

A NEW TREND OF STRATEGIC ALLIANCES AMONG KOREAN COMPANIES

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Strategic Alliances in the Past and Present

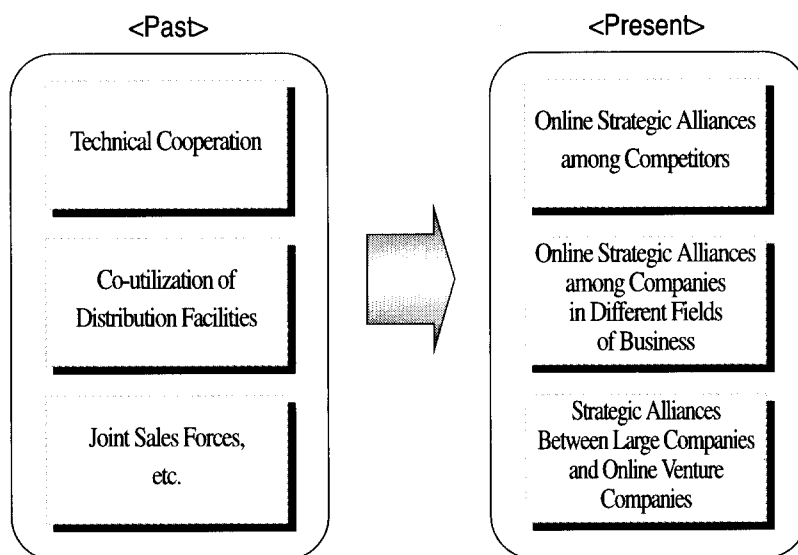
With the rapid development of the digital environment, strategic alliances among companies have changed noticeably. In the past, most strategic alliances were offline in nature, and were made to take advantage of technical cooperation, co-utilization of distribution facilities, or joint sales forces. These activities were mainly intended to develop technically advanced products or to market products more effectively.

With the rapid development of the digital environment, strategic alliances among companies have changed noticeably.

Recently however, a new trend of strategic alliances has arisen with several characteristics that distinguish them from alliances in the past.

First, a number of online strategic alliances have been made among competitors in the same field of business. For example, five family restaurant companies in Korea, Marche, Outback Steakhouse, Sizzler, T.G.I. Friday's and Tony Roma's, agreed to operate a joint website — www.bigfamily.co.kr — in February this year.

Figure.1 Strategic Alliances in the Past and Present



The five companies plan to co-market their products through the website. In another case, Korea's major chemical companies, including Samsung Corp, LG-Caltex Oil Corp, and Korea Petrochemical Industry Corp agreed to launch a joint foundation, ChemCross.Com, in January this year. These companies expect ChemCross.Com to become the largest and most successful e-Business platform in the chemical industry.

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A second characteristic is that many strategic alliances have been formed among companies in different businesses. Most alliances have also been online. For example, eleven leading Korean companies in different businesses, such as Hyundai Motors, Samsung Life Insurance, and LG Investment and Securities, signed a contract this year to launch a giant website marketing over two hundred thousand products. The alliance was a dramatic shock to the entire Korean business community.

Third, size differences among companies are no longer an obstacle to strategic alliances. In the past, large companies were reluctant to cooperate with small and medium-sized venture companies. However, as the competitive paradigm shifts from economies of scale to economies of speed, and with the continued e-Business boom, large companies are actively seeking strategic partnerships with promising venture firms. Samsung Electronics, for example, formed a strategic alliance with Serome Technology to enter the internet telephone business. The alliance gave Serome Technology an opportunity to expand into the world market using Samsung's international distribution channel.

Why has the new trend appeared?

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Alliances with online companies which have many users (or consumers) or an extensive network can assist offline firms to market their products more effectively or to a global market.

One reason for the new trend is the attractiveness of e-Business to offline companies. E-Business has high growth potential, and permits managers of offline firms to run a business at lower cost. Therefore, offline companies are highly motivated to pursue e-Business. In this situation, alliances with online companies can bring a lot of benefit. Especially, alliances with online companies which have many users (or consumers) or an extensive network can assist offline firms to market their products more effectively or to a global market.

The desire to find new business opportunities using the Internet is a second reason for the new trend of strategic alliances. In other countries, many companies have already made great profits by running new e-Business through the Internet. For example, in 1995, e-Bay started the world's first auction business in cyberspace. As a result, e-Bay made a net gain of 5.9 million dollars in 1998 and occupied over seventy percent of the entire market in 1999.

Recently, many Korean companies have also tried to find Internet business opportunities. For example, as described above, the strategic alliance between Samsung Electronics and Serome Technology brought Samsung a new opportunity to enter the Internet telephone business.

Third, unconventional strategic alliances have formed because companies want effective online marketing. This motive caused companies to build co-websites on the Internet as shown in the strategic alliances among family restaurants, among chemical companies, and among the eleven leading Korean companies described earlier. Such co-marketing has several advantages, such as the synergy resulting from economies of scale as well as reduction of investment risks from Internet co-marketing. In addition, the fact that most companies do not have any experience in e-Business is enough to encourage them to actively participate in alliance activities.

Finally, large companies are eager to invest in promising online venture companies mainly because large companies want to diversify profit sources. The alliance between Hyundai Securities and Haansoft can be understood within this category.

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Prospects for future strategic alliances

Korean companies pursuing e-Business are expected to actively engage in strategic alliances with foreign companies. Although Korean companies have learned about the importance of e-Business, they are still novices in the area compared to foreign companies. Therefore, one can predict that many Korean companies will pursue strategic e-Business alliances with advanced foreign companies.

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The relationships among companies are expected to develop from one-to-one partnerships to networked partnerships. That is, a company is expected to form strategic alliances with many companies at the same time. This prediction stems from the fact that as the scope of business expands, a company usually cannot perform all management functions, and will choose to focus on one specific function. Therefore, companies are likely to form networked partnerships according to their unique needs.

The networked relationships will not be permanent however, but temporary, because the business environment changes so quickly that each company will continue to find more suitable partners to maximize their profits, with the help of open information on the Internet.

In conclusion, strategic alliances in the future are expected to be multinational networked partnerships that are flexible in structure. **VIP**