

# Forming Clever Alliances: A Case Study



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**ALLIANCE** is often defined as a group of companies brought together to achieve specific aims or purposes. Alliances are traditionally formed in response to a competitive threat; however, increasingly companies are using alliances as proactive ways to solve problems. Alliance also means the consolidation of two companies of different culture and interest. People are always cautious of combinations that involve the change of power, culture and interest as some members might be excluded as a result of the alliances. Hence, it is important to study the purpose for an alliance before deciding to be a part of one.

This article is based on the alliance of Flextronics Intl. Ltd. (Flextronics) and Casio Electronics Co., Ltd. (Casio) in 2002 which involves two companies with different cultures and interests.

## BACKGROUND OF THE ALLIANCE

In 2002, Flextronics, an electronics manufacturing services (EMS) provider signed an agreement with Casio. This was believed to be the first outsourcing deal between a Japanese original equipment manufacturer (OEM) and an American EMS provider. Flextronics purchased Casio's subsidiary in Aichi, Japan, and production facility in Shah Alam, Malaysia, to manufacture a variety of electronics products for Casio.

At the time of the merger, the facility at Aichi, Flextronics Aichi K.K. (Aichi) served as a site for repair, logistics, and distribution services as well as the launch point for introducing new products for Japan. It manufactured compact electronics products such as liquid crystal displays and digital cameras. It had many highly skilled engineers and widely known for its technologies.

Currently, Flextronics is the second largest EMS provider by revenue, offering design, manufacturing and distribution services to its customers. It has manufacturing bases in over 30 countries including South America, Asia, Eastern Europe and other low cost regions.

It manufactures products for OEMs such as Dell, Cisco Systems Inc., Xerox, Nortel, Sony Ericsson and Hewlett Packard, to name a few. The company offers services that yield high-quality yet low cost products made possible by its global footprint.

## REASONS FOR THE ALLIANCE

The alliance would allow Flextronics to access Aichi's highly skilled design and production engineering capabilities and the lucrative electronics market in Japan. However, to do so, Flextronics needed to build on the success of Casio and promote these successes to other Japanese OEMs.

On the other hand, Casio would like to sell its subsidiary, Aichi, due to its stagnated performance; and to focus on its core competencies which include innovative technologies and design.

## IMPACT OF THE ALLIANCE TO CASIO COMPUTER CO., LTD.

### Outsourcing of Unprofitable Sectors

Casio was relieved of its burden by selling its unprofitable subsidiary, Aichi. In addition, by outsourcing its manufacturing activities, Casio could focus on its core competencies such as design, innovation and marketing.

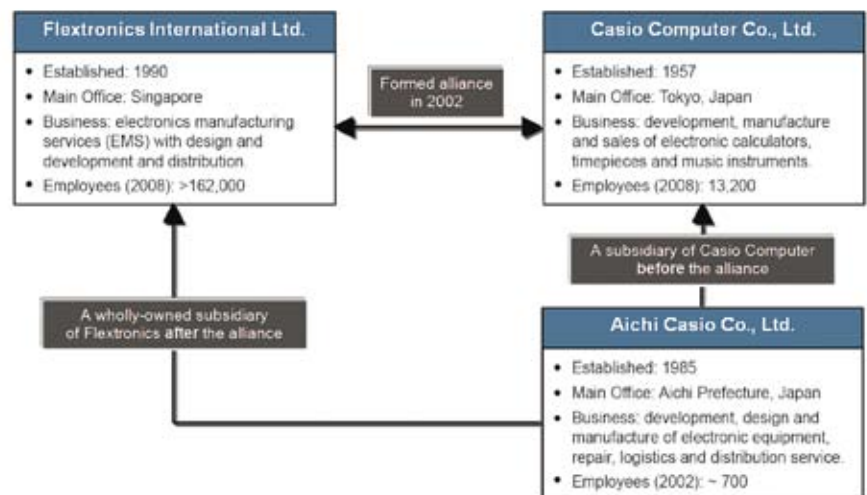


Figure 1: The Alliance of Flextronics Intl. Ltd. and Casio Electronics Co., Ltd.

## FEATURE

### Cost Savings

Casio is able to use Flextronics' global low cost manufacturing bases to reduce costs without the need for capital investments for manufacturing.

