Entering the sophisticated and varied markets of the EC is a challenging undertaking. Strategic alliances have become popular among companies because they provide many ways to turn the challenges of the EC's dynamic market into competitive advantages. Non-EC firms are finding that strategic alliances are often the most effective way of penetrating that market.

Certainly there are many opportunities for exporting Canadian goods into the EC. But exporting may not be the best way for Canadians to reap the benefits of 1992. A recent study showed that more than half of the fastest-growing manufacturing companies in the U.S. used non-trade modes of entry into foreign markets. In the service industry, this figure was virtually 100%. Instead of simply exporting, companies are penetrating foreign markets through strategic alliances, mergers and acquisitions, or greenfield investment.

Strategic alliances give firms access to additional resources and capabilities by sharing the high costs and risks of business, by participating in a division of labour appropriate to respective business strengths, and by better leveraging financial resources. Partners can contribute established marketing and distribution systems, as well as knowledge of the markets they serve. They ensure products get to market more quickly and more effectively. An EC partner can also give valuable advice on how to modify a product to meet local regulations and market preferences. They can help with such issues as translation of documentation, conversion of power requirements, and complying with packaging regulations. Using alliances inside the EC, even small Canadian firms can compete effectively in the large and diverse EC marketplace. Any linkages formed are restricted primarily by the company's ability to manage the relationship.

There are many types of alliances ranging from participation in an overseas joint venture to an exchange of products through a cross-licensing agreement. What they all share in common is that they can provide a firm with the technology, capital or market access it needs but might not be able to afford or achieve on its own. This allows a company to focus its own efforts on the activities that make it truly competitive.

Forms of Cooperation

Joint research and development projects and consortia reduce financial risks and provide access to technical expertise. They also allow firms to invest and participate in a wide variety of development efforts instead of putting all their eggs in one basket because of limited resources. Joint R&D efforts are a good way of combining the resources of firms, governments, universities, and consortia. They are most commonly used in basic or applied research before a new product is commercialized.

A joint venture is an independent business formed through the cooperation of two or more parent firms. Joint ventures have traditionally been used as a way of avoiding restrictions on foreign ownership when entering foreign markets. This may still be an important motive for many companies but there are other uses for joint ventures beyond simply getting around government regulations.

The central characteristic of a joint venture is that it is an equity-based relationship. Each parent has equity in the joint venture and is represented on the board of directors. One implication of this arrangement is that it is more difficult to terminate a joint venture than it is to leave other types of strategic alliance. Because the joint venture is a distinct corporate entity separate from its parents, it involves levels of organizational and managerial complexity that require some special considerations. Forming a joint venture with another firm only makes sense if the nature of the project requires commitments from the partners that go beyond the legal forms of a contractual agreement.

If the ownership of the joint venture is split 50-50, it is usually because the partners are about the same size and both want a significant voice in how the new company is to operate. A different equity split usually reflects unequal amounts of resources each parent company has committed to the new enterprise.

By itself, a ***licensing agreement*** is not usually considered to be a strategic alliance, though it can lead to a strategic alliance or be an important part of one. In a licensing agreement, a firm sells the rights to use its products or services. Since licensing transfers usage rights but not property rights, the licensor still retains some control over the product. Issues that are subject to negotiation include royalties, patents, sub-licensing possibilities, rights to sell and manufacture, duration of the arrangement, geographical limitations of the licence, exclusivity, and issues related to the updating of technology.

Cross-licensing is a strategic alliance between two firms in which each licenses products or services to the other. Today, many companies are exchanging the rights to use their products or services with each other.

Both licensing and cross-licensing are relatively straightforward ways for companies to share products or expertise without the complications of closer collaboration. However, because they do involve less cooperation, they hold out less promise of achieving a synergy where cooperation sustains a whole greater than the sum of its parts.

Cross-manufacturing agreements are a form of cross-licensing in which companies agree to manufacture each other's products.