Business Bullet ~

Forming a Business Alliance

The basic logic of the strategic alliance—a joint venture between two companies—is often irresistible. It's difficult to break into new markets (sometimes taking years), and a partnership can bring almost instant access to new customers (sometimes just taking months). A partnership doesn't have to be about bridging markets, of course. It can also supply capital or access to technology or manufacturing processes. Doing an alliance deal with a major player clearly adds credibility to a smaller organization (the halo effect), even it if it doesn't have a bottom-line effect.

Whatever the underlying purpose, creating successful alliances can be challenging. Too often, companies enter into business with the wrong partner or for the wrong reasons, and they end up regretting the decision. Even when an alliance looks great on paper, cultural differences between the parties or mismatched expectations can undermine the arrangement. Here are some tips on how to forge partnerships that last.

Profitable Partnering

First, select a company that has something you need—clients, technology, capabilities. This would make a good potential partner, as long as you have something it needs as well, as both companies must benefit. It pays to be very selective about whom you team up with, because it is an investment in time and effort to investigate those possibilities. DON'T settle for more of the status quo. A business alliance needs to be unusually profitable in order to justify the effort. The halo effect is a plus, but rarely justifies the time and expense of forming and nurturing a relationship.

Think long term. A deal is tactical, while a true alliance is a strategic relationship that considers how the parties will evolve over three to five years. You would need to project whether your would-be partner will still be a net benefit at that point.

Investigate their reputation. It may be a business relationship, but it is the people behind the business who will make the arrangement work—or not. Think of it as a marriage, where there is no recovery from selecting the wrong 'spouse'. A prospective partner should be as careful as you are and investigate you as well, or you should wonder about its commitment to the relationship.

The Deal

When you and an executive from your prospective partner sit down to discuss the opportunity, this is your chance both to lay the foundation for a productive relationship and to uncover potential hazards. Establish early on whether this is worth your time. Assess whether both of your agendas are aligned. Draft a brief set of operating principles to guide the day-to-day work.

Set an agenda for formal negotiations and agree broadly on the elements of a potential partnership. These should include the scope of the partnership: goals, roles and obligations of each side; milestones and other operating details; rules for intellectual property; and financial arrangements.

Establish the negotiating teams in advance, and make sure they include a representative from every relevant department—marketing, procurement, research and development, etc. These managers will have day-to-day responsibility for executing the partnership and should lead the talks. Then, review after several weeks to ensure that an agreement is still feasible. Also, have a lawyer at negotiations to make it easier to incorporate the business intent into the contract language.

The difference in corporate cultures may cause conflict, especially around how decisions are made. As early as possible, you and your counterpart should discuss the first major decisions on the horizon and how each company would normally make them—the key people, the reporting lines and committees that will have to sign off—and how long the process should take. Determine if each side can live with the decision structures in place. If not, make recommendations to senior management about how to adapt them to allow the alliance to move along efficiently.

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You can also smooth the process of implementation with an orientation meeting for the rank and file of both parties immediately after the alliance is signed. Here, the responsible managers introduce the alliance and explain its purpose and how it will work. Select those 'champions' who are notably passionate about innovation or the alliance, who can be at any level of the corporate hierarchy, but who tend to have the ear of someone 'upstairs'. You would have no say in the champion selected at your counterpart, but you can provide a nudge, perhaps if you encounter someone who 'has that same sparkle in the eye that you have.'

Share Ideas—Or Not

Intellectual property, or IP—whether it's a new technology or customer lists—plays a complicated role in an alliance. It often lies at the center of a joint venture. But most companies are used to keeping secrets secret—and can become a sensitive issue. Here are two ways to avoid IP problems.

Make it clear what you are sharing—and what you are not, to everyone involved, from the top to the bottom of the ranks. Have a private meeting with your employees to go over the ground rules for disclosing IP: what must be shared; what may be shared, depending on the circumstances; and what can never be shared. Also explain how the company will protect its partner's intellectual assets. And it's worth keeping assets that may be shared separate from those that may not—on a separate server, perhaps.

Whether business alliances break up over a disagreement or just run their natural course, many eventually end. But once IP is shared, it is often hard to put it back in the bag. The agreement should address this issue in advance. Does the use of your partner's assets end with the venture? That is often the case when one partner licenses a new technology or other IP to another: when the alliance ends, so does the license. And what about client lists? And what happens to the IP you develop jointly? Be certain your agreement specifies who gets the 'kids in the event of a divorce.'

Put It In Writing

If you don't have a WRITTEN agreement, you have NO agreement. The document should encompass all the parties' legal obligations. If the allies have to come to other understandings—over, say, a mission statement—these should be attached to the contract in an appendix.

Venture capitalist Guy Kawasaki in The Art of the Start, writes "beware beginning the negotiation with a draft content.'"The document can take on a life of its own and potentially upend the talks.

The contract should completely define the process for when things go wrong—and be sure to allow for quick exits. According to Kawasaki, an escape clause "assures both parties that they won't be trapped in an untenable predicament."

Resources:

- For a list of consultants and a library of articles (for members), the Association of Strategic Alliance Professionals (strategic-alliances.org)
- Organization of people interested in technology and IP transfer, the Licensing Executives Society (lesi.org) and/or the North American chapter (lesusacanada.org)
- INC magazine has many articles about joint ventures at www.inc.com/outsourcing+and+joint+ventures.

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