6.4: Making Cooperative Moves

Learning Objectives

1. Know the four types of cooperative moves.
2. Understand the benefits of taking quick and decisive action.

In addition to competitive moves, firms can benefit from cooperating with one another. Cooperative moves such as forming joint ventures and strategic alliances may allow firms to enjoy successes that might not otherwise be reached (Table 6.8). This is because cooperation enables firms to share (rather than duplicate) resources and to learn from one another’s strengths. Firms that enter cooperative relationships take on risks, however, including the loss of control over operations, possible transfer of valuable secrets to other firms, and possibly being taken advantage of by partners (Ketchen, et. al., 2004).

Joint Ventures

A joint venture is a cooperative arrangement that involves two or more organizations each contributing to the creation of a new entity. The partners in a joint venture share decision-making authority, control of the operation, and any profits that the joint venture earns.

Sometimes two firms create a joint venture to deal with a shared opportunity. In April 2011, a joint venture was created between Merck and Sun Pharmaceutical Industries Ltd., an Indian pharmaceutical company. The purpose of the joint venture is to create and sell generic drugs in developing countries. In a press release, a top executive at Sun stressed that each side has important strengths to contribute: “This joint venture reinforces [Sun’s] strategy of partnering to launch products using our highly innovative delivery technologies around the world. Merck has an unrivalled reputation as a world leading, innovative, research-driven pharmaceutical company (Merck, 2004).” Both firms contributed
executives to the new organization, reflecting the shared decision making and control involved in joint ventures.

In other cases, a joint venture is designed to counter a shared threat. In 2007, brewers SABMiller and Molson Coors Brewing Company created a joint venture called MillerCoors that combines the firms’ beer operations in the United States. Miller and Coors found it useful to join their US forces to better compete against their giant rival Anheuser-Busch, but the two parent companies remain separate. The joint venture controls a wide array of brands, including Miller Lite, Coors Light, Blue Moon Belgian White, Coors Banquet, Foster’s, Henry Weinhard’s, Icehouse, Keystone Premium, Leinenkugel’s, Killian’s Irish Red, Miller Genuine Draft, Miller High Life, Milwaukee’s Best, Molson Canadian, Peroni Nastro Azzurro, Pilsner Urquell, and Red Dog. This diverse portfolio makes MillerCoors a more potent adversary for Anheuser-Busch than either Miller or Coors would be alone.

Table 6.8 Making Cooperative Moves

Franklin Roosevelt once quipped, "Competition has been shown to be useful up to a certain point and no further, but cooperation, which is the thing we must strive for today, begins where competition leaves off." We illustrate four commonly used cooperative moves used by firms below.

Join ventures involve two or more organizations that contribute to the creation of a new entity. For example, Hong Kong Disneyland is a joint venture between the government of Hong Kong and the Walt Disney Company. While the park consists of Disney mainstays such as Main Street, U.S.A., Fantasyland, Adventureland, and Tomorrowland, the park also incorporates elements of Chinese culture such as adherence to the rules of Feng Shui—a set of aesthetic design principles believe to promote positive energy.

Strategic alliances are cooperative arrangements between two or more organizations that do not involve creating new entities. For example, a strategic alliance between Merck and PAREXEL International Corporation was recently announced with the goal of collaborating on biotechnology efforts known as biosimilars—a term used to describe subsequent versions of innovative drugs.

Colocation refers to a situation when goods and services offered under different brands are located very close to each other. Noting once common example of colocation, a comedian once joke that La Quinta was Spanish for “Next to Denny’s.” Both hotels and restaurants are often colocated alongside freeway exits to allow numerous choices for road-weary travelers.

Coopetition is a term that refers to the blending of competition and cooperation between two firms. Toyota and General Motors’ creation of jointly owned New United Motor Manufacturing incorporated (NUMMI) allowed for collaboration on automobile designs while Toyota and GM continued to compete for market share worldwide. The NUMMI experience also inspired the 1986 comedy Gung Ho.

Strategic Alliances

A strategic alliance is a cooperative arrangement between two or more organizations that does not involve the creation of a new entity. In June 2011, for example, Twitter announced the formation of a strategic alliance with Yahoo! Japan. The alliance involves relevant Tweets appearing within various functions offered by Yahoo! Japan (Rao, 2014). The alliance simply involves the two firms collaborating as opposed to creating a new entity together.

The pharmaceutical industry is the location of many strategic alliances. In January 2011, for example, a strategic
alliance between Merck and PAREXEL International Corporation was announced. Within this alliance, the two companies collaborate on biotechnology efforts known as biosimilars. This alliance could be quite important to Merck because the global market for biosimilars has been predicted to rise from $235 million in 2010 to $4.8 billion by 2015 (PRWeb, 2011).

**Colocation**

Colocation occurs when goods and services offered under different brands are located close to one another. In many cities, for example, theaters and art galleries are clustered together in one neighborhood. Auto malls that contain several different car dealerships are found in many areas. Restaurants and hotels are often located near another too. By providing customers with a variety of choices, a set of colocated firms can attract a bigger set of customers collectively than the sum that could be attracted to individual locations. If a desired play is sold out, a restaurant overcrowded, or a hotel overbooked, many customers simply patronize another firm in the area.

