Creative Business Planning Incorporated

Operating Your Business Takes Planning - Creative Business Planning Incorporated

**The Entrepreneur's Guide to Financial Maturity ®**
**Strategic Alliances**

As many of you may know, on June 19, 2003 I spoke at the 3rd Annual Caribbean Business Breakfast. I would like to thank those of you who attended, especially those of you whom I had an opportunity to meet and chat with. I appreciate your kind words and feedback and look forward to meeting more of my readers at future Caribbean American & Hispanic Business Journal events, if not earlier.

At the breakfast I spoke about was developing Strategic Alliances, a topic I deal with frequently in my practice. Strategic Alliances have been a growth strategy used for centuries. The results of these alliances contribute trillions of dollars to the global economy. For purposes of this article we shall define a Strategic Alliance as companies working together to achieve a common goal. Strategic Alliances can be effective for small, medium and large companies as well as governmental agencies.

Whether you call it a:

- Strategic Alliance
- Joint Venture
- Collaboration Agreement
- Licensing Agreement
- Marketing Agreement

Or any variation – such as:

- Joint Venture Agreement for the Development of an Invention
- Strategic Development and Marketing Agreement

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The primary purpose for the Strategic Alliance is the same, leveraging your assets so that you can increase your probability of success. Success could include increasing your company's profits, promoting a social agenda or stimulating your economy. For purposes of this article, our focus will be on the entrepreneur.

**Leveraging your assets:**

Assume your company has one or more of the following attributes:

- A product with a strong demand and a desire to increase production without increasing overhead
- Excess manufacturing capacity
- Favorable business environment
- Low labor costs or other competitive advantages
- Proximity to resources
- Intellectual property
- Access to capital
- Distribution channels – access to geographic locations
- Brand name /Goodwill
- Or other tangible or intangible assets

In the event you are looking for a Strategic Alliance, you probably will seek to gain access to another company's assets that complement your company's needs. One example might be, a Caribbean company is looking to export toiletries to the Caribbean market in United States. The Caribbean company should be looking to form a Strategic Alliance with a company that has strong distribution channels and marketing support in, for example, the Caribbean marketplace in New York metropolitan area. If that "Strategic Partner" has access to capital, that additional synergy can increase the likelihood of success. After all, a product "roll out" generally requires capital.

A second example might involve a supermarket chain that is seeking a steady supply of certain Caribbean spices. The supermarket chain might seek out a farmer or farming co-operative as a Strategic Partner. This would assure the farmers stability, minimum purchases orders at predetermined prices. It would assure the supermarket a steady supply of spices on a priority basis. If we were advising the supermarket, we would advise the supermarket to acquire part of the "business" or the real estate, as part of the alliance. After all it is the supermarket's orders that are growing the farmer's business.

**Leverage your Professionals' credentials and credibility:**

One of your intangible assets is your professionals' credentials and credibility. In the event you decide you want to enter into a Strategic Alliance or decide to acquire or merge your company, it is imperative that you hire:

- An **attorney** familiar with complex commercial transactions and international trade, if appropriate
- A **tax accountant** familiar with international trade and the appropriate tax treaties
- A **financial consultant** familiar with analyzing and structuring transactions

The professionals you engage are a refection of you, and how serious you are in doing a deal. If you hire a "rookie" your potential partner will know it. If they get frustrated dealing or educating your professionals, they may look to do a strategic alliance with a competitor or walk.

- **Understand if and how the two companies can effectively work together** – in other words - are the corporate cultures compatible?

- **Determine whether there are additional synergies to develop, or to take the relationship to the next level –** If your relationship with your Strategic Partner develops properly, including developing mutual trust and respect for your partner's capabilities, there may be other, mutually beneficial opportunities that evolve.

- **Develop an exit strategy**, such as a buy-out or merger

**Understanding the Risks:**

Often principals get caught up in the euphoria of doing a deal. As deal terms change often principals fail to "step back" and determine whether the economics of the transaction has changed significantly. The principals often do not fully understand their risks or the economic ramifications of the changes

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and possibly of the duties and responsibilities contained in the Agreements. Understanding your risks is especially true when things do not go as planned.

What are the ramifications if one of the parties defaults on their agreement? We entrepreneurs tend to be optimistic.

It becomes important to understand and protect against the "downside" risk, since things frequently do not work out as projected.

**Additional Words of Caution:**

In any new business endeavor you should proceed with caution. This is especially true with Strategic Alliances, where you are relying on your "Strategic Partner" to grow your business and increase your company's value. One of the top 10 reasons companies fail is because the principals overemphasis the importance of Strategic Alliances, especially when it is with a well-known company. Regardless of whom the agreement is with, Strategic Alliances by themselves have limited value. It is the terms of the agreement that are meaningful. Very few companies get the synergies and the results that they anticipate. Proceed with caution. We advise our clients to "**crawl before you walk before you run**." **The wrong partner can destroy your business. Make sure you understand the risks. Make sure your interests are protected.**