Laura Ashley and Federal Express Strategic Alliance

On March 20, 1992, Laura Ashley ("LA"), a global clothing and furnishings retailer based in the United Kingdom, and logistics leader Federal Express' Business Logistics Service ("BLS") announced a strategic alliance that would result in BLS taking over LA's worldwide distribution. The arrangement was preceded by a letter to the LA board of directors by newly arrived Chief Executive Jim Maxmin in December of 1991 that described "the gross inadequacies of our current distribution and warehousing operations . . . (including inadequate) systems to control our stock outs, stock levels, margins, stock replenishment requirements, etc." The objective of the alliance was to transform LA customer service levels by offering improved reliability, speed, and frequency of deliveries. An aggressive implementation schedule would result in the integration of warehouse systems by September 1992, integration of shop systems by February 1993, and an expanded mail order business offering delivery within 48 hours to any destination by September 1993.

The prospective alliance held exciting potential, as well as risks, for both parties. For LA the alliance promised more effective, lower cost distribution, which would enhance its competitiveness in the market as well as facilitate a transformation of the way in which it did business at the retail level. For BLS the alliance represented an opportunity to effectively utilize all of its capabilities on a global basis, thereby refining its skills and opening up large new potential markets for the future. On the other hand, a failure of the alliance could mean continuing distribution ineffectiveness for LA, and, for BLS, a tremendous set-back for the idea of "partnership," which possibly could be a large part of the future of BLS. The alliance would be visible, and any difficulties would be highly embarrassing for both companies.

Even as the alliance was announced, managers participating in its development on both sides wondered what its eventual impact on LA and BLS would be, and, if it succeeded, in what creative directions it might evolve.

Laura Ashley

Overview

Laura Ashley, founded in 1953 by Bernard and Laura Ashley when they began printing textiles on the kitchen table of their London attic flat, was a specialty retailer, primarily of upscale women's fashions, fabrics, and home furnishing products. The company was known for products that typified the tradition of English rural life. As Jim Maxmin observed:

Research Associate Robert Anthony prepared this case under the supervision of Professor Gary Loveman as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It was adapted from "Laura Ashley: The Strategic Alliance with Federal Express," HBS No. 493-018, originally written by Dr. Gloria Schuck, with Professor Shoshana Zuboff.

Copyright © 1992 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685 or write Harvard Business School Publishing, Boston, MA 02163. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School.

Do Not Copy or Post

> Few great brands have been created in the last 50 years and fewer still have achieved global renown. Laura Ashley is quintessentially English, and therein lies its timeless appeal. It is synonymous with English Romanticism.

LA segmented its market in terms of customer lifestyles. As opposed to many of its competitors who targeted specific demographic or age groups, LA offered styles that would be appropriate for a customer from an early age to an older age. This customer tended to be an upscale consumer who was "fashion conscious but not fashion forward." Market research concluded in 1991 revealed similarities in the company's customer base, as described in the FY 1992 Annual Report:

> The typical Laura Ashley customer is a well-educated, relatively affluent woman. She is confident, concerned, and interested in ideas, travel, and natural beauty, as well as fashion. She cares about family, health, home, the countryside, relationships, and responsibilities. Generous but not extravagant, the Laura Ashley customer believes in quality, service, value, and things that last. Her loyalty to Laura Ashley is based on her perception that we share those values.

A high level of in-store personal service was important to Laura Ashley's customer base and integral to maintaining the image of the brand. The company encouraged interpersonal interplay between customers and its store employees, although it avoided "hard-sell" approaches. In general, shops were staffed with women who shared the tastes and interests of the LA customer base and had the ability to develop a personal rapport with customers.

The Late 1980s and the Arrival of Jim Maxmin

In 1990 LA operated 481 retail stores throughout the world, up from 231 in 1986 (**Exhibits 1** and **2**). However, despite the continuing success of LA branded products in the market, financial performance during the late 1980s was disastrous (**Exhibit 3**). Andrew Higginson, financial director appointed in 1990, summarized: "Sales went up, profits were flat, and capital employed rose out of control. All of our problems were internal."

As early as 1986, "at the height of the stores euphoria," an LA report identified fundamental weaknesses in the company. These included an overdependence on in-house manufacturing, significant currency exposure, working capital intensity, excessive short-term debt, and rapid cash outflow. Still growth continued to strain the management of the business, and by the end of the 1980s, LA had developed an expensive hierarchy with an inappropriate structure. Information technology investments lagged growth and, where systems did exist, they were totally inadequate.

Also, by 1990 specific changes in the LA supply chain had added to the complexity of the company. In an effort to reduce dependency on in-house manufacturing, an extensive, worldwide network of third-party product sources was developed, limiting company-owned factories to 42% of sales by 1990, down from 100% in 1986. However, systems and management practices were not aligned to optimize the transition. The result was a hodgepodge of logistics relationships and arrangements that were difficult to manage and were often ineffective.