Because of these benefits, savvy executives in some firms colocate their own brands. The industry that Brinker International competes within is revealed by its stock ticker symbol: EAT. This firm often sites outlets of the multiple restaurant chains it owns on the same street. Marriott's Courtyard and Fairfield Inn often sit side by side. Yum! Brands takes this clustering strategy one step further by locating more than one of its brands—A&W, Long John Silver's, Taco Bell, Kentucky Fried Chicken, and Pizza Hut—within a single store.

**Co-opetition**

Although competition and cooperation are usually viewed as separate processes, the concept of co-opetition highlights a complex interaction that is becoming increasingly popular in many industries. Ray Noorda, the founder of software firm Novell, coined the term to refer to a blending of competition and cooperation between two firms. As explained in this chapter's opening vignette, for example, Merck and Roche are rivals in some markets, but the firms are working together to develop tests to detect cancer and to promote a hepatitis treatment. NEC (a Japanese electronics company) has three different relationships with Hewlett-Packard Co.: customer, supplier, and competitor. Some units of each company work cooperatively with the other company, while other units are direct competitors. NEC and Hewlett-Packard could be described as "frienemies"—part friends and part enemies.

Toyota and General Motors provide a well-known example of co-opetition. In terms of cooperation, Toyota and GM vehicles were produced side by side for many years at the jointly owned New United Motor Manufacturing Incorporated (NUMMI) in Fremont, California. While Honda and Nissan used wholly owned plants to begin producing cars in the United States, NUMMI offered Toyota a lower-risk means of entering the US market. This entry mode was desirable to Toyota because its top executives were not confident that Japanese-style management would work in the United States. Meanwhile, the venture offered GM the chance to learn Japanese management and production techniques—skills that were later used in GM's facilities. NUMMI offered both companies economies of scale in manufacturing and the chance to collaborate on automobile designs. Meanwhile, Toyota and GM compete for market share around the world. In recent years, the firms have been the world’s two largest automakers, and they have traded the top spot over time.

In their book titled, not surprisingly, *Co-opetition*, A. M. Brandenberger and B. J. Nalebuff suggest that cooperation is generally best suited for "creating a pie," while competition is best suited for "dividing it up" (Brandenberger & Nalebuff,
In other words, firms tend to cooperate in activities located far in the value chain from customers, while competition generally occurs close to customers. The NUMMI example illustrates this tendency—GM and Toyota worked together on design and manufacturing but worked separately on distribution, sales, and marketing. Similarly, a research study focused on Scandinavian firms found that, in the mining equipment industry, firms cooperated in material development, but they competed in product development and marketing. In the brewing industry, firms worked together on the return of used bottles but not in distribution (Bengtsson & Kock, 2000).

Get Moving!

Figure 6.9 Get Moving!

The following story, based on the poem "Brief Thoughts on Maps" by Miraclo Hudek, highlights the importance of taking strategic action in the face of danger.

A lieutenant once sent a patrol into the Alps during a harsh snowstorm. After a couple of days of snow, he began to fear that he had dispatched his men to their deaths.

But, just as all hope was about to be lost, the group returned.

The lieutenant began to question his patrol. How did they make it back?

One of the men admitted that at first they panicked and began waiting to meet their fate. But then one of the soldiers found a map in his pocket, which helped to calm everyone down.

So, the patrol made their camp and lasted out the snowstorm. After the snow subsided, they used the map to get their bearings and they found their way back, as simple as that.

The lieutenant was stunned when he realized that the map was not even of the Alps. The map in the soldier's pocket was actually one of a different mountain range.

The point of this tale is that sometimes, any old map will do. In relation to the competitive and cooperative moves a business may take, it is important for executives to avoid “paralysis by analysis” and get moving. Any good competitive move provides a useful starting point that executives can learn from and then adjust their strategies as needed.

Joseph Addison, an eighteenth-century poet, is often credited with coining the phrase “He who hesitates is lost.” This proverb is especially meaningful in today’s business world. It is easy for executives to become paralyzed by the dizzying array of competitive and cooperative moves available to them. Given the fast-paced nature of most industries today, hesitation can lead to disaster. Some observers have suggested that competition in many settings has transformed into hypercompetition, which involves very rapid and unpredictable moves and countermoves that can undermine...
competitive advantages. Under such conditions, it is often better to make a reasonable move quickly rather than hoping to uncover the perfect move through extensive and time-consuming analysis (Figure 6.9).

The importance of learning also contributes to the value of adopting a “get moving” mentality. This is illustrated in Miroslav Holub’s poem “Brief Thoughts on Maps.” The discovery that one soldier had a map gave the soldiers the confidence to start moving rather than continuing to hesitate and remaining lost. Once they started moving, the soldiers could rely on their skill and training to learn what would work and what would not. Similarly, success in business often depends on executives learning from a series of competitive and cooperative moves, not on selecting ideal moves.

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**Key Takeaway**

- Cooperating with other firms is sometimes a more lucrative and beneficial approach than directly attacking competing firms.

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**Exercises**

1. How could a family jewelry store use one of the cooperative moves mentioned in this section?? What type of organization might be a good cooperative partner for a family jewelry store?
2. Why is it that “any old map will do” sometimes in relation to strategic actions?

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**References**


