Establishing a Strategic Partnering Relationship

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Strategic partnership agreements—whether short- or long-term—allow organizations to take advantage of market opportunities and respond to customer needs in collaboration, doing it more efficiently and effectively than they could alone.

“Collaboration is the process by which partners adopt a high level of purposeful cooperation to maintain a trading relationship over time. The relationship is bilateral; both parties have the power to shape its nature and future direction over time.” (Robert E. Spekman)

What You Need to Know

How might strategic partnering benefit my organization?

Strategic partnering can help an organization:

- find an outlet for excess manufacturing capacity;
- gain quick, low risk access to new markets;
- strengthen its technological base;
- achieve economies of scale through high volume, low cost, and mass distribution;
- overcome geographic, legal, or trade barriers;
- speed up new product development and introduction.

What are some of the disadvantages of strategic partnering?

Unsuccessful partnering may result in:

- a lack of strategic fit;
- an imbalance in the relationship between partners;
- implementation problems due to differing leadership styles. The fit may appear to be good, but traditional control methods may hinder the interdependence that is key to a strategic partnership;
- a lack of trust and confidence;
- slow decision making;

- key requirements for a market project are concentrated in one of the partners.

I am thinking about partnering. What should I be considering before making my decision?

- **Your Partnering Needs**

Few organizations have all the required resources or skills to take advantage of new market opportunities or other initiatives independently and maintain the economies of scale—low cost, high volume, and mass distribution. Attempting to do this alone can mean high investment, slower response to change, and an infrastructure that may have to be dismantled, possibly soon afterward.

- **The Marketplace**

Look closely at your organization in relation to its sector and market position. Who is emerging as a market leader? Why? Which market trends are beginning to dominate? How is the market likely to develop in the future? Look to your organization's stakeholders—customers, employees, stockholders, and suppliers—to provide you with invaluable information in this data-gathering exercise.

Carry out a SWOT analysis and look at how you got where you are. Do you need to invest in your technological base, your production capacity, or new markets? Does market stability—or volatility—make that investment affordable or desirable? Look at what organizations similar to yours are doing to compete in the areas of innovation, service, and customer value.

- **The Future**

You may have to reconsider the business you are in or adjust your business focus to concentrate on your core strengths. If you are to express a clear vision for the future, you cannot be locked into the thinking of the past. Your vision of the future should be the driving force that energizes the organization and therefore must be shared by personnel throughout the organization.

- **Your Processes**

When considering a strategic partnership, remain conscious of the reality inside your own organization. Try to gain a knowledgeable perspective on your company's:

- programs for continuing improvement and development;
- policies and practices for releasing authority to encourage initiative;
- generation, manipulation, and use of key information;
- ability to respond to market changes.

Identify what your organization is&emdashor needs to be—best at. Identify skills you need to develop and improve. Achieving excellence in a core competence requires years of consistent effort, application, and continual renewal. A core competence, however, is probably your greatest bargaining chip if you choose to negotiate a strategic partnering agreement.

What to Do

Structure the Partnership

If you have decided that a strategic partnership will benefit your organization, you have a number of decisions to make in structuring the partnership.

- **Determine which form of strategic partnership—horizontal, vertical, or diagonal—is appropriate for your organization.**

Horizontal partnerships are usually formed with former competitors from your industry and involve collaboration for the purpose of research and development. Vertical partnerships are usually formed with organizations in the supply-delivery chain such as suppliers, marketers, or distributors.

Public/private partnerships are formed with organizations from other industries.

- **Decide on the level of cooperation**

How formal the structure needs to be between the partners will determine its legal structure, process and communication procedures, control processes, and organizational structure. You will also have to set time frames in which to make the joint project operational, and determine what resources are available and which of the partners supplies them.

- **Decide on the Level of Involvement**

It may or may not be a good idea to restrict the agreement to two partners. Innovation, production, and delivery, for example, may benefit strategically from partnerships with multiple partners, each bringing specific expertise, expanding the richness and the potential of the collaboration. In this case the partnership becomes a dynamic network of contributors. Every time you add a partner, however, you increase the chance that something may go wrong.

- **Decide on Measurement and Control**

All strategic partnerships need some form of control. Determine which activities which partner will control, how much control each partner will exercise, and how partners will exercise that control.

It would be ideal for partners to have similar measurement systems, but this is unlikely. Contribution to, and outcomes from, the partnership may be difficult to apportion precisely when marketing and quality targets and learning objectives are key contributors to financial goals.

Select Your Partner

- **Evaluate intra- or extra-industry players for a Basic Fit**

This is largely a question of information gathering and analysis. Depending on you choice of a horizontal, vertical, or diagonal approach, you will need to evaluate partnership candidates inside or outside your industry for a basic fit. Search for leading or emerging players that can add their strength to your organization in a win-win partnership. Ask yourself questions. What are the potential risks of such a collaboration? Does this potential partner have a hidden agenda? How turbulent is the existing market? What does the future look like? Are there other collaborators or associates in the game?

- **Gain the support of a partnering champion**

The partnering champion should be a senior manager who commands respect at all levels, has outstanding analytical ability, and gets things done. The champion is responsible for establishing the framework for the partnership agreement, promoting ownership of the partnership, and making it work in the startup phase.

What to Avoid

You Fail to Recognize the Importance of a Strategic Fit

It is more important that partners share a broad business philosophy than short-term goals. The partnership needs to fit with the overall strategic plans of each organization; joint development of belief systems, business plans, partnership structures, and time frames flow from this agreement.

You Fail to Recognize the Importance of a Cultural Fit

Cultural incompatibility may lurk beneath the surface of many potentially successful partnerships. Management style, organizational feel, and how things really get done are hard to quantify and even more difficult to assimilate, and they are often impossible to impose from the outside.

Where to Learn More

Books:

Child, John, and David Faulkner. Strategies of Cooperation: Managing Alliances, Networks and Joint Ventures. 2nd ed. Oxford University Press, 2005.

Lendrum, Tony. The Strategic Partnering Handbook. 4th ed. McGraw Hill, 2003.

Mockler, Robert J. Multinational Strategic AlliancesHoboken, NJ: Wiley, 2000.

Spekman, Robert E., Lynn A. Isabella, and Thomas C. MacAvoy. Alliance Competence: Maximizing the Value of Your Partnerships. Hoboken, NJ: Wiley, 2000.

Web Sites:

Strategic Partnerships, Inc.: www.spartnerships.com

Ten3 BUSINESS e-COACH: www.1000ventures.com/business_guide/partnerships_main.html