Explained Maxmin:

> The organization was overcomplicated. Each operating region (Continental Europe, the United Kingdom, and the United States) had its vertical hierarchy, so functions and systems were triplicated and communications were erratic. Overhead levels were not supported by gross margins or sales. Despite the brand's global appeal, less than 5% of our range was common to all stores and operations worldwide. In all this we had lost sight of our customers' real wishes and lifestyle, as well as our heritage.

In September 1991 Bernard Ashley handed chief executive responsibilities to Maxmin who was former chief executive of Thorn EMI Home Electronic International. Maxmin immediately introduced strategic and organizational initiatives aimed at building the LA brand and restoring the company to profitability. They included an aggressive campaign to streamline the business and decentralize decision making, which was called "*S*implify, *F*ocus, and *A*ct" (SFA), and a three-pronged strategic focus on branding, distribution, and systems development. Maxmin's goal for LA was to become "strategically led, competitively focused, market oriented, employee driven, and operationally excellent."

A first step in the revitalization process was a restructuring of the company to emphasize its global coordination. A Global Operations Executive team ("GOE") consisting of managers from across the business was formed to oversee global interrelationships, and two layers of field management in the United Kingdom and one layer in the United States were removed. In total, 100 senior- and support-level managers departed. In addition, bonuses were linked to global performance, common merchandising was developed, and uniform financial systems were implemented. The pyramidal reporting structure in the stores was flattened to two levels in the United Kingdom and one in the United States.

The SFA initiative involved empowerment of frontline service providers, enhanced training at all levels, and the integration of information technology to simplify and improve service. A Profit Improvement Program ("PIP") scheme was implemented in 10 trial stores, wherein store employees came up with a number of new ideas to increase sales, from special events such as fashion shows and decorating demonstrations to special window displays that reflected the local customer mix. The PIP shops were 62% to 70% over sales forecast for the trial period. Training involved in-store training for frontline personnel, as well as time spent in the store for others throughout the organization. Technology would be focused on providing stores with the capabilities to make decisions with timely, accurate information. Maxmin noted:

> I've told everybody that you must challenge complexity. . . . We need to simplify our approach to business and all our operations. . . . (With the PIP Program) we let the staff have more say about how they do things by letting them come up with ideas to attract customers into the store. I only asked four things of them: (1) Love the customer absolutely and keep seeing the problems through the eyes of the customer. If something we do doesn't contribute to our service, we have to get rid of it. (2) Use your common sense. If you get instructions that are dumb, then you should point it out to the people concerned and suggest a better way of doing it. (3) Bring forward your ideas. (4) Each of us must create an open, honest, and trusting structure. In that way we can reduce costs.

The strategic focus on brand management was designed to rectify weaknesses in the brand that had developed, as well as expand its prominence globally. While LA appealed to a 6% to 7% share of local markets, it was felt that the brand had not grown with its traditional customer base. There was too much repetition in the product line (e.g., floral dresses), which also lacked sufficient breadth to reflect customers' career and leisure-based lifestyles. As a result, Maxmin decided to extend coverage of the LA brand in existing clothing and furnishing categories, as well as to identify licensing opportunities in such areas as tableware, bridal wear, and china, which would be sold outside of LA's own retail distribution structure.

The strategic focus on systems development was designed to provide retail shops with information flows and to make the business more "transparent." It was felt that transparency, when coupled with empowerment, would be the key to superior customer service.

Historically, LA systems had been designed to provide information to independent business units. Duplicate systems designed to serve independent business units caused LA to spend twice the industry average on systems in 1990. Over the next two years significant efforts would be undertaken to implement common systems across the business. Major software systems to be introduced in 1992/1993 included a merchandise planning system, a group finance/executive information system, an electronic point-of-sale ("EPOS") system, a global purchase ordering system, and a manufacturing and U.K. distribution system. PC-based POS registers would be installed in every shop, which would make the data in the company accessible by everyone. LA expected to make a large investment to convert to common systems, but it expected annual systems costs to reduce greatly thereafter.

The strategic focus on distribution aimed at overhauling warehousing, replenishment, and delivery operations, which were, in the words of Maxmin, "a disaster, out of control." A global team headed by Phil Baker, Special Projects Director in Global Finance, was formed to evaluate options for fixing the problems. The objectives of the team were to develop a system capable of providing 99% availability, 24- to 48-hour delivery, and a 50% reduction of working capital. Currently, availability was roughly 80%, and the company maintained an extended, working capital-intensive supply chain, which housed an average of 18 months worth of inventory from product design through store sale. The strategic alliance with BLS resulted from LA's distribution initiative.

Federal Express and Business Logistics Services

Federal Express ("FedEx") was incorporated in 1971 by Frederick W. Smith, Jr. He designed a nationwide air service network to resemble the spokes of a wheel, with Memphis, Tennessee as hub. Utilizing the hub as a central processing center for all packages, FedEx pioneered next day delivery, and by 1991 the company had become the premier carrier in the overnight delivery business.

