



Strategic Alliances: Collaborate Now, Possibly Combine Later

Even if you aren't currently preparing to sell your business, you might want to think strategically about your eventual buyer. Sophisticated buyers won't only look at your financials, they'll also evaluate how your company fits into their long-term business plan. One way to strengthen current profitability and future exit options is with a strategic alliance.

Current and long-term objectives

Strategic alliances are structured in several ways, including joint ventures, revenue-sharing arrangements and co-development agreements. In some relationships, the two companies simply agree to work together on a particular project. Others involve long-term agreements, with the end game being a merger. Alliances can have set expiration dates or be renewed at intervals after they pass performance reviews. Among the many reasons companies pursue alliances are to leverage core assets, expand sales capacities and reduce operating costs.

Your company doesn't have to enter into a strategic alliance to make it easier to sell one day. It may, after all, be performing well on its own. Instead, look at a potential strategic alliance as a near-term growth and expense-cutting mechanism with long-term benefits.

If you agree to an alliance, focus on financial and operational objectives, including achