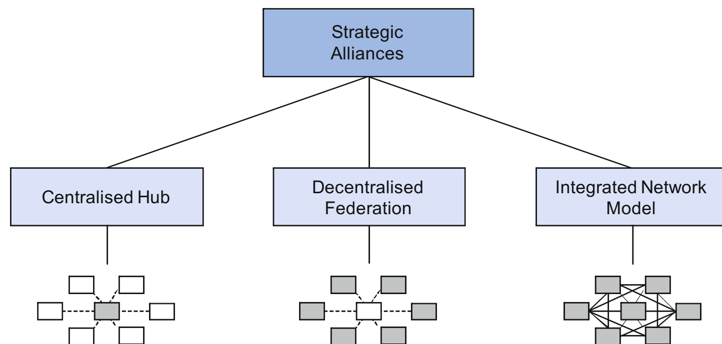
A fundamentally different distinction can be made regarding the strategic alliance is organised. Looking at *network management*, one can differentiate between the following organisational models (see Figure 17.6; see also Chapter 1):

- centralised hub
- decentralised federation
- integrated network model.

Network Topology

The *centralised hub* is characterised by a star formation, with the centre as the hub. This is the case in traditional franchising systems, with the franchisor operating as the centralised hub. A *federation* is characterised by a decentralised structure. A federation of largely independent players is coordinated by one organisational unit, which possesses only limited decision-making power. This is the case, for example, in buying and marketing alliances (functional alliances) of several very large retail companies. The *integrated network model* is characterised by a marked organisational and performance-oriented interdependence.

Figure 17.6 *Organisational Modes of Alliances*



Source: Adapted from Bartlett/Ghoshal/Beamish 2008, pp. 338, 342.

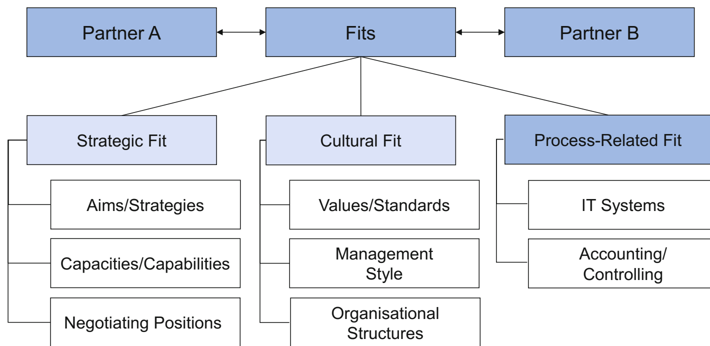
Stability of Strategic Alliances

Fits and Stability

The chances of the establishment of a strategic alliance and the stability of such alliances are dependent to a great extent on the *fits* between the part-

ners (Zentes/Swoboda/Schramm-Klein 2013, pp. 259) (see Figure 17.7). These fits can also be used as *guidelines in assessing* potential partners.

Fits in Cooperative Agreements — *Figure 17.7*



Relational Risks

A *strategic fit* is based on partners' aims and strategies, capacities/capabilities and negotiating positions. For example, if one partner does not fully commit to the alliance because the partners do not have similar strategic goals, this lack of commitment may affect the attainment of the alliance's objectives. Another *relational risk* or reason for the failure of partnerships is cultural divergence. This means that the values and standards, management styles and organisational structures must be compatible (*cultural fit* or *cultural proximity*). The process/infrastructure fit (*process-related fit)* refers to correspondence, or at least compatibility, between the organisation's technical systems, such as the IT systems, the accounting/controlling system, etc.

Conclusion and Outlook

Networks of Value Creation

In both national and international contexts, *networks of value creation* emerge. They represent a new organisational model for complex processes of value creation. A broad and growing variety of forms can be distinguished. Important manifestations of alliances have been discussed in this Chapter.

Besides the multitude of variants that are frequently implemented in a combined manner in companies, another phenomenon can be seen: Strategic alliances have spread to all industries and even to other social sectors. As seen, management contract systems, which are of great importance in the

hotel industry, are increasingly being transferred to other industries, such as airports, seaports and other infrastructure entities or public utilities.

Social Franchising

Another example is *social franchising*. In social franchising, the techniques from commercial franchising are adapted to the context of projects which benefit the social aims of a non-profit organisation such as *Healthstore Kenya*, which operates a franchised network of health stores, or *De Kringwinkel*, a franchise system that operates shops selling used goods. The rise in the number of non-profit initiatives using franchising can be attributed "to the increased openness of the third sector to using commercial tools and to acting more entrepreneurially in order to become more effective" (Bundesverband Deutscher Stiftungen 2008, p. 25).