FedEx was renowned for its logistics expertise and tracking systems. It employed 90,000 people worldwide, operated 444 aircraft and 30,000 collection and delivery vehicles, with more than 1,300 facilities serving 176 countries. FedEx created the American overnight delivery market and was expanding overseas, mostly in the Far East, with a smaller portion of its business in Europe, where its operations were unprofitable in 1991. FedEx posted operating income in 1991 of $280 million on sales of $7.7 billion, with operating margins down significantly from the prior year. While FedEx had been hurt by recessionary business conditions, it was also dissatisfied with the underlying performance of its business, and, in fiscal year 1992, it undertook several initiatives to reduce overhead and control expenses.

FedEx created the Business Logistics Services Division in December 1987 to provide specialized logistics services to businesses throughout the world. It had operations in the United States, Europe, and the Far East. BLS had earned a reputation for providing quality services, and its long-term strategy was "one of synergy with FedEx's other mainstream operations: to develop pan-European business logistics services that enhance the total range of FedEx services available, and enhance those business logistics services by making maximum use of FedEx global networks." As one BLS manager explained, "BLS is the boutique, the custom shop. We're the people who do it your way in the big contractual context as opposed to doing it in the totally standard way, one package at a time." BLS employed 4,000 people worldwide (940 in the United Kingdom), and its European operations included 1,100 road vehicles and 1,750,000 square feet of warehouse space, made up of 75 contract locations and distribution centers. BLS worldwide revenues were approximately 6% to 7% of Federal Express revenues.

BLS U.K. had three major operations. Through its "Systemline" service, BLS planned, implemented, and operated sophisticated information technology-based inventory management systems under contract. Systemline services tailored to the needs of individual clients included warehouse location and specification, inventory systems, vehicles, routing, and scheduling, as well as

Do Not Copy or Post

provision of a highly trained work force. Markets for the service included automotive, consumer electronics, computers, and toys, with clients including industry leaders in each category.

The "Partsbank" service provided global, low risk, and rapid start-up distribution for high value products by operating pay-as-you-go distribution centers shared by approximately 200 users. Clients, including leading international high-tech manufacturers, purchased services from a menu that included collection, storage, inventory control, customs/administration, customer service support, international forwarding and air freight, and delivery. BLS's "Systemcare" service provided home delivery of large, bulky, and heavy items such as furniture and household appliances. Systemcare offered both dedicated delivery operations and shared facility operations for smaller clients.

BLS provided three elements where logistics expertise offered a competitive advantage: transportation, primarily through the FedEx network, warehousing, and information systems. International Business Development Director Bill Parsons identified warehousing and information systems as the "real value-added":

> Quite often warehousing is at the back end of the client organization. Since it's at the front end of what we do we developed systems and productivity that the client can't match. But where we really score, what puts us ahead of the competition, is systems. There's no question that information is vitally important, as important as product flows. Information flows should go before product flows, then you can get your physical operation as sophisticated as possible and optimize it.

BLS Vice President for Europe Charles Kirk explained that BLS offered clients umbrella information systems that would "take care of the inventory system end-to-end":

> We have systems for managing inventories. We have systems for running warehouses which are like shop floor control. Mainly, and most importantly, we have this ubiquitous network that lets you know where parcels are as they flow through the system, . . . (can) tell you where every single item is every day. . . . We have it all.
>
> Sometimes a customer comes and says he's already narrowly predetermined what he wants from BLS. He says he wants "transportation." There's plenty of good transportation providers out there, and given how soft the market is right now there are some extremely low prices. If he just wants computer systems, there's other people who might be able to do that, too. If he just wants warehousing services, there's other people. But if he wants somebody to put all three of those things together and to hook them to an international transportation network that FedEx represents, there's nobody out there to do that except BLS! If he wants all three services and he wants us to manage it for him, too—that's the very best scenario. We end up acting like a general contractor, drawing first upon the resources of BLS worldwide and next upon the resources that FedEx has all over the world.

The Laura Ashley Opportunity

As 1991 came to a close, it was apparent to all in Laura Ashley that its distribution performance was abysmal. Its distribution structure and systems were excessively complicated, and its operations and logistics track record was horrible. Problems LA had with its distribution system included inefficient goods flows, out-dated inventory ordering practices, long lead times, and broken promises to customers. Anecdotes of distribution nightmares abounded. As distribution team

Do Not Copy or Post

coordinator Phil Baker stated at the outset of the project, "Right now we're the opposite of service maximization and cost minimization."

