

# Developing Small Business Partnerships

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Small businesses enter into partnerships with other businesses to achieve mutual objectives. Such partnerships can be long-term (for example, to develop a new product) or short-term (to enter a new market). When two businesses possess complementary skills, partnership allows them to better exploit the opportunities and challenges arising in today's global marketplace. Inevitably, there are risks involved, but many potential problems can be anticipated and avoided by planning ahead.

## What You Need to Know

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### Will a partnership benefit my business?

The main advantage of developing partnerships is the ability to access the resources brought by the other partner and to achieve outcomes that would not be possible alone. If the partner business is operating in another country from your own, your company gains access to international markets or new products for import. There are other important benefits as well.

- Businesses that would otherwise be able to reach a new market only by overcommitting themselves can do so without risking the rest of the business.
- A partnership has more chance of winning a large contract, as it will be seen as more secure and reliable than each business is alone.
- Partnerships allow small businesses to pool their technology and know-how, enlarging their ability to reach their mutual objective.
- Partnerships increase the partners' databases of customers and contacts.

## What to Do

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### Determine What You Need in a Partner

What is your purpose in seeking a partner? Does your company want to access a new market, develop a new product, or raise its profile in a certain area? Although details of a partnership can be worked out at a later date, you must decide what you need a partner to contribute—money, technological know-how, publicity, or some other resource. Then you can approach another company that has the complementary skills you need.

For many reasons, joint ventures based on equal partnerships work best, those in which each party is able to contribute without feeling they are working for the other. Resist the urge to approach a

company that is similar to yours: It is better to team up with a company that offers skills and services that augment your own so that you can both contribute without being in direct competition. There will also be less disagreement over which business has most to gain from the partnership.

## **Research Possible Partners**

Once you have determined likely candidates for your partnership, you need to do background checks. Do this before you approach another company. You must make sure that a potential partner is honest, reliable, and financially solid. Check that there are no court judgments against them, whether they pay suppliers on time, and what their customer service record is. Read about them in the business press to get a general idea of how the company is regarded. Some of the other company's reputation may rub off on your business, so it is important that it reflects well on yours.

## **Assess Your Partner's Work Style**

There are a number of factors to consider when starting a partnership. Perhaps the most common reason that partnerships break up is due to personality clashes, either between the major players in the partner organizations or in the partner companies' values. A good working relationship is critical to the functioning of the partnership. Working with someone who has a different business style can be helpful, if, for example, one partner is less cautious and the other more so; however, the business ethos of the two firms must be similar. For example, if one company regards employees as its greatest asset, whereas the other considers employees in terms of their expense, it may be difficult to work well together.

## **Create the Partnership**

The purpose of a partnership should be clear to all parties and formalized in writing. The companies' legal counsel should draft the document. The written plan will be detailed and should cover goals; contributions of each partner, such as finances (including profit sharing, purchasing, and expenses); any joint training; and factors such as any time limit on the partnership and how to dissolve it if necessary. It should address intellectual property issues that may arise and how they will be resolved. For example, joint product development, especially technological development, could result in joint ownership of a patent or copyright. This could cause problems if the partnership ends on a negative footing.

Trust is essential; that is one reason to perform background checks before entering the partnership. You are not obligated to reveal anything about your business to the other party that is not relevant to your joint project. However, you should decide what and how much information the other business can access, for example, your existing customer data. Reveal only necessary information, and do not

reveal anything that is confidential without forethought. Ensure that, as far as possible, both parties contribute equally to the project, for example, technology or sales leads.

## **Avoid Rivalry**

It is important that you maintain an open working relationship with the partner company and avoid competition. Ensure that employees are given adequate time to get to know their counterparts in the partner business. Joint training given to both sets of employees can do more than inform them of the goals of the project; it can help them build relationships that will make the partnership work more smoothly. Good communication is also essential; make sure you keep employees informed of progress so that they can feel a part of any success.

## **What to Avoid**

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### **You Fail to Research Potential Partners**

You should find out as much as possible about any potential business partners. If you're not fully aware of the way the other business works and clear about objectives for the partnership, disputes can arise. For example:

- personality clashes develop between managers. These can be especially disruptive in smaller businesses, where the owner of the firm is likely to have imprinted his or her style on the business, working methods, and employees.
- one party feels it is contributing more and, effectively, carrying the other
- one side takes a disproportionate share of the profits
- there is a mismatch between the two parties in terms of goals
- disputes arise over legal issues such as ownership of copyright material or other intellectual property produced or developed by the partnership

### **You Fail to Put the Agreement in Writing**

Two businesses may enter a partnership with differing ideas and goals. Likewise, it is surprising how often two parties will come away from a meeting with different ideas on what was agreed. It is critical that the overall purpose of the partnership be clear. The best way to achieve this is to have a written agreement signed by both parties. In that agreement, you should also include details of what will happen if the partnership agreement doesn't work as planned.

## Where to Learn More

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### **Book:**

Clifford, Denis and Ralph E. Warner. Form a Partnership: The Complete Legal Guide. NOLO, 2006.

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