Further Reading

HAMEL, G.; DOZ, Y.L.; PRAHALAD, C. (2008): Collaborate with Your Competitors – and Win, in: BARTLETT, C.A.; GHOSHAL, S.; BEAMISH, P.W. (Eds.): Transnational Management: Text, Cases, and Readings in Cross-Border Management, 5th ed., Boston, McGraw-Hill; pp. 640-647.

OHMAE, K. (1993): The Global Logic and Strategic Alliances, in: Harvard Business Review, Vol. 67, No. 2, pp. 143-154.

Case Study: Danone*

Profile History and Status quo

Danone, established in 1919, is one of the top companies in the worldwide food processing industry after competitors such as *Nestlé* and *Coca-Cola*. The French company focuses on four businesses: fresh dairy products, waters, baby nutrition and medical nutrition. In 2013, *Danone* was the world leader in fresh dairy products and had around 100,000 employees in 57 countries on five continents, achieving solid growth by generating about 21.3 billion EUR in sales revenues. The emerging markets of Mexico, Indonesia, China, Russia, the United States and Brazil accounted for 54% of group sales in the same year.

In 1966 Danone merged with the glass bottle manufacturer *BSN – Boussois Souchon Neuvesel*. Four years later, in 1970, *BSN* decided to diversify into the

* Sources used for this case study includes various annual reports, press releases, the website http//www.danone.com, as well as explicitly cited sources.

food and beverage industry by acquiring *Brasseries Kronenbourg*, *Société Européenne de Brasseries* and *Société Anonyme des Eaux Minérales d'Evian*, which were all major customers of *BSN*. Finally, in 1972, *Danone Group* was founded after *BSN's* merger with Spanish yogurt producer *Danone*.

International Expansion

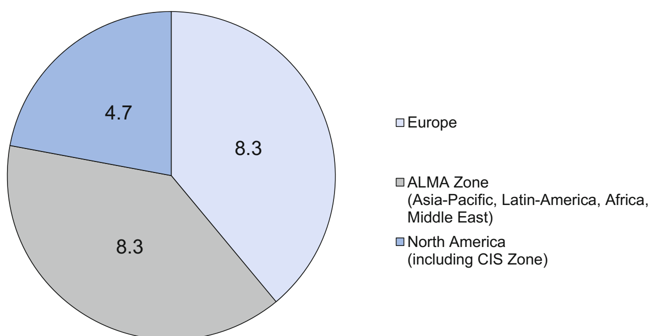
After the foundation, the group primarily concentrated on further expansion in Western Europe. In the 1990s, the company prepared for its international development by completing numerous acquisitions and joint ventures outside of Western Europe, focusing on Asia-Pacific, Latin America and Eastern Europe, as well as in selected markets such as South Africa and the Middle East. In 2007, the Group sold nearly all of its biscuits and cereal products business to *Kraft Foods* in order to focus on health food as the new core business sector. It was then that *Danone* defined its mission as "bringing health through food to as many people as possible" which is consistent with the company's overall strategy.

Principal Markets and Major Alliances

Danone's principal markets are Europe, including Turkey, North America and the CIS zone (Commonwealth of Independent States), including Russia and the ALMA zone (Asia-Pacific, Latin America, the Middle East and Africa). In 2013, Europe and the ALMA zone represented 39% each of group sales, while North America with the CIS zone accounted for 22% of group sales.

Figure 17.8

Group Sales by Geographic Region (in billion EUR)



Source: Adapted from Danone 2014.

Since the reframing of the core business as described above, *Danone* accelerated its international development by acquiring Dutch baby food nutrition and medical nutrition producer *Numico*, as well as the *Unimilk Group* companies in Russia and the CIS, the *Wockhardt Group* nutrition activities in India, *Centrale Laitière* in Morocco and *Fan Milk* in West Africa.

These acquisitions are characterised by the combination of *Danone's* expertise and investment experience, as well as insights into local presence at the target market. The company aims to accelerate the growth and penetration of the local alliance partner's portfolio of leading consumer beverage and food brands in the principal markets.