LA maintained eight warehouses. The largest was in Newtown (the United Kingdom), and others were in Milton Keynes (the United Kingdom), Veldhoven (Holland), Mahwah (New Jersey), California, Canada, Paris, and Australia. The company had been geographically organized, and regional Strategic Business Units ("SBUs") in the United States, United Kingdom, and Continental Europe operated as stand-alone businesses, with independent inventory, systems, and merchandising. This resulted in a number of problems in the distribution system. First, SBUs' parochial perspectives led to inventory turns of less than two and an out-of-control working capital situation. SBUs maintained, as an objective, filling up their allocations of the warehouses with inventory.

Second, because SBUs independently managed logistics, the transportation system was suboptimal. Maxmin characterized as "dumb" distribution product flows which, for instance, would involve "manufacturing a T-shirt in Hong Kong, moving it to Newtown, and sending it back to Japan to be sold!" Notwithstanding the fact that LA had inventory throughout the supply chain, its out-of-stock position neared 20% on average. Commented Baker:

> All the routes have different transporters. We have numerous distribution contractors and different suppliers. Trying to control this is a nightmare. We're continually renegotiating so that we get the best price. Individual markets don't understand global supply and demand.
>
> We have locations all over the world, and we have numerous echelons of stock for different markets. The supply chain has stock, the market has stock, and the factory has stock.

Maxmin offered an anecdote related to this kind of distribution ineffectiveness, which he had heard from a shop employee in California:

> A customer waited a year for a fabric pattern called "cornflower," and she still thought that we were the greatest people in the world for getting it for her! That shop had been out of stock and had faxed the home office 17 times and never got a reply. The shop rang around and finally located the fabric in San Diego. When I returned to the United Kingdom, the factory manager told me that he had 27,000 meters of the fabric, and he'd had it for a year.

Baker discovered that the replenishment system was based on ineffective historic practice and outdated priorities:

> The replenishment system was based on what happened when the company was a lot smaller. It was based on custom and practice and the belief that you could only know the demand and merchandise of a shop by looking individually at that shop from headquarters and telling them the products that they needed. If a shop was given 10 of an item last year, when one sold it would automatically be replaced. It could have taken a whole year to sell only one, but it would be replenished! They ignored the rate of sale in their algorithm.
>
> At the Oxford Circus shop they're selling 25 items a week and they've got 100 in stock; they'll place an order for 25 more each week. At the Cardiff shop they may have five in stock and sell them all, and place an order for five more. The warehouse has only 20 items, and the current priority says ship it to Oxford Circus because that's the fastest selling shop.

Do Not Copy or Post

Delivery problems also multiplied. Delivery pallets often looked like "leaning towers of Pisa," garments could be wrinkled and soiled, and shops would receive deliveries at times when they were not staffed to handle them, or when there was not room for them in storerooms. The result would be shops that were a mess. Perhaps the most disturbing aspect for LA of distribution ineffectiveness was the fact that it often resulted in broken promises to customers. Baker observed that "people thought that 80% on time was good; they never challenged it, standards were nonexistent. The customer was an inconvenience, their needs and concerns were a source of irritation." An Operations Update for the week ending October 11, 1991, summed up this mentality for LA at the time:

> Can *all* managers please ensure that when furniture orders are taken, customers are told that the delivery date given is only *approximate* and not the guaranteed delivery date? The customer should be told that the delivery arrangements will be confirmed nearer the time. This is very important as many customers think that the date given is the date on which the furniture will arrive, thus causing a considerable amount of bad feeling when a different date is given.

SFA, new structures which provided an enhanced focus on global coordination, and the strategic distribution initiative all were LA responses to its costly and ineffective distribution system.

The Strategic Alliance

Between October 1991 and March 1992, when implementation would commence, LA and BLS, reached a comprehensive agreement that would result in BLS taking over LA's Newtown, Wales' warehouse, and all of LA's distribution activities. The process was initiated by Jim Maxmin, who quickly turned the project over to the Global Operations Executive team to implement. The GOE worked with a BLS team led by Business Development Director Bill Parsons to produce initial solutions, and in December 1991 a joint operating and systems team was formed to detail the solutions and prepare them for planned March 1992 implementation.

Solutions would include the formation of a new company that would be owned and managed by BLS, the creation of new management systems and the integration of existing systems, and ongoing evaluation of the arrangement. The alliance was purposefully created with a loose structure, which would allow it to evolve in appropriate directions as a baseline of experience was garnered, and which was intended to keep both companies focused on the strategic nature of their "partnership." The anticipated timetable of the integration activities was:

- September 1992: completion of global reorganization of warehousing.
- February 1993: integration of BLS/LA information technology systems.
- September 1993: 24- or 48-hour delivery of LA products throughout the world.
- September 1993: development of global mail order capability.

LA expected that the alliance would result in significant working capital savings, lower cost distribution, and improved customer service levels. BLS anticipated that the alliance would help define its business in an area with tremendous future growth potential.

