**About sponsorship**

**The science of alliance**

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**McDonald’s, Coca-Cola and Disney, the world’s top three brands, are linked by a hidden web of alliances. For them, as for many others, such alliances offer the best hope of future growth**

IN MID-MARCH, 18,000 McDonald’s employees from 109 countries descended on Orlando for their biennial convention. The occasion provided a powerful reminder of McDonald’s ties to both Disney and Coca-Cola. Coke’s new chairman, Doug Ivester, was on hand to pledge support to his biggest customer, and Disney gave the employees a sneak preview of its Animal Kingdom, where McDonald’s is sponsoring Dinoland, one of its attractions.

Outside the Animal Kingdom, the smart new McDonald’s is a themed DisneyWorld restaurant. The staff wear special Disney-approved uniforms showing McDonald’s characters, and in the middle of the store an oversized bottle dispenses Coke.

The ties between these three giants are part of a broad trend. John Harbison, a consultant at Booz, Allen & Hamilton, reckons that some 32,000 alliances have been formed around the world in the past three years, three-quarters of them across borders. Alliances now account for 18% of the revenues of America’s biggest companies.

They come in many shapes and sizes: as joint ventures, as strategic minority stakes, and even as families of interlocking firms like Japanese *keiretsu*. However, David Ernst, an expert on alliances at McKinsey, another firm of consultants, says that many of the newer allies eschew more formal equity links in favour of limited operational tie-ups: co-branding deals, marketing alliances, co-manufacturing projects, R&D agreements and so on.

This new chumminess is being driven by two fashionable ideas: globalisation and core competence. The first compels companies to look for ways to sell their product in as many different places as possible, which often requires other people to help them. The second, the fashion for a firm sticking to what it does best, means that they must often let outsiders help them with everything else. Asked what proportion of Coca-Cola’s revenues come from alliances, Mr Ivester replies “100%”, explaining that every dollar which the soft-drink giant earns comes from some form of partner—a bottler, a distributor, and so on.

The ties binding Coke, McDonald’s and Disney vary enormously. Last year McDonald’s and Disney began a formal ten-year alliance. An early hit was “Flubber”, an indifferent Disney film whose box-office returns were helped by tie-ins at McDonald’s. In July the burger giant will start a more ambitious campaign to promote “Armageddon”, a $100m film starring Bruce Willis, selling tickets and special “Astromeals” at each of its 23,500 restaurants worldwide. This time the target is not children but young adults—a market where McDonald’s is weaker.

By contrast, McDonald’s alliance with Coca-Cola has no piece of paper to fall back on—just “a common vision and a lot of trust”, according to Mr Ivester. On setting up in the burger business in the 1950s, one of Ray Kroc’s first successes was persuading a young Coke executive called Waddy Pratt to provide him with cola. Mr Pratt (who was greeted as something of a celebrity in Orlando) ran the McDonald’s relationship until 1984; since then it has been run by only one other person, John Gillin (who today heads a team of some 100 people).
Although Coke sells drinks to other restaurants, its relationship with McDonald’s goes far beyond that of a mere supplier. It has helped its partner to set up new operations around the world (Coke is sold in almost twice as many countries as McDonald’s). Michael Quinlan, McDonald’s chairman, runs off a long list of areas of cooperation, from banking relationships to equipment design. There is also considerable contact between the two companies at board level. When Robert Goizueta, Coke’s chairman, died, flags flew at half-mast at McDonald’s throughout the world.

Coke’s ties to Disney are arguably the weakest of the three—but they are still considerable. Coke has been the sole provider of soft drinks at Disney theme parks since 1955, and it has had a marketing alliance in place since 1985. Coke has also helped Disney overseas.

Altogether Disney has a dozen or so big corporate partners, including Kodak and IBM, and countless small ones. But one Disney marketer points out that Coke, like McDonald’s, is a particularly strong fit because of its emphasis on families.

All three firms stress that much of the control over their alliances is left to individual country managers. Disney, for instance, is doing relatively little with Coke in continental Europe at the moment, because attention there has turned to the World Cup. There are also occasional kerfuffles. Coke recently withdrew from the competition to supply a Disney-owned baseball stadium in California, objecting to the terms. But in general the alliances can only get deeper as long as they continue to pass a simple test—namely, that they either add revenue or cut costs, without committing capital.

One thing that makes the Coke-Disney-McDonald’s triumvirate so powerful is that they are all market leaders within their own industries. As one consultant puts it, the prettiest girls go off with the handsomest boys. This happens even with small companies. Starbucks, the biggest American coffee chain, has set up stores within Barnes & Noble, its bookselling peer.

Why don’t the Big Three go the whole hog and buy shares in each other? Messrs Ivester and Quinlan both scoff at the idea: it would be a waste of capital to invest in a business where they have no experience, they say. Booz Allen’s Mr Harbison points out that in consumer businesses alliances are often more cost-effective than takeovers. To force its way into the iced-tea business, Quaker Oats spent $1.7 billion buying Snapple; PepsiCo responded by forming an alliance with Unilever’s Lipton subsidiary, which was just as successful.

Indeed, the hallmark of the new alliances is their informality. Even when agreements are signed, they are usually fairly vague. (Mr Quinlan says that he has not studied the agreement with Disney since he signed it.) Their open-endedness is part of their appeal. In Silicon Valley, alliances break up almost as quickly as they form, rendered obsolete by some new technological twist, or undermined by a small firm’s worries about being “sucked dry” of its good ideas by a larger partner.

Consumer-goods giants like Coke, Disney and McDonald’s start on a more equal footing. They are also working in slower-moving markets, where industries are not turned upside-down overnight. But change remains a threat. What happens, for instance, if McDonald’s continues to lose ground to Burger King (see article)?

The answer, of course, is that the allies might find new partners. Alliances are a means to achieve faster, cheaper growth. They are not an end in themselves. Many big airlines spent the early 1990s trying to form alliances with one another, only to be caught off-guard by smaller carriers, such as Southwest and Virgin Atlantic, that offered lower prices or better service. AT&T formed over 400 alliances during the six troubled years before it split itself up in 1996.

Although alliances are cheap to set up, they do need to be managed. This takes time. On top of which is the diplomatic challenge of keeping an increasing number of disparate corporate allies content. On the evidence from Orlando, McDonald’s, Disney and Coke are still one big happy family. For how long?

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