Strategy Tool

When To Choose An Alliance Versus An Acquisition

Alliances and acquisitions are alternative vehicles for accessing important resources or capabilities that reside in another firm. Each approach might be preferable in different situations and managers must carefully analyze several key factors before deciding whether to ally with a company, or acquire it. These factors include the following:

1. *Type of synergies or interdependence between the firms.* Managers should assess the nature of the coordination and interdependencies that will be required to generate synergies through the collaboration. When interdependencies are low (pooled/modular), nonequity alliances are preferred. As interdependencies increase and become sequential and reciprocal in nature, managers should consider first equity alliances/joint ventures and then acquisitions (see Chapter 7 discussion of pooled, sequential, and reciprocal interdependencies).
2. *Nature of resources being combined.* Managers should assess whether they must create the synergies they desire by combining hard resources, like a product, equipment, manufacturing plants, or patents or soft resources, such as people, relationships, or unpatented intellectual property. When the synergy-generating resources are hard, acquisitions are typically a better option because it's easier to value the assets you are purchasing. When companies have to generate synergies by combining human resources, it's a good idea to avoid acquisitions because people often walk out the door after acquisitions.
3. *Extent of redundant resources.* When two companies can team up to create value by essentially eliminating redundant resources that each has then acquisitions are the preferred option. For example, companies might have redundant R&D activities, manufacturing plants, or sales/services forces and want to leverage the best of each firm while eliminating redundancies. When companies want to create value by eliminating redundant resources, acquisitions are preferable to alliances.
4. *Degree of market uncertainty.* When a company estimates that there is high uncertainty or high risk about whether a particular collaboration will yield positive results, it should enter into a nonequity or equity alliance rather than acquire the would-be partner. An alliance will limit the firm's exposure since it has to invest less time and money than it would in an acquisition. If the collaboration doesn't yield results, the company can withdraw from the alliance. It might lose money and prestige, but that will be nowhere near the costs of a failed acquisition.
5. *Degree of competition for partner's resources.* There's a well-developed market for mergers and acquisitions, so it is wise to check if you have rivals for potential partners before pursuing a deal. If a company has several suitors, you might have no choice but to buy it in order to preempt the competition. When there are many suitors for a partner's resources, we recommend you acquire those resources to gain full control.