Initiation of the Alliance

Upon his arrival at LA, Jim Maxmin sorted out his options for fixing the distribution mess at the company. They boiled down to reorganizing existing operations and writing new integrated distribution systems or withdrawing from warehousing and distribution altogether and handing

Do Not Copy or Post

them to a third-party expert. Feeling that "it would take 100 years" to write the necessary systems from scratch and recognizing that distribution was not a "core competence" of the company, Maxmin decided to go outside of LA for help. In October 1991 he approached FedEx to explore pooling the two companies' resources:

> I got the idea of a "strategic alliance" between LA and FedEx. I had met [FedEx Senior Vice President] Tom Oliver and was hugely impressed by him. As you go through your business life you meet certain people, and you just register that these people are extraordinary. I picked up the phone and told him my idea. He was interested and said we should form the alliance. That was the essence of our conversation; the rest of it has been left to our organizations.

Maxmin then met with the GOE and explained his concept of the "strategic alliance." LA would not solicit competitive bids for distribution but, instead, it would form a "win/win business partnership" with BLS. The partnership would have no defined end point, lasting a minimum of 10 years. Maxmin described the reaction of the GOE to his idea:

> There was huge skepticism to start with. . . . Their expectation was that within a few weeks they needed to get a contract with FedEx and have every "i" dotted and "t" crossed. I told them that I wanted to do it differently and that I didn't want to be bothered with lawyers, contracts, and all kinds of complications. The partnership was to be an open book—no secrets, no surprises. I kept saying that you have got to have faith and embrace a new way of doing business. . . a different way to compete. . . . Look out to the twenty-first century, not back to the nineteenth.

In November 1991, BLS Vice President for Europe Kirk had a meeting at LA to pursue a deal. Kirk was pleasantly surprised by the attitudes he found at LA:

> We try very hard to have strategic alliances, but typically you go to a company and it turns into "traffic manager court." The traffic manager says he wants the cheapest price per kilogram to ship, and then you don't have a deal. Traffic managers don't buy value added. But in LA I never met a traffic manager. . . . They had already decided that they were going to make drastic changes in their distribution and the way they served the customer before we ever met them. . . . They just wanted us to get on with it. This was a real marriage made in heaven. These guys really want us to do what we're good at doing.

By November 29, LA distribution team leader Baker and BLS' Parsons produced a presentation of "first-look" solutions for the GOE and a gross schedule of activities, responsibilities, and deadlines. The companies would work towards signing a "global contract" by March 1992, at which time implementation would commence. Prior to the presentation, LA and BLS participants agreed to a policy for sharing information in the development of the final deal. The intent was to build trust and to keep the parties focused on areas of mutual interest. Then, on December 3, 1991, LA sent a letter acknowledging its intent to develop with BLS a "worldwide logistics partnership," subject to board approval and completion of a definitive agreement.

Solutions

Forming the alliance involved stipulating the means by which the LA distribution system would be organized, planning implementation of the transition to BLS, and creating the integrated systems that would be the core of the new distribution enterprise. This would be the work of a joint, cross-functional project team, comprised of key managers from both companies. The team organized into subcommittees, under the auspices of a steering committee, with Baker and Parsons leading the work of developing the final arrangement.

Do Not Copy or Post

In order to achieve the goals, a new company, LA Distribution Ltd., would be formed and "sold" to BLS, which would then manage all aspects of LA distribution. LA would then close the Mahwah and Veldhoven warehouses. The Newtown facility was designated central "processing center" for all product flows, with a satellite processing center for the U.S. market being established in Memphis. Shipments to shops could be through the warehouse system or, if it made sense, directly from manufacturers to shops (**Exhibit 4**). As Parsons explained, "You can have a single warehouse worldwide if you've got the links. FedEx has the links, the airplanes. We've also got the logistics and inventory accounting systems to back it up."

LA distribution employees would be transferred to the new company. Both BLS and LA resolved to make the transition as painless as possible for them. Jim Maxmin personally got involved in assuring employees that they would be taken care of, and BLS made its complete program of induction and training available to them. While there was some skepticism and disappointment among former LA employees, many also recognized that they would be joining an excellent company that had managing distribution as its core business.

Two BLS systems would be central to the operation of the new company. BLAST prepared invoices and tracked cartons for dispatch, and Federal Express' COSMOS tracking system provided information on package location through a bar coding system. These would be linked with LA's Shop Stock and Warehouse Inventory System, to provide for complete information on inventory from order through delivery. The integration was slated to occur by the end of 1992. At the same time, BLS was developing a Warehouse Management System ("WMS") which would "dynamically" manage labor scheduling and control, storage management, quality of performance, and product protection. By February of 1993, WMS would be integrated with the LA Merchandise Planning System, Purchase Order Management System, and core retail system (used for shop inventory, replenishment, and shop financial management) to provide for decision making related to inventory and inventory management. Baker explained:

> The shops and warehouses will be linked by BLAST and COSMOS. The movements between those will be goods in transit movements, and we'll have the ability to actually track where something is at any point in time. I call it "GIT," Goods in Transit Control. What we've actually got is a closed loop. These movements then update the shop stock. Then by looking at linking in the warehouse inventory, the shop inventory, and the GIT inventory, what you've actually got is "global inventory."