Strategic Benefits and Risks of Alliance Membership

In 2004, an important co-operational agreement evolved with Japanese *Yakult Honsha Co. Ltd.* Given that their probiotic and fermented milk drinks are similar, the companies initially cooperated on product research and promotion, with options to extend collaboration into more operational areas. *Danone* is a major shareholder in *Yakult Honsha Co., Ltd.*, with a 20% share.

However, since the differences in areas such as corporate culture and marketing techniques could not be eliminated, the companies decided to replace their strategic alliance with a looser cooperation framework. Without being interested in a takeover, *Danone* intended instead to strengthen their „"friendship", as the Japanese milk drinks producer described their business relationship, and continued collaboration in markets such as India and Vietnam on probiotics and other products (Cruz/Yamaguchi 2013).

Strategic alliances often lead to benefits for both sides, such as support through sharing expertise and capabilities of major international groups, or strong complementaries in terms of product ranges, R&D, brand positioning, geographical presence, and distribution channels.

Frictions

Nevertheless, alliances do not always work out as initially intended, as shown in the case of *Danone* and Chinese *Wahaha Group Co. Ltd*. The strategic partnership with *Danone,* which ended in 1996, enabled *Wahaha* to become the dominant player in the Chinese bottled water and other nonalcoholic beverage market, but broke up only about a decade later. However, in 2007, *Wahaha* blamed the French food giant for setting up competing joint ventures with other local companies, such as *Mengniu Dairy* or *Bright Dairy & Food*, whereas *Danone* accused *Wahaha* of using the brand outside the scope of their joint ventures. This contention finally made the French company abandon the alliance, which had accounted for about 10% of *Danone's* total worldwide sales.

Clearly, *Danone* initially aimed to gain access to *Wahaha's* distribution networks in China, one of the fastest-growing regions in the world, with the most lucrative markets, whereas *Wahaha* was looking for capital, management experience, branding and high technology from the foreign MNC.

This particular case, however, shows explicitly that there might be incompatible managerial, cultural and legal discrepancies inherent in a strategic alliance between global foreign companies and that these are potentially hazardous for international business relationships. Potential foreign investors must therefore make a serious effort toward genuine integration compatibly if they aim to enter different national or geographical markets.

Eventually, in 2013 *Danone* joined forces with Chinese state-owned *COFCO* and China's leading dairy company *Mengniu* to accelerate the development of fresh dairy products in China. One year later, *Danone* has already announced its intention to increase its share in *Mengniu* to approve as a shareholder (Melewar 2006, p. 410).

Another strategic alliance which led to unsatisfactory outcomes and was therefore subsequently cancelled was the joint venture called *CCDA*, which was formed by *Danone* and the American multinational nonalcoholic beverage corporation *Coca-Cola Company*. In 2002, the companies decided to collaborate in producing and distributing *Danone's* luxury brand mineral water *Evian* to offset declines in sales of its flagship *Evian* water in the rapidly growing US beverage industry.

This joint venture was unique, because the miscellaneous opponents in the non-alcoholic beverages markets chose to participate in a so called "co-opetition" meaning that they placed themselves in the paradoxical situation of being both partners and competitors simultaneously. The alliance was designed to enhance the *Evian* brand in the US by offering a better-organised distribution network and greater marketing backup to compete with lower priced brands of mineral water, including *Coca-Cola's* own *Dasani* brand. The idea of building this joint venture was appealing, because *Coca-Cola* already distributed Evian in 60% of the US market and the French luxury water brand was considered a good complement to *Coca-Cola*'s *Dasani* brand.

However, in 2005, after a minimal amount of co-operation time, the alliance was suddenly dissolved. This was surprising given the huge investments the companies had made in the alliance, totalling hundreds of millions of dollars. In effect, *Coca-Cola* bought out *Danone's* stake of 49% in CCDA (Bierly/Scott 2007, pp. 137-138).

In the end, the joint venture between *Coca-Cola* and *Danone* was a huge misunderstanding of strategic fit. The companies failed in evaluating consumers' willingness to pay for basically the same product which was just posi-

tioned differently through branding. In this case, the managers lacked an accurate understanding of the synergetic benefits of the integration of the two firms' resources. This could have been prevented by:

- installing an effective IT system to collect, integrate and disseminate information
- ensuring decision makers used the IT systems and other resources available to them
- involving all key organisational members in the decision-making process
- creating a knowledge-sharing culture
- challenging overly optimistic assumptions about the alliance.

