

## Fortune 1 Perspective: Strategic Partnering

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### Introduction

Increasing your company's sales and profitability are key goals for every small company seeking the next level of success. But when resources, in terms of capital and people, are smaller than they need to be, or the market simply does not support increased investment, strategic partnering is one of the most powerful ways to facilitate business growth. All alliances are strategic in nature in that they are specifically intended to increase a company's reach, its revenue and its profitability. Business alliances *fund* a company with benefits typically associated with increased cash investment, and when managed well can do so over a short period of time.

The level of *funding* realized from strategic partnerships is based on how well the alliance is scoped at the beginning and how well it is managed moving forward. Scoping and managing a successful partnership is entirely dependent on the selection process used by the partners. The due diligence of choosing a strategic partner encompasses not only the selection, but also the scoping and testing of the partnership agreement, and ultimately the operating agreement between the partners.

Partnerships are nothing short of a marriage – both partners need to concentrate on delivering their end of the agreement to the other party. Many a relationship – strategic or otherwise – end in petty bickering or worse, because one or both parties concentrated on maximizing the partnership for themselves, as opposed to concentrating on maximizing the partnership for the other party. Companies need to choose their bed partners well.

### How To Partner

Strategic partnering can take many forms in terms of distribution, technical expertise, market sector expertise, and so on. Two of the most common strategic alliances are marketing alliances and product alliances.

In a marketing partnership, your company and another company share respective customer bases. This allows your company to gain access to another business's customers – thereby saving time, money, effort, and countless errors – to whom you can market your products and services. As well, depending on the structure of the alliance, your company may earn royalties or share revenue from your alliance partner's sales to your customers. In these ways, a marketing alliance immediately increases your market reach and revenue opportunities.

In a product partnership, your company offers another company's products to your existing customer base, and your alliance partner sells your company's products to its customer base. Using a product alliance, your company is able to sell products and services without any additional investment in manufacturing, product distribution networks, or increased inventory. Most often, in a product partnership, each partner direct-ships its products without the other party being involved in inventory, technical service, and customer care. Your company makes the sale, collects the money and divides the sales revenue with your partner.

### **WHEN BEING AN ALLIANCE PARTNER IS CRITICAL TO SUCCESS**

A great example of a company who has flourished based on its strategic partnerships is the small Danish company, Terma. Terma designs and manufactures military and space equipment. The Company has approximately \$130 million in annual revenue, and is based 3 hours north of Copenhagen in a town called Aarhus (population 250,000).

Terma has built its niche specifically as an alliance partner. Not only have Terma's partnerships been responsible for driving sales, but its alliances consistently give the Company opportunities to punch above its weight and be involved in large deals, which lead to even more opportunities. This exponential, follow-on effect of sound partnering is key for companies seeking to grow.

Terma consistently employs its small size to its advantage. In terms of its market sector, next to companies like Boeing and Britain's BAE Systems, it is an under statement to say Terma is small. However, according to Terma's CEO, Johannes Jacobsen, Terma's size is exactly what permits it to form the partnerships it does – Terma's larger partners do not view it as a threat.

How does Terma succeed in its role as niche partner? According to Terma:

- It's home market, the Danish military, acts as a feeder channel. This relatively small home market allows Terma to learn about new technologies and large projects in other markets – this forms the basis, and gives Terma the credibility, for contracts with other countries and manufacturers around the world.
- For its size, Terma's product and technology breadth is large including: satellite technology, electronic warfare, aircraft structures, radar, and information systems and telecommunications. It is a highly technically competent company, and its breadth of expertise and ability to deal with a range of technologies are key components.
- Terma concentrates on previous successes. The Company prefers to work with partners and customers whom they have worked with previously. Trust is an important ingredient in being asked to join an alliance and to winning more orders.
- Terma's people are good at interacting with large complex organizations. The Company and its people are diplomatic, resourceful and flexible. Terma makes their customers' and partners' agendas Terma's agenda. The company views its success in terms of the successes of its alliances.

Terma's approach has been referred to as "sucker fish", because it is similar to the Remora or "sucker fish," which survives by attaching itself to larger hosts such as sharks and turtles. This sucker fish strategy has led to Terma partnering with the likes of Saab of Sweden, Thales of France, and with Lockheed and Northrup Grumman of the United States.

### **Assessing Potential Partners**

Your company must have a due diligence process with which to assess prospective partners. Before you enter into an alliance with another company, you must be prepared for at least some level of due diligence. If you are allying with a larger group, the due diligence may be of your company, and you are far ahead of the game by preparing for this process.

In my work in sales and marketing and international business expansion, I am consistently amazed at how little work is actually done in assessing partners. It seems even in terms of international alliances these are often based on hand-shake deals made at a trade show and often without senior management visiting the facilities of their partners.

The most important thing to bear in mind about strategic partnerships is that you are giving access to your products and customers, and possibly to your trade secrets. At a minimum, you are providing your partner easy access to your best talent, as they work and interact with your people. Moreover, your alliance partners represent you in the market – you will be at risk to their professionalism, their actions, and how they treat their customers and your customers. Due diligence is key, and failure to do so is paramount to planning to fail.

