

EUROPEAN GUIDE TO ALLIANCES BETWEEN SUBCONTRACTING SMEs

FOREWORD

Faced with the higher levels of international competition brought about by the Single Market, increasingly global trade and newly emerging markets, large industries are outsourcing a growing volume of work to subcontractors. They are expecting subcontractors to be more efficient from the point of view of production organisation and cost and quality control, to show evidence of innovative skills and to be able to develop new products and processes. For SMEs, alliances are an up-to-date way of organising closer links between enterprises so that they can achieve the optimum size that contractors require, especially for transnational operations.

The experience that the Chamber of Commerce and Industry of Lyons has acquired from its detailed work on alliances made it possible for the Chamber to coordinate, in 1997, the production of the “European guide to alliances between subcontracting SMEs”, with the assistance of the European Commission (Directorate General XXIII responsible for enterprise policy), European specialists and the 15 partners from the European Union.

This aim of this Guide, which is intended to be a practical work, is to make the managers of SMEs more aware of the ways in which alliances can be forged between enterprises in the European Union. The information on different practices and cultures that this Guide contains offers SME managers:

- information on the ways in which alliances can be set up and run;
- concrete examples of cooperation between enterprises in the same country and between enterprises in different countries ;
- advice on legal and financial methods ;
- information on technical and financial aid, and on the regulations in force in the Member States of the European Union.

Knowledge of the ways in which subcontractors operate is essential if more partnerships between subcontractors are to be promoted. This Guide also looks in detail at the problems raised by the reorganisation of subcontracting in order to cope with increasingly global markets.

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Preface

Notes on the production of the Guide

The aim of this guide is to make the managers of industrial subcontracting SMEs aware of the ways in which alliances can be set up in the European Union.

This project has been developed jointly by the Chamber of Commerce and Industry of Lyons and the Commission of the European Union with the assistance of a group of specialists (DATA MASTER, ERNST & YOUNG) and a group of partners from the 15 Member States of the European Union.

An analysis questionnaire, drawn up by the Chamber of Commerce and Industry of Lyons, DATA MASTER and ERNST & YOUNG ENTREPRENEURS, was initially forwarded to the 15 partners in the European Union. The surveying work that these partners carried out made it possible to pinpoint the forms of cooperation and alliances specific to each country. The partners also collected information on alliances in their respective countries.

The replies were then summarised and provided a starting point for the production of the Guide.

We would like to make five comments on our work:

- The concept of an alliance or consortium is perceived in a relatively similar way in the 15 EU Member States.
- Leaving aside specific regional features, subcontractor development raises the same strategic issues throughout Europe.
- Cultural differences between countries do not have any radical impact on the forms that cooperation takes.
- Language is one of the main barriers to initial approaches and tends to hamper negotiations much more than technical aspects.
- Finding transnational alliances between subcontractor SMEs raised considerable problems for our 15 partners.

How to use this guide

The three parts can be read separately. Alliances that are of interest to readers can be rapidly selected from the grid of examples organised by country, trades, markets and types of alliance.

Taking those aspects specific to subcontracting as a starting point, **Chapter I** looks at the ways in which relationships between contractors and subcontractors are changing: from complete production integration to vertical partnerships.

Strategic issues for European subcontractors are then pinpointed from these changes and are linked to the types of alliance that are most commonly encountered.

Finally, after an attempt to define what an alliance means, the main types of alliance between European subcontractors are reviewed.

Chapter 2 then draws upon ERNST & YOUNG's experiences with 150 European enterprises to provide an eight-stage breakdown of the thinking and measures needed before and during the establishment of an alliance. This Chapter is illustrated by a whole range of examples.

Chapter 3 looks at the features of subcontracting and alliances specific to each country. Since account has to be taken of cultural differences when setting up an alliance, this Chapter reviews management methods in each country, focusing on communication, decision-making, concerted action and organisational practices within enterprises.

This Chapter is illustrated by addresses, bibliographies and reports on cooperation. We draw your attention, by way of example, to the Spanish section, where an attempt to set up a cluster (by CLUSTER COMPETITIVENESS) is reviewed, and the Italian section where Flavio IANO (CESDI) reports on "Italian district organisation and relationships".

The **Annexes** review all the resources that the European Union has made available to SMEs in order to promote cooperation.

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EXAMPLES OF ALLIANCES

Country	Title of the example	Markets	Trades	Countries involved	Nature of the alliance	Legal structure
Germany	Developing product range so that several enterprises can gain a foothold in the European market	Industrial equipment	Electricity supply, electronic components	Germany, Austria, Denmark	Complementary colleagues, commercial and optimum size alliance	No formal structure, contracts
Germany	An association of European “pressure sensor” leaders to combat worldwide competition	Industrial equipment	Measurement and instrumentation	Germany, Italy	Complementary competitors, commercial and technological alliance	Agreement, conciliation procedure
Austria	A partnership to make the most of technological advances in plastics precision micro-injection	Telecommunications, automobile, medical	Plastic injection machinery	Austria	Complementary competitors, technological and optimum size alliance	Contract
Austria	Cooperation to create new components using technical textiles (carbon, glass, metal, etc.)	Automobile, aerospace, sports, plastics industry	Technical textiles (ceramics, carbon, glass)	Austria, Italy	Technological and process alliance	Agreement, technological contract
Belgium	Belgian road hauliers band together to gain European markets		International road haulage	Belgium	Direct competitors, search for optimum size	GIE
Denmark	Eight specialist Danish subcontractors get together to offer a global supply	Electronics, communications, medical, hydraulics	Research, mechanical engineering, sheet metal production, foundry work, tools, surface treatment	Denmark	Complementary alliance and network	Framework agreement
Denmark	Viewing process and technology for the seed industry	Agriculture and horticulture	Monitoring and process equipment	Denmark, Netherlands	Technological alliance	Specific contract
Spain	Setting up a cluster					
Spain	Development of plastic components for the scooter industry	Scooter industry	Plastics injection, engineering	Italy, Spain	Complementary competitors, optimum size alliance	Limited liability company
Spain	Competitive production and respect of the environment by Spanish leather producers	Leather users	Leatherworking	Spain	Direct competitors, technological and production alliance	Company
Finland	Wood industry: extended product range and export expertise	Wood industry, wood equipment industry	Engineering, manufacture of materials,	Finland	Strategic and optimum size alliance	None

