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# Unlikely, But Necessary Alliances



By [Henrich Greve](#) , INSEAD Professor of Entrepreneurship

## **Alliances with competitors are sometimes necessary for long-term competitiveness.**

Samsung and Globalfoundries have initiated a collaboration that would mean Globalfoundries using Samsung-developed production technology for the latest generation of 14-nanometer chips. This is interesting news because such production technologies are important sources of competitive advantage in chip production, and there is little indication that Globalfoundries were failing in their efforts to generate their own 14 nanometer technology. They still decided to abandon it and use Samsung's technology.

The motivation is actually different. With both companies using the same technology, they can make identical chips. That can be convenient for customers who want multiple sources of their chips and who order so many chips that they have the ability to negotiate: Apple for example.

So, the alliance is helping their customers by giving better service. But, the service improvement in this case is actually that Samsung and Globalfoundries are giving away power by making it easier for the customer to set up competition between them. What exactly would be the benefit of

that? Well, the answer is simple. Neither Samsung nor Globalfoundries is the largest chip producer (foundry) in the world – Taiwan Semiconductor Manufacturing Company (TSMC) is. Apple is known to have increased interest in TSMC because they see the irony of fighting Samsung in the smartphone market and the courtroom while depending on their chips. And, the competition does not stop there. Intel can also make 14 nanometer chips, and is known as a pretty competitive firm.

So to understand this alliance, it is necessary to see the entire market and to see how it is a way for two firms to gain some advantage over the competition. In many ways Samsung and Globalfoundries are not ideal alliance partners – if you follow the analytical methods of our book, **The Network Advantage**, you would find problems with the match between them, especially related to whether they will really have shared interests and goals in the long-term. But, in the short-term TSMC and Apple, is a big enough problem for them that they are willing to collaborate. This will be an interesting alliance to watch, especially in the long-term.

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