Once the system was complete (completion was planned for 1993), LA would be able to resupply its shops throughout the world within 24 to 48 hours. Each shop would be on-line to the global inventory control system, by which it would have total visibility of goods in the supply chain. It was anticipated that simplification of the supply chain would lead to a reduction of 10% to 12% in distribution costs. Baker explained the significance:

> With the BLS and Federal Express systems we'll have transparency. At the moment we are looking at our business through a fog. The fog is our own internal organization. We're using the FedEx systems as one of the mechanisms to make the fog clear. We have a multitude of suppliers and distribution contracts all over the world. . . . We are willing to pay a premium to get the clarity and the simplicity that the technology will give us.

Do Not Copy or Post

Coming to Terms

While BLS and LA reached rough agreement on the mechanics of the alliance, the process of forming the partnership was challenging for both. Specific challenges included structuring the incentives of the deal and decisions regarding how tightly to define the arrangement.

Kirk elaborated:

> There's hardly a price in the whole agreement. It's all relative. Everything is a function of something else and, therefore, over time that base factor changes. It's only possible that we got it done this quickly for an agreement of this size because we have dealt with things as generalities. Things that are values in other contracts are variables in this contract. There's no numbers in there; everything is a function of everything else. It doesn't give the answer. It gives the formula because over time the specifics change.

The project team toyed with the idea of defining Service Quality Indicators and attaching penalties in the agreement, but, in the end, it decided only to use the indicators, which would be mutually determined, to measure progress. Baker explained why penalties were rejected:

> It does us no good at all to get penalties built-in because what they've done is missed the service. No penalty can satisfy a customer that we've lost. At the end of the day, if we have a penalty structure it is meaningless because we still lost the customer.

Developing the final contract was a challenge due to a lack of consensus among counsel advising both parties on how tightly the arrangement should be defined. Throughout the process lawyers on both sides grappled with how to define issues without obscuring the mutual interests on which the success of the alliance would depend. Said one attorney:

> At the start we had two different approaches, ours and theirs. I believe that they thought it would be much more straightforward and simple, perhaps because of talk of cooperation and working together. However, I've been present at the start of many marriages and also at the end! A partnership is a marriage. No matter how positive, cooperative, and helpful the partners are at the start, it is essential that they see their relationship in the cold light of the practicalities. They have to look at it as if it doesn't work and walk through the consequences.

BLS and LA agreed on a "transparent, cooperative venture" to last a minimum of 10 years. Each had a right to inspect the other parties' business, and there were mechanisms built in to deal with matters that could not be agreed upon. In essence, the companies had "agreed to agree" on issues that would arise in the course of doing business. LA Financial Director Higginson stated:

> We hope that the contract is just a fall back position. The intention is to put the contract in the drawer and never get it out again, because the day you get it out again you have to admit that there is a problem with the relationship.

Said Maxmin:

> Problems will come up, and people will say, "I told you so." I'll be totally sympathetic to the problems and do everything I can, but I'll just turn my mind off of the negativism, because I know this alliance is going to work.

Do Not Copy or Post

> We lifted this above just distribution and logistics and formed a strategic alliance. It's a systems partnership. It's a business partnership. We're affecting in an integral way the processes of LA, and, therefore, it doesn't have a time scale to it. It doesn't have a time span to it, and nobody is worried. You set standards of operations that have to be achieved, but it's not about having a contract and going back and saying that you violated line 82. It's not the spirit in which it was conceived.

Given the loose nature of the alliance, development of a high level of trust among the parties involved was the critical ingredient. "We have all gone through the trust hoop," said one LA manager, "but at the end of the day you have to believe that you're all working for the same end objective." Said another, "You need to trust, not in a naive sort of way, but in an open-minded sort of way—you trust, but skeptically. You know what could go wrong and you work all the more to make sure that trust is maintained." This was not always easy.

At times, project team progress became bogged down in disagreement over the details of the arrangement. At such times leaders from both companies stepped in to refocus the project on the "win/win" aspects of the partnership. Maxmin recalled one day in January (1992) when he met with the team to keep them focused on the strategic aspects of the alliance:

> I stayed away other than to attend one meeting. Basically, I've watched it evolve with the vacillations and vicissitudes of management inside the business. Everyone is coming up with all of their reservations. In January they started worrying about the size of boxes for delivery and got bogged down. I had to sit down with the team and get them to focus on the real issues. I asked them if there were any systems, political, business process, or commercial issues which say we shouldn't proceed with the alliance? Do you see anything that would actually inhibit our operation? And I asked them to be sure that we can get the rundown on incremental costs. Those were the only things I was interested in.