Again, if your company is the smaller company be prepared for a thorough going over, but at the same time do not be bullied or simply open your doors because your partner is larger or supposedly knows more. In fact, due diligence should be an active process directly involving both parties. If your company is the lead company, be prepared to give your potential partners a thorough inspection before climbing into bed together. Before they allying, companies must consider the following about ALL prospective partners:

- Trustworthiness
- Skill sets and real world capabilities
- Reputation
- Referrals from customers and/or suppliers
- Financial health and credit information
- Existing alliance partners
- Confidentiality and non-disclosure agreements
- Non-compete agreements
- Operating Agreement for the alliance

The regrettable fact is that many companies do not perform even the most basic level of due diligence when it comes to partnering. Possibly *due diligence* is a loaded term and conjures images big acquisitions, high priced attorneys and investment bankers. Regardless of what we call it – “due diligence,” “partner assessment,” or *a look under the hood* – there must be a determination of the capabilities and fit, and ideally a comparison of several partners. In the end, you really need to test your alliance concept with each potential strategic partner. Once you have made your determination you can refine the terms and conditions of the alliance and then finalize all legal documents and operating agreements.

Stage of Process	Investigation Level
Initial Screen	A small amount of information is required on a large number of potential partners.
Partner Evaluation	More detailed information – see the Due Diligence List below – on a short list of possible partners.
Negotiation/Partnership Contract	More in depth assessment of a specific chosen partner or top two choices. Be sure to seek out additional inputs for information, beyond published data and what the partner initially lays on the table.

Below is a basic due diligence checklist. This is hardly an exhaustive list, and of course different industries and markets will have specific points, which must be flushed out. But this list gets the process started, and provides a basis for comparing one potential partner to another. There should be basic screening criteria at the first level and as partners are screened out a more in depth evaluation takes place of the remaining parties, while finally at negotiation and contract stage a thorough look under the hood must take place.

Description	√
Last 3 years financials and next 2 years pro-forma financials. <ul style="list-style-type: none"> <li>• Cash Flow</li> <li>• Profit and Loss</li> <li>• Balance Sheet</li> </ul>	√
List of employees <ul style="list-style-type: none"> <li>• Name</li> <li>• Job Function</li> </ul>	√
List of competitors	√
Any market or demographic research regarding the market(s) or product(s) being covered.	√
What is the Company's ownership structure?	√
Are there any problems with banks or suppliers?	√
What are the sales and profit trends of the company?	√
Why is the company looking for strategic partners?	√
How does the company rank in the market compared with the competition?	√
What are the company's selling practices? And what sales channels do they use?	√
Who are the major accounts? Are there any off-limits customers or regions?	√
Is there any pending litigation, claims, or liens against the company?	√
Are there any union issues?	√
Is the company's equipment and software up to date; in good working order or obsolete?	√
Does the company's location aid or hinder it in its market? And will the company's location aid or hinder your partnership?	√
Are there additional products that might be added to the partnership? What stage are they in development?	√
Can a partnership with this company be grown without additional capital?	√

## Where To Get The Information

Getting the information is the most difficult part of due diligence. Published studies, online searches, and what your potential partners are willing to share 1) vary significantly in quality and 2) only go so far in terms of digging into understanding all the risks. If you are the company being assessed and/or hoping to attract a specific strategic partner, you will stand out heads and tails over your competition – and appear the obvious choice – if you have the above details about your company fully prepared and neatly presented. Potential partners will appreciate your upfront and organized approach to the assessment. Of course, make sure you have a Non-Disclosure Agreement in place before just handing it over.

Sources	Pros	Cons
Online Search	Easy and good place to start.	Limited information. Often numerous and messy results.
Market Reports	Good general overview of markets, products, pricing etc. And can be excellent for determining initial target list.	Can be expensive and often too high level to give real insight into a prospective partner's business.
Suppliers	Often intimately aware of market trends and the players in the industry. Usually very open because they view you as a potential new customer.	Information can be limited because many suppliers do not want to badmouth their customers.
Customers	A vital source of information, especially in terms of service, organization, and professionalism. Note, former customers can often provide more insight than current customers.	To be thorough you must speak with both current and former customers. Your prospective partners may not want to give you access to their customer base.
Distributors	Most often have good insight into markets and the companies that serve it. Here again, former distributors can be a great source of information.	Prone to complain of "lack of support" and could view you as a threat.
Competitors	Hands-on experience and in-the-field knowledge of the market.	Usually difficult to gain access. Sometimes tainted against their fellow competitors.
Industry Experts	Best found via trade associations, industry publications, and trade shows. Most often are anxious to speak and share information.	May view you as a potential client, or even charge for their advice. Sometimes over-positive.
Employees	Employees – middle management and staff specifically – are most familiar with the nuts and bolts of the company's operations and with the quirks and capabilities of senior management. Look specifically for former employees.	Can be very difficult to get your prospective partner's agreement to interview their employees. When you provide access to your employees you are opening up headhunting opportunities.

## **Conclusion**

There are many ways to partner. Think critically and know clearly what you are trying to accomplish via the partnership. Choose your list of prospective partners accordingly, and with care.

To be successful, an alliance must benefit all members to maintain a strong level of interest and working cooperation throughout the entire term of the partnership. Each partner should seek to maximize the other party's results.

Remember, due diligence protects your company's assets, proprietary trade secrets, its reputation and, above all, your relationships with existing customers.

Information sources are plentiful, but all have their downsides, risks, and problems for accessing them. Do not over rely on a personal relationship or on any single source in drawing your conclusions about a prospective partner.