Branding and Identity

Danone's social commitment to focus on product categories recognised for their positive contribution to nutrition and therefore health inspired the group to found *Grameen Danone Foods Ltd*. together with *Bengal Grameen Bank* in 2006. *Grameen Danone* is a cross-sector alliance. It can be characterised as an inter-organisational venture and a combination of for-profit and non-profit partners, with a combination of social and economic goals.

Social Responsibility

Grameen Danone combines competencies and resources in a process of systematic learning with the goal of creating social value through a new business model. As *Danone* had limited experience in markets where malnutrition is widespread, a relationship with an organisation like *Grameen* was a perfect match, considering the latter's great experience in developing business models in subsistence marketplaces. The social venture is *Grameen Bank* CEO *Muhammad Yunus'* first concerted social business joint venture in Bangladesh. *Yunus* originally started the *Grameen Bank Project* to provide banking services targeted at the rural poor and in 2006 was awarded the *Nobel Peace Prize* for the bank's efforts to create economic and social development from below.

Within this context of social development in the most densely populated territorial state in the world, *Grameen Danone* is understood as a social business that aims to alleviate malnutrition among children by selling fortified yogurt at an affordable price. The founders agreed on the following criteria for their products:

- product appropriateness
- affordability

- accessibility
- availability
- awareness.

The venture also aims to leverage local resources, create employment throughout the value chain and to emphasise co-creation and co-innovation. According to *Yunus'* social business concept, the company's success should not be judged by the amount of revenue in the long run, but by the number of children who avoid malnutrition each year. As a social business this joint venture is designed to meet social goals without paying any dividends, and also sells products at prices that make *Grameen Danone* self-sustaining.

The advantage for *Danone* mainly lies within the learning effects that came with developing this new business model: acquiring new approaches and skills, including handling new business contacts, and creating new relationships with consumers in a comparatively unexploited market. The main benefits for *Grameen* are the extension of their portfolio of for-profit and non-profit enterprises helping the poor in Bangladesh, as well as the enhancement of *Grameen's* extensive reach and high credibility in rural communities (Danone Communities 2012).

Cross-Sector Alliance

Another alliance *Danone* joined to prove their sense of responsibility is the *Bioplastic Feedstock Alliance (BFA)*. The cross-sector alliance including *Coca-Cola*, *Danone*, *Ford*, *H.J. Heinz Company*, *Nestlé*, *Nike*, *Procter&Gamble* and *Unilever* was founded in collaboration with wildlife charity organisation the *WWF* in 2013. The initiative aims to make packaging more sustainable and find alternatives to fossil energies in their production process.

An essential part of this task is gathering knowledge on available bioplastic supply chains, evaluating the related challenges and guiding responsible packaging upstream of raw material choices. Looking for sustainable alternatives to petroleum-based products, the *BFA* wants to bring together experts from industry, academia and civil society to develop and support informed science, collaboration, education and innovation for the development of materials that can be made into bioplastics. *Danone Nutricia Research* in particular chose to be part of the *BFA* due to their commitment to creating new packaging solutions to ensure the best possible impact on people and the environment (Nestlé 2013).

Summary and Outlook

Danone's identity is closely associated with the pursuit of a dual mission combining economic and social objectives, which the company considers

inseparable. In the sense of strategic philanthropy, in which a company like *Danone* makes a contribution in collaboration with competitors to a social cause related to its core business, like in the case of *BFA*, it alters the context by producing a positive impact on its business. This effect can be seen in many alliances *Danone* has joined all over the world.

Of course there is always the risk of partnerships being accumulated haphazardly. But complementary features (e.g. in geographical presence, product ranges or distribution networks) can actually strengthen a company and therefore its brands. In order to strengthen its activities around the world, *Danone* continues to develop the consumption of its product categories through innovation in Mexico, Indonesia, China, Russia, the United States and Brazil, pursuing a targeted acquisition strategy to strengthen its positions in these countries and looking for expansion opportunities in new countries in order to develop new sources of growth.

Questions

1. The decision-making process behind the selection of alliances and partners can be complex and challenging. Describe the major risks and opportunities of international alliances using an example from *Danone Group's* history.
2. Ultimately the alliance between *Danone* and *Coca-Cola* can be seen as a strategic misfit. Illustrate the importance of trust, strategy and cultural fit for such international cooperation.

Hints

1. See the company's website for further information.
2. See, e.g., Bierly and Gallagher (2007) for the selection process of alliance partners.

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