

Strategic Alliances

Building a strong relationship with another business is often the best way to grow and develop your own small business.

Everyone talks about them. Executives speak of partnerships and alliances as being core to their strategies. Salespeople want to partner with their customers. Developers seek alliances to acquire technology, knowledge, and capabilities. Marketers seek partnerships to open new markets and segments. The merger-mania that is sweeping business is a form of partnering. Other forms of partnerships are joint ventures, technology alliances, supplier-chain alliances, outsourcing, and virtual companies. Countless consulting companies offer seminars on partnering. Strategic partnering is one of the “buzzword bingo” favorites.

Sales people and marketers often use partnerships as an advanced form of selling, doing no more than using the offer of a partnership as just another way of “closing” the customer on the latest deal. Partnerships in this context end up being “I want you to do something for me,” not “how can we work together for mutual benefit.”

Partnering seems to be the automatic answer to expanding sales, markets and growing a company. Yet the majority of partnerships and alliances fail to achieve their objectives. Some data indicates that the failure rate of partnerships is as high as 70%. Others, while not declared failures, end up being paper partnerships and not real collaborations that produce meaningful results.

Strategic alliances are critical elements to many business strategies. No organization can do everything, so alliances become powerful means of enriching the solutions and value we provide our customers, improving our access to new markets and customers, and growing our own knowledge, capabilities, and companies. We can extend our core competencies through entering into relationships with organizations that have capabilities that complement ours.

Creating relationships that produce meaningful results, for each party, requires hard work and commitment. Based on my experience, effective partnerships can be expressed in the following manner: effective partnerships are a combination of the following factors:

- **Shared Risk:** Each partner bears a fair and appropriate share of the risk in the alliance. No partner has a disproportionate level of risk.
- **Shared Resources:** Each partner commits an appropriate proportion of the resources, whether they are capital, people, knowledge, technology or other.
- **Shared Rewards:** Each partner shares appropriately in the rewards, the partners work together to create mutual wins.
- **Shared Vision:** The partners share a common view of the objectives, results and outcomes of the alliance. They share a common vision of the importance of the relationship.
- **Shared Values:** They share common value systems and complementary cultures. This shared value system is the bedrock of the relationship, providing the means, motivation and commitment to resolve problems with the relationship and growing the relationship.

Without each of these elements, the partnership is unbalanced and unaligned. The more unbalanced the relationship, the higher the likelihood that the partnership will fail to achieve its objectives. We all know that if the all the risk is borne by one partner, that partner will feel that they are being taken advantage of. Lack of alignment in the relationship sows the seeds of distrust driving the alliance into a death spiral.

What is a strategic alliance?

A strategic alliance is an agreement between two or more firms to engage in an activity on a shared basis. The outside activities of each partner are not affected by the strategic alliance, which is designed to build on the expertise of each member and the way in which they complement each other.

Strategic alliances are generally less formal than joint ventures and not as encompassing and may often be designed to last for a limited time.

Partnering is an idea that is loosely used to describe anything from teamwork to strategic alliances to contractual partnerships. As I define it, it is the process of two or more entities coming together for the purpose of creating synergistic solutions to their mutual challenges.

I recommend that you adopt strategic alliance agreements as a key part of your overall business strategy. The benefits are numerous, yet the strategic alliance path is not without its own set of obstacles and surprises.

Creating a strategic alliance agreement is not meant to be a flavor-of-the-month management strategy to be hastily adopted and then as quickly abandoned. It is a rather long-term paradigm for success.

How To Set Up Strategic Alliance Agreements:

The Structure of a Strategic Alliance Agreement

Before you enter into a strategic alliance agreement, the terms should be outlined in a formal document that sets out what each party expects to bring to the strategic alliance. The agreement can take either of two formats. The one you agree upon will most likely depend on the size of the companies involved, how long you've both been operating, and the types of products or services being offered through the strategic alliance agreement.

- Loosely defined strategic alliance agreements -- New or small businesses may prefer to have an agreement that is broad and loosely defined, so as to allow the partnership to grow in new directions as their business evolves.
- Tightly defined strategic alliance agreements -- Larger or older businesses, or those in evolving technology fields, may fare better with a strategic alliance agreement that spells out the precise scope of the strategic alliance and all the details of how it will be accomplished.