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			woodworking			
Finland	Penetrating the German market and optimising product range	Joinery industry	Joinery production, wood	Finland, Germany	Partnership, export	Association contract
France	A Franco-Spanish alliance develops an innovative process in order to supply the Spanish iron and steel industry	Iron and steel	Surface treatment	France, Spain	Direct competitors, strategic alliance	Limited liability company
France	An association of subcontractors manufactures a steam vacuum cleaner for the general public	Domestic electrical goods	Design, moulding, plastics injection	France, Austria, Italy	Complementary colleagues, strategic alliance	Association contract
France	"SME managers" network in Romania	Industrial	Subcontracting	France, Romania	Strategic alliance	Joint venture
United Kingdom	A network of 15 suppliers to manufacture Calsonic vehicle radiators	Automobile	Aluminium, plastics, rubber, electricity, etc.	Wales	Complementary network	Association
Greece	Answering a European call for tender with a local partner	Public	Electromechanical machinery manufacture	Italy, Greece	Strategic alliance	Partnership agreement
Greece	Pooling European skills to optimise a tool-making technology	Automobile	Tools, prototypes	Greece, Germany, Sweden	Technological alliance	Informal
Greece	Association of Greek industrial subcontracting enterprises (AGEIS)	Industrial	Subcontracting	Greece	Enterprise network	
Ireland	Supply of sub-assemblies to the PC industry	Computer equipment	Cutting/drawing, plastics injection, electronics, assembly	Ireland	Optimum size alliance, complementary colleagues	
Italy	Italian "district" organisation and relationships					
Italy	Transnational alliance to supply a joint range of rubber products	Transport, various industries	Rubber processing	Germany, Italy	Complementary products, joint commercial representation	
Luxembourg	Association of Luxembourg importers	Civil engineering, crafts, schools	Importers of various materials	Luxembourg	Enterprise network	Non-profit-making association
Luxembourg	The buildings and public works market	Building and public works	Proofing, protection, soil treatment	Luxembourg	Contractors and subcontractors	
Netherlands	KIC project (copiers): from partnership to cooperation between contractors and	Office automation	Subcontracting, assembly	Netherlands	Strategic and technical alliance	Agreement

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	subcontractors					
Portugal	A broader range of foundry expertise and international development		Iron foundry	Portugal	Complementary competitors, commercial alliance	Informal
Portugal	A group of suppliers rescues their main customer	Agriculture, packaging, fisheries	Textiles, rope-making	Portugal, United Kingdom, Denmark	Competitors, strategic alliance	The Weidemann Company
Sweden	A Swedish SME puts its expertise at the service of the Norwegian Army	Military	Aeraulics	Sweden, Norway	Technological and strategic alliance	Contract
Sweden	Joint commercial representation despite very different enterprise sizes	Wood	Woodworking processes	Sweden, Germany	Complementary products	Contract

Introduction

Starting up, developing and breathing life into alliances offers an innovative way for SMEs to grow and prosper. These alliances, which are not very common and relatively complex, require new knowledge and different approaches. As an alternative to internal or external growth (mergers, acquisitions), an alliance may in fact allow an enterprise to achieve objectives that it could not envisage on its own because of its lack of human and financial resources or even time. Bearing in mind the major changes in their markets and the new requirements of their customers, it is very rare for subcontractors to have the resources to find appropriate and sustainable responses to these problems on their own.

The new continental or even worldwide industrial strategies and purchasing policies that the major contractors are implementing are having substantial repercussions for subcontractors. They can no longer disregard the international dimension even if they deliver only to a local site in the immediate vicinity of their offices. In the future, it may well be that their customers will want them to supply to another site in another country. Their customers will want them to supply the same component or the same sub-assembly to all their factories, wherever they may be in the world. In parallel, their customers may well start to obtain their supplies elsewhere with the result that competition will be much more broadly based.

Faced with new competitors not subject to the same economic production conditions, subcontractors will have to adapt and possibly even envisage partnerships with their main competitors. Similarly, providing systems or sub-assemblies rather than basic components will make it necessary for them to acquire new technological knowledge, new industrial processes and new tools. Here again, forging links with partners may make it possible to remain competitive and credible in the market and among customers. Seeking out and setting up national or international alliances may also help enterprises to find the new customers that they need to survive.

The European area is nowadays an increasingly natural working area for SMEs. The Single Market is not, however, a completely unified market. Each geographical area, each country and even each region has kept and even developed its specific forms of organisation, expertise, consumption and lifestyle. Rooted in history, in people's education and training and in the structure of society, these differences are not about to disappear! Understanding and coping with these cultural differences is vital for anyone who wishes to communicate and work with a European partner.