

STRATEGIC ALLIANCES

When two is better than one

A strategic alliance may be an option for growing companies when a sale or acquisition isn't feasible. In fact, carefully chosen and executed alliances can yield many of the benefits of a successful merger — including increased revenue and market share and the acquisition of key employees — but without the time, cost or hassle.

Venturing out

Say you need to raise capital to effectively compete in your market, but also want to retain ownership and full control of your company. A joint venture — a common, but complex type of strategic alliance — may be the

solution. Joint ventures require participating companies to create a separate legal entity (generally a corporation, limited liability company or partnership), of which all participating companies are partners and through which the new business will be conducted under strict operating agreements.

Help ensure a successful partnership by choosing a company that shares similar values and business philosophies.



Though joint ventures can face many of the same integration challenges of standard mergers — plus the additional challenges involved in jointly managing a company — they allow you to share some of the risk. They can also potentially generate valuable synergies that, for example, yield more robust product lines, greater geographical reach and cost reductions related to scale while enabling participating companies to manage their own core competencies.

In addition, pooling your resources in a joint venture may enable you to:

- ❖ Take on projects that are larger than you would normally accept,
- ❖ Boost your bidding power and bonding capacity,
- ❖ Tap the unique skills and ideas of a different organization — possibly revitalizing your own, and
- ❖ Increase your ability to raise capital.

A joint venture maintains its own accounting records and produces financial statements that are independent of each participating company's financial records (though the joint venture is noted in those companies' financial statements). Your percentage of ownership and level of control in the joint venture dictate the accounting method — cost,

equity or full consolidation — used to report joint venture activity. Most joint ventures are limited in scope to a single project or product, but they can also operate indefinitely.

Contractual arrangements

Contractual arrangements offer a simpler form of strategic alliance. These short-term collaborations may be appropriate when you don't require a formal management structure. The contract's specific provisions will depend on the complexity of the business arrangement, but it should discuss the duties and responsibilities of each party, confidentiality and non-competition, payment terms, and intellectual property. Also be sure you enter a contractual arrangement with an exit strategy in mind.

A contractual alliance might be formed when two businesses partner to distribute products, but share few financial resources. (See “Looking for less commitment?”) On a larger scale, two companies might both make significant financial contributions to fund capital-intensive investments such as those in facilities and equipment.



Many contractual alliances grow into more significant businesses for their participants. So regardless of the type of alliance you choose, seek expert advice to assess your initial legal, financial and operating risks and benefits as well as those that potentially come into play down the road.

A perfect match

You should never enter into a strategic alliance without carefully considering the risks. These include corporate culture clashes and loss of control over operations and proprietary information and technology. You might

Looking for less commitment?

Contractual alliances may allow companies to partner with one another without making major legal or financial commitments. By no means a one-size-fits-all business model, contractual alliances run the spectrum to include cooperative:

- ❖ Marketing efforts,
- ❖ Licensing,
- ❖ Product design,
- ❖ Sales or distribution,
- ❖ Manufacturing,
- ❖ Technology development,
- ❖ Research and development,
- ❖ Intellectual property, and
- ❖ Service agreements.

also miss out on future business opportunities with your strategic partner's competitors.

Help ensure a successful partnership by choosing a company that shares similar values and business philosophies. For example, if you have an entrepreneurial spirit and believe in taking calculated risks, partnering with a company that follows a more conservative, risk-averse approach is likely to lead to conflict.

During the screening process, investigate your potential partner's financial and labor resources, strengths and weaknesses, bonding capacity and production output. Request copies of the company's financial records for the past five years, interview its clients, and research records for litigation and other legal proceedings in which the company may be involved. You may also want to check legal records for civil actions such as a divorce. An ex-spouse or creditor could attempt to claim your joint business revenue.

Bearing fruit

A strategic alliance can provide growth prospects for its participants when cash is tight and a merger isn't possible. These alliances always harbor risks — particularly if the partners aren't financial equals. But if you carefully enter an arrangement and put plenty of forethought into what you hope to achieve strategically and financially, it can be an extremely fruitful relationship. ■