No matter which type of strategic alliance agreement suits your situation, it should include:

- Your agreed-upon common goal
- A defined role for each partner in accomplishing that goal
- The parameters of working toward that shared goal.

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A tightly defined strategic alliance agreement may also:

- Identify key steps that each partner will take to meet the requirements of the strategic alliance agreement;
- Include a time frame for achieving those key steps;
- Outline each partner's accountability by including consequences for "worst-case scenarios" such as missed deadlines, budget overruns, or products not delivered as promised or in the format expected;
- Provide a framework for resolving conflicts if they occur.
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Just because you build a strategic alliance doesn't guarantee you instant gratification!

There are several five elements of strategic alliance agreements. Let's take a look at them.

1.Strategic Alliance Agreements Are Synergistic

If you build strategic alliance agreements that are synergistic, they will involve outside entities for activities where you have core weaknesses that you want to strengthen and to cut costs.

These could include: R&D, manufacturing, purchasing, advertising, marketing, distribution, employee sharing and other variables.

By sharing your core strengths with others and theirs with you, both sides can create an environment of synergy, with each partner yielding more than the sum total of their collective contributions.

Be cautious and watchful for differences in the core values of strategic alliance members, or perhaps not having enough in common, or too much change among the management of any of the strategic alliance partners.

2.Strategic Alliance Agreements With Suppliers

Strategic alliance agreements with suppliers is an area that recently is becoming very popular. For companies desiring just-in-time manufacturing (JIT) and electronic data interchange (EDI) ordering and inventory control, partnering is an absolute prerequisite. You often hear suppliers say things about their customers such as, "They're talking marriage but acting like it's a one night stand."

Whether you are a retailer, distributor, or manufacturer, to succeed and prosper you need to start developing long-term relationships with those companies with whom you're dealing.

The biggest challenge in this area is to avoid getting mixed up in a strategic alliance agreement with an outfit that talks about quality, timely delivery, and reliability then focuses totally on price issues.

Remember, there is today's price but there is also the overall cost, which is usually lower if you're involved in long-term partnering relationships.

3. Strategic Alliances Agreements With Customers

Strategic alliance agreements with customers are the one area of your business where you must be outward driven. Your customers will buy from you as long as they feel they're receiving good value for the dollars they give you.

Value-added is a term about which much is being written. You must be customer/market driven, rather than product driven, to understand what your customers want and what they perceive as the value being added to your products and services.

Depending on your industry, it costs 5 times to 8 times as much to get a new customer as it does to keep a loyal customer coming back for more. The potential disaster zone to watch out for here is short-term thinking on your part when making customer satisfaction decisions.

4. Strategic Alliances Agreements With Employees

Strategic alliance agreements with employees are generally a non-issue for many businesses, meaning that they don't understand the importance of investing in the people who do the bulk of the work in their organization. What motivated the WWII generation was vastly different from what motivates baby boomers, which in turn is different from what motivates today's youth.

Just because something motivates you doesn't necessarily mean it will motivate those of a different generation than yours.

If you want your employees to have psychological ownership in your business (even though they don't have a legal ownership) and to respect the guiding principles of the business the way you do, you must empower them.

Empowering means giving them the authority and encouraging them to accept the responsibility to do their assigned duties. Then acknowledge their successes and failures in an environment of safety, where you encourage and reward risk-taking (risk as opposed to gamble). Risk is based on knowledge and good chance of potential return -- educated guessing -- as opposed to a gamble, which is a long shot with very little chance of winning. The major potentially explosive area to watch out for is the Ego Trap, and we're talking here about you.

To give power, you must be a powerful person -- one who possesses personal power rather than power simply acquired from your position.

5. Strategic Alliances Agreements With Owners

Strategic alliance agreements with owners and executives comprise the final and perhaps the most important part of the agreement. It's not the most important from the perspective that it all revolves around you, but that of having a culture of true partnering.

Belief must start at the top. You must lead the charge and show by words and actions that the idea of partnering through strategic alliance agreements is truly your preferred and accepted business strategy.

The critical danger here is when top brass arrogantly believes that they are at the center of the idea and that everything and everyone should revolve around them. The coveted center is reserved for the relationships that bind the partnering idea and your organization as a viable entity serving society and receiving profits as the result.

For today's cutting-edge business leaders, partnering through strategic alliance agreements is the prevailing answer.

Strategic alliance agreements can be the answer if you're willing to adopt the paradigm of collaboration for mutual success! Challenge yourself to put into action the paradigm of strategic alliance agreements as your management and marketing strategy.

Joint ventures and strategic partnerships

What's the difference?

Both describe an arrangement where organizations pool some, or all, of their resources towards the achievement of mutually desired goals.

Joint ventures are set up to cover specific projects with a time limit.

Strategic alliances are long term.

So why are they any good?

It works on the basis that the sum is better than the individual parts. Alliances and joint ventures could allow your business to benefit from the following:

- A partner, particularly if they are based overseas, will be able to provide access to new markets
- There is no need to over-commit yourself to enter a new market. You can share both the risks and the rewards
- The pooled resources will open your firm up to new ideas, solutions, technology and contacts

Problems to be aware of!

Problems can arise if the relationship sours between you and your partner. Other than that you might experience a 'clash' of corporate cultures, a mismatch in the efforts, goals, profit distribution and cost burden relating to you and your partner.

There are two ways to avoid problems:

1. With the help of your attorney make a legally binding agreement that sets out the terms and conditions from day one, covering copyright, patent and any joint production issues, and termination agreements
2. Do your research beforehand. You need to find a partner you can trust. You don't have to be that similar, in fact there's more to be learned from those who conduct business in a different way.

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Choose a business that has ‘complementary’ skills and resources – just make sure they share your ethics.

Anything else I should be aware of?

Trust is important but don’t give away any more information about your business, products and/or services than you need to.

Make sure the track record is good. Do they have a good relationship with their suppliers? Do they pay on time? Have they ever broken the law?

On entering a partnership, depending how close the alliance is, consider ways of creating positive relationships between the companies.

Joint training is a useful way of getting staff to know one another as well as helping to establish a common approach to conduct business.

Make Sure You Have an Exit Strategy

The parties to any prospective alliance should also clearly define an exit strategy. The exit strategy could be, for example, an IPO, a third party acquisition, purchase by one member of the alliance or a winding down of the alliance. Pre-planned exit strategies can be stated in the alternative, but consensus is important. This also tests the true mutuality of the purpose and objectives for the alliance. Separate and potentially joint intellectual property rights must then be considered in the context of the preferred exit strategy.

Identify The Intellectual Property To Be Contributed

The intellectual property owned separately by each member and targeted for contribution to the alliance must be carefully and specifically identified. The intellectual property could be copyrighted source code, patented technology, domain names, trademarks, trade secrets or know how. The contribution of the intellectual property rights can occur via several different mechanisms, the most common of which is assignment or license. The mechanism selected to facilitate the contribution will depend largely on the purpose and objectives of the alliance and the targeted exit strategy.

The parties must then determine a process for valuing the intellectual property and compensating the contributing member. The form of compensation must make sense in the context of the purpose and objectives of the alliance and the targeted exit strategy, as well as preserve the underlying value of the intellectual property itself. The lack of consensus in the valuation and compensation process is a frequent point of irreconcilable differences between strategic partners where the issue was reserved for later determination.

Reasons For Exit Strategies

Exit strategies can be planned or unplanned

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- Death
- Divorce
- Incapacitated
- Bankruptcy Disability
- Desire to leave
- Buyout
- Dissolution of Company
- Assignment comes to an end
- No market for alliance
- Financial goals not met
- Mission fulfilled
- Goodwill to participants
- Momentum no longer in play

What to Look For In A Partner?

Values:

- Do they maintain the highest values worthy of our trust?
- Do their Actions match their Values?
- Are they committed to total quality management and continuous improvement?

Toughness:

- Have they been strengthened by years of competitive victories?
- Are they persistent in sustaining their efforts?

Knowledge:

- Are they thoroughly familiar with customer needs?
- Are their technological capabilities considered the best in their class?