### IMPACT OF THE ALLIANCE TO FLEXTRONICS INTL. LTD.

#### Marketing

Flextronics has a base in Japan to secure orders from other Japanese OEMs which is an important requirement to do business with the Japanese. Japanese companies traditionally emphasise on long term relationships with their suppliers. Hence, a broad-based support such as sales and marketing, technical and production has to be demonstrated.

#### Product Development

Flextronics learned from Aichi for its ability to develop and manufacture compact electronic products; an ability that could differentiate Flextronics from its competitors.

#### Increase Order from Casio

As a result of the alliance, the cooperation between Flextronics and Casio has been strengthened; and Casio has been able to use Flextronics' global low cost manufacturing bases to achieve further cost savings.

#### Opportunities from Japanese OEMs Operating Globally

Flextronics can emphasise on combining Aichi's high technologies and its global low cost manufacturing system to win more customers globally. Flextronics has the ability to fully understand Japanese technical demands and to make products at a lower cost, allowing it to get orders from Japanese OEMs that operate globally.

### IMPACT OF THE ALLIANCE TO AICHI

#### Change in Management

The decision-making process is speedier as the management style was westernised. Board members were appointed from Flextronics, Casio and Aichi to facilitate the change of power, culture and interest.

#### Personnel System and Human Resource Development

Japanese companies have traditionally emphasised on seniority for promotion and compensation decisions though this practice is declining. American companies, on the other hand, adopt a more performance driven merit system which is an important source of inspiration to many employees.

Flextronics International Ltd.	Casio Computer Co., Ltd.
<ul style="list-style-type: none"> <li>To gain access to highly skilled design and production engineering capabilities</li> <li>To gain access to the lucrative Japanese electronics market</li> </ul>	<ul style="list-style-type: none"> <li>To sell its subsidiary due to stagnated performance</li> <li>To focus on core competencies</li> </ul>

Figure 2: Reasons for the Alliance

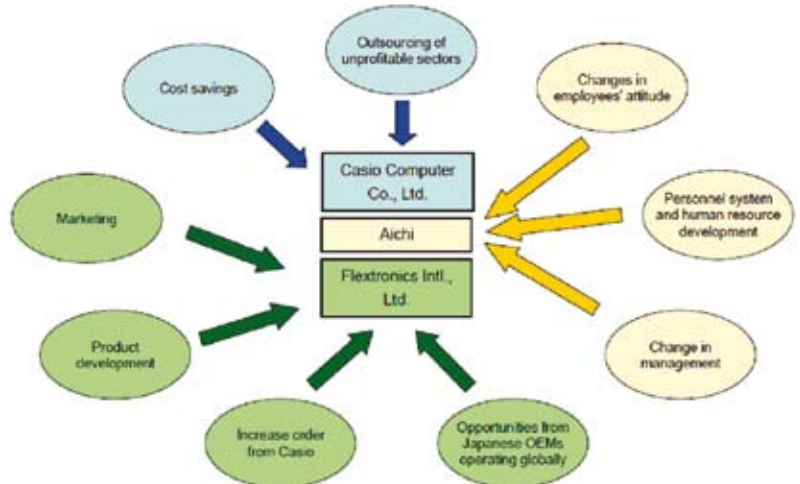


Figure 3: Impact of the Alliance

The alliance of Flextronics and Casio has resulted in an increase in productivity and performance of Aichi's employees. At Aichi, as part of a global company, has emphasised on international business and the use of English for communication purposes.

#### Changes in Employees' Attitude

The alliance took away guaranteed orders from Aichi's former parent company, forcing its employees to attain better quality products and efficient operations, and to secure orders from other customers. As a result, Aichi's employees become more involved in marketing activities such as understanding customer needs and technical consultation.

### CONCLUSION

The case study discussed here is an example of using an alliance as a proactive tool to solve problems and a successful alliance of two companies of different cultures and interests. Although forming of such alliance may face a number of problems, which require time and necessary skills to initiate and build, the author believes the alliance to be a successful one. ■

#### REFERENCE:

[1] Japan External Trade Organization

Note: The author has extracted part of his business consulting exercise undertaken for his client for the electronics market in Japan. He welcomes questions and feedback at [c\\_p\\_liew@hotmail.com](mailto:c_p_liew@hotmail.com)