

VIRTUAL SCALE: *Customer-Focused Resource Pooling*

In business, when diminutive Davids face a Goliath-of-an-economy, certainly, the question of size matters. Absent a miracle transformation into an industry giant, both small and mid-sized businesses must stretch to equip themselves for serious market share battle.

More often than not, competing on a level that rivals Big Business requires pooling resources with a “partner.”

Leveraging a strategic alliance into the type of operational scale that reduces costs and heightens efficiency has been dubbed achieving “virtual scale.” In July 2005, leading management consulting firm Booz & Company predicted that “before long, Virtual Scale may not be simply an option; it may be a requirement.” In the McLean, Virginia-based company’s article entitled “*Virtual Scale: Alliances for Leverage*” (*Strategy + Business Resilience Report*), Doug Hardman, David Messinger, and Sara Bergson warn of the risk of many small companies falling significantly behind their larger-scaled competitors—if they don’t embrace this concept.

They note that in times when businesses face the triple threat of competitors, customers and suppliers eating away at profit margins, carefully-structured collaborative measures are necessary. And with getting and staying lean drawing corporate and governmental purse strings tighter, it’s wise to vie for contracts with an even stronger eye on customer satisfaction. The Booz piece discusses how combining mutual assets and capabilities can give smaller players just the boost needed to, at a minimum, snag consideration for bigger jobs. It explores how, inevitably, lightening individual enterprises’ loads translates into customer convenience and savings.

For example, it shows the joint benefits of a midmarket consumer goods company’s sharing factory space with smaller competitors or private-label companies. Booz’s scenario highlights the across-the-board bonuses for such alliances: manufacturing and labor costs per unit reductions and an increase in full truckloads. Also, it points out the customer relational pluses when dealing with big retailers. Principally, their example underscores that, all other things being equal, buyers and store managers are bound to prefer doing business with allied vendors. Instead of having to receive shipments from each company separately, they would enjoy the labor and monetary relief of fewer trucks to unload.

Know, however, that forging alliances is not a generic process. No matter the allure of bagging an unbelievable contract, proceed with caution before formalizing any agreement. First of all, *your need* for scale enhancement should guide any decision to link up with another

company. Understand just where an alliance could benefit your business most. Identify where you face the greatest challenges. Do you need to share research resources? Would having access to design templates aid your development efforts? Can joint supplier search efforts untangle the procurement web? Or, would splitting marketing costs help most?

Particularly in strained economic times, taking a buckshot approach to locating a strategic partner is tempting. However, narrowing your focus positions you for a better outcome. Not only should the long-term best interest of your enterprise drive any decision you make, but your distinctive competence should anchor each move as well. Long before a small business pitches collaboration to a mid-sized organization, it must definitively identify its unique capabilities. Remember, the whole idea of achieving virtual scale is predicated on making inroads into desired markets and gaining advantage over the competition. Therefore, it’s necessary to know whatever gives you an edge and then to center your presentations on these strengths. Also, do your research. When pitching a would-be partner, for instance, in addition to highlighting perceived mutual benefits, spotlight how synthesizing your efforts could yield critical marketplace leverage. Know what governmental agencies, as well as prime contractors and other organizations, are looking for. Readily-available information, such as company histories, annual reports, and press archives, offer rich insight into potential opportunities.

In “*Supply Chain Survival*” (*ICIS Chemical Business* - Mar. 30- Apr. 5, 2009), Tim Bett, director for Europe at UK-based Bisham Consulting stresses that now is a time for “fit for purpose,” improving the efficiency of what you have, and making sure you prioritize. So, in your quest to achieve virtual scale through forging a strategic alliance, consider the following:

- What would the other company gain as my partner?
- How can this prospect help meet my top needs?
- Do we “fit” each other? Can we work together well?
- How will production be prioritized?
- What will be the control, supervision & oversight protocol?
- How will tacit knowledge & intellectual property be handled?
- How will regulatory and sociopolitical issues affect both parties?

Taking care of such details in advance of signing an agreement can tip the “virtual scale” in your favor.