Making Alliances Work Essential In Business Relationships

By Stanley B. Kay

LEAVE IT TO THE unique imagination of James Thurber to concoct the phrase "wedded blitz" to describe the potentially hazardous extremes of the marital state. I think about that phrase often when I am asked by my clients to help them undertake "strategic alliances" with other companies. Too often, the parties fail to assess their real needs and adequately plan for the implementation of such alliances. Here is what you need to know about them, and how you can make them work.

Much has been written about the need for such alliances (also called "corporate partnering") in the current economic environment. With rapid technological change, the globalization of markets and increased capital demands, self-sufficiency is no longer a viable model. "Thinking of the organization as an entity standing on its own is dysfunctional," wrote Tom Peters in "Liberation Management"; resource sharing, networking and joint ventures are the new paradigms.

Strategic alliances are typically cooperative business agreements between small and large companies that are frequently coupled with the provision of some type of financing. A large company may wish to develop new products; gain exposure to new markets and technologies; identify possible acquisition candidates; and assure a source of supply and/or assist a customer. For a small company, the benefits could include a potentially lower-cost financing package and access to additional capital; the funding of essential research and development; a broad range of marketing, technical and strategic-planning assistance; and credibility with customers, suppliers and financial sources.

Strategic alliances can take one or more concurrent forms that may require short-, medium- or long-term relationships involving:

- equity and other financial participation;
- joint R&D, licensing and other technology collaboration;
- distributorships and cooperative marketing;
- outsourcing or second-sourcing production;
- joint ventures or consortia; or
- mergers or acquisitions;

Although the benefits from such alliances are apparent, the greater challenge for you is to avoid their creation without adequate planning and preparation. Here are basic steps that you should take:

Determine If You Need a Partner. Partnering arrangements require a certain degree of proven technological capability by the small company which will lead to foreseeable operating profits for the large company. Likewise, if the technology is not "enabling", i.e., it cannot be divided into distinct applications, markets or distribution channels, it may not be possible to structure an alliance that gives the large company enough rights without unduly diluting the technology and equity of the small company. Additionally, determine the time horizon for your needs, since it will take several years for an alliance to fully realize its intended benefits.

Make A Plan. You need to plan for a strategic alliance well in advance of your needs (nine to 12 months is frequently suggested). If you have a small company, it is likely that you will need to turn to outside professionals (such as lawyers and accountants) to help you prepare your plan, identify potential partner candidates and to structure the relationship. The plan should at least address the following issues:

- What should be the scope and exclusivity of the relationship?
- How much equity, technology and market share are you prepared to relinquish?
- Can and should you segment your markets with multiple alliances?
- What type of assistance do you need from a partner?
- What is your timetable?
- If development, manufacturing or other funding is needed, what is the time frame, and how should it be financed?
- Do you have an exit strategy?
- Have you defined standards for investment returns?
- What type of structure is best, and what are the resources needed for that type of structure?

Strategic Alliances Need Planning

Find And Contact The Right Partner. After completing your plan, develop a list of companies that are likely to be interested in benefiting from your company's strengths, and seem to have a compatible culture. Identify key executives within them who you may know; or if there are none, identify which companies have expressed an interest in your technology, products or market though statements in the press or company reports. Develop a detailed expertise about your target companies before contacting them, and be prepared to explain in a proposal how an alliance with your company will help them to achieve their objectives. Be sensitive to the multitiered decision-making that is required within a large company, and seek one or more champions within its ranks to support the alliance.

Negotiate A Comprehensive Agreement. In negotiating an agreement, identify a hierarchy of needs and objectives that should be achieved, and candidly communicate them to your prospective partner. Many points in your plan will appear in the agreement with even more specificity, but make sure that it addressees at least the following issues:

a. Scope and exclusivity. If the small company's technology can be divided into distinct applications, markets or distribution channels, it will have a better opportunity to restrict the scope of the alliance without reducing its value through a loss of important proprietary or marketing rights. Depending on the strength of its technology, the small company may be in a position to require substantial up-front fees, nonrefundable payments, and minimum-order quantities for its products and services as conditions for a grant of exclusivity.

b. Milestones. The continued exclusivity and length of the relationship should be related to the accomplishment and reporting of important development, production or other performance milestones. Such milestones, along with the attainment of profit objectives for the alliance, also define when one or both parties can terminate the agreement, or if the agreement will be extended.

c. Technology and product specifications. If a technology and product is to be developed, the specifications (along with the milestones) should be identified with as much precision as possible. Rights to the technology, and any enhancements and improvements, must be defined with specificity.

d. Roles of the parties. Address such issues as who should be responsible for developing new products, and who is responsible for funding it (and in what form). How will costs be allocated or

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shared? Who will manufacture the product, who will sell it and will those rights be exclusive or concurrent? Who will have decision-making responsibility, and for what? How will conflicts be resolved?

e. Financial. Will investments be made through equity, debt, a combination of the two, or direct development funding? Specify the royalties (lump sum and/or percentage of sales), and price, payment and delivery terms of products manufactured under the alliance.

Manage the Relationship. Now the truly challenging work begins. To prevent your alliance from becoming "dead on arrival," you must continue to manage your relationships with your partner. That means promoting open and frequent communications, and heading off problems early. Continue to "sell" the strategic benefits of the relationship to both parties, especially if you are the small partner who needs the larger company more than it needs you. And, most importantly, make every effort to meet your commitments under the agreement: nothing else will create a greater sense of trust in your partner.

Through careful planning and selection of your partner, and your commitment to give the highest priority to your relationship with it, you can ensure a higher probability of success. To do less is to risk an unhappy and unprofitable relationship not unlike Mr. Thurber's "wedded blitz. " ■