Other reasons for skepticism existed. Managers from both companies at times wondered if they were being taken advantage of in the negotiation process, and, if they were, when and how they would know it. Jim Maxmin began to receive what he called "defense documents" from some LA managers who were keen to point out all of the risks in the deal. One LA team member described the reaction to the "defense documents":

> Jim has refused to listen to any other argument. We all got bogged down in the trucks and sheds issues, but Jim ignored all of it and said that the alliance was going to happen. He's driven it through. Jim takes risk and he takes our blinders off so we can see new possibilities.

On the basis of this support, project team members would return to acknowledging the possibilities for both parties that might accrue from joint efforts, ignoring many of the detailed allocations of risks and rewards. Nonetheless, some project team members had lingering doubts down to the signing of the agreement. "Is this too good to be true?" they thought.

Still, at the end of the process, managers on both sides lauded the concept of "strategic alliance" as a means of gaining a competitive advantage in the market and felt confident that their alliance would succeed. Said one LA team member:

> The concept of a strategic alliance is that we both work together to get a competitive edge. But the outcomes aren't really defined, because to define them suggests an endpoint. . . . Jim's view is that we don't know how good we can be and we don't know where that's actually going to take us. Where we're going

Do Not Copy or Post

specifically isn't as important as figuring out how we'll work together to get a competitive advantage.

BLS President Robert May who was responsible for BLS worldwide operations summarized:

> (This) was just the sort of program that BLS had been striving for—an alliance where both parties worked together to develop each other's business. It represented a step forward for both companies, each recognizing the other's skills and harnessing them to move forward on a truly global level. BLS has always been highly successful in its individual economic markets around the world. With LA we had the opportunity to demonstrate to the global community that FedEx/BLS was the only company worldwide that was capable of providing a tailored global solution. LA had the vision to see that capability and want to use it to their competitive advantage.

LA and FedEx considered the specifics of its deal to be confidential. They viewed the alliance as a unique opportunity for both parties, and, accordingly, the structure of the highly complicated arrangement was unique in their experience. Basically, LA would pay the direct costs that BLS incurred in managing LA's global logistics requirements and a management fee to BLS as a percentage of cost. LA would pay BLS for freight, with some discount to the market price offered in consideration of LA's large volume. Formulas were then determined to provide incentives for BLS to improve operations. After two years during which BLS would stabilize the logistics operation, if LA agreed to pick up the capital costs of an improvement project, the benefits, for the most part, would be split by the two parties. Longer term, a larger proportion of the benefits, growing to 100%, would begin to accrue to LA in consideration of its funding. In addition, the deal specified certain safety nets for LA in case the alliance failed, which would ease its transition to another option.

Conclusion

Both LA and BLS expected to realize "substantial and real" benefits from the alliance. For LA these included access to new systems in a compressed time frame, new ways of doing business, improved performance, and ability to focus resources on activities where it could add the most value. Also, LA had come to be seen as somewhat of a turnaround story in England, and the positive momentum gained from the alliance could help it consolidate investor confidence. For BLS the alliance would be trend setting, provide entry into the clothing business, provide entry into Europe, utilize existing international loading capacity, establish the global nature of its business, and align it with a well-respected consumer franchise.

On the other hand, the failure of either business, together or separately, would result in dramatically poor consequences for both. At risk for FedEx was the value of its reputation for reliability, which supported an $8 billion business. LA risked its entire operations infrastructure.

In addition to the opportunities and risks, there was the potential for the alliance to evolve in creative directions. For instance, LA had planned to utilize its new distribution capabilities by greatly expanding its mail order business in 1993. Also, the new capabilities would support the empowerment of frontline service providers and lead to improved levels of customer service, as well as make it possible to simultaneously reduce inventories and expand the LA product lines. Clearly, the idea of "global partnership" could be leveraged by BLS with other customers in other industries. As the potential of the deal was assessed, it was left open by both parties that there were other unique forms of competitive advantage that could be gained by LA and that could be sold in the future by BLS to other customers.

Do Not Copy or Post

Exhibit 1 1990 LA Shop Statistics (retail space in thousands of square feet)

	1986	1987	1988	1989	1990
Number of shops	231	292	365	439	481
Net retail space	357	492	630	738	816

Source: 1990 Annual Report

Exhibit 2 1989/1990 Geographical Analysis (retail space in square feet)

	Number of Shops	Retail Space
United Kingdom	184	393,700
North America	185	255,600
Europe	65	99,000
Australia	23	34,800
Japan	24	33,300

Source: 1990 Annual Report

Exhibit 3 Laura Ashley Financial Overview (in millions of English pounds)

	For the 52 Weeks Ended January 25,				
	1992	1991	1990	1989	1988
Sales					
Sales	260.7	327.5	296.6	252.4	201.5
Operating profit	1.1	5.3	6.1	23.6	23.8
Profit/(loss) from associates	3.6	0.1	(0.2)	-	-
Royalty income	0.3	0.3	1.1	1.6	1.7
Net interest payable	(2.3)	(12.4)	(8.6)	(4.9)	(2.4)
Profit/(loss) before exceptional items	2.7	(6.7)	(1.6)	20.3	23.1
Exceptional items[a]	(11.8)	(4.8)	(6.7)	-	-
Profit/(loss) before taxation	(9.1)	(11.5)	(8.3)	-	-

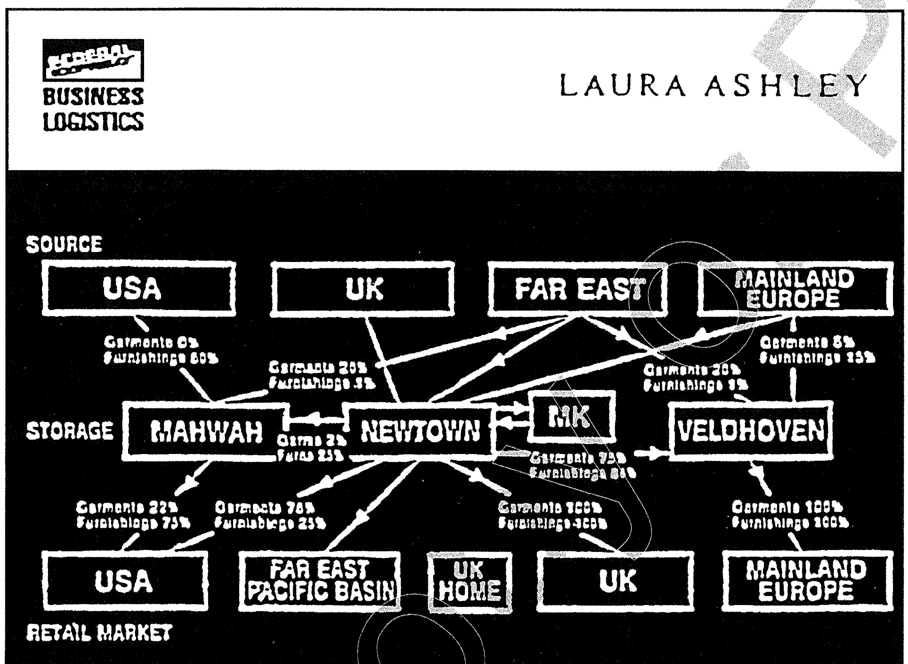
Source: 1992 Annual Report

[a]Includes charges for restructuring costs, systems costs, inventory writedowns, and other one-time events.

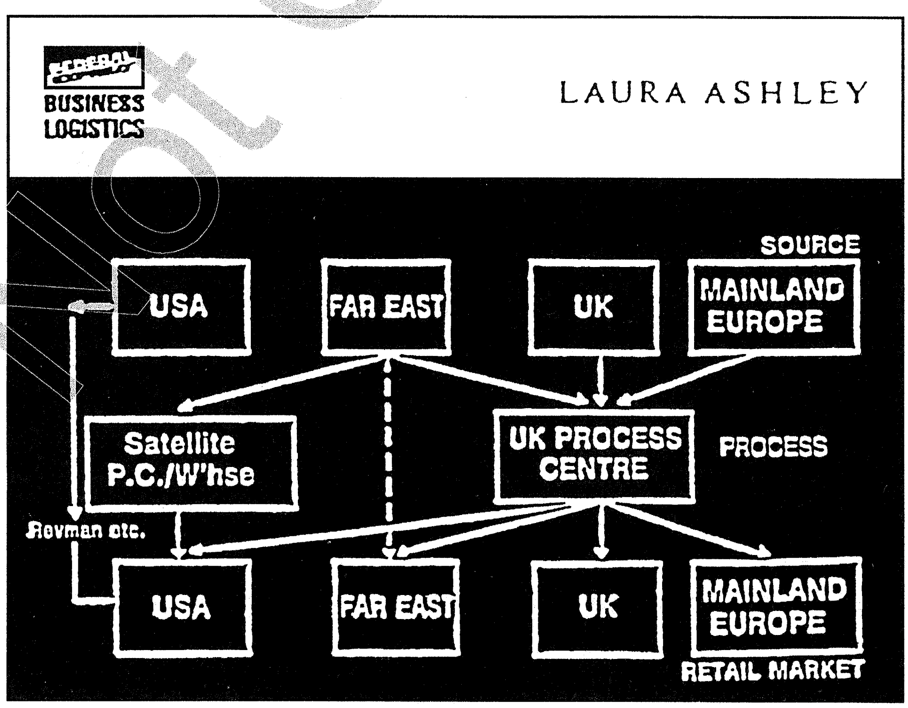
Do Not Copy or Post

Exhibit 4 Laura Ashley Product Flows

Before Alliance:



After Alliance:



Do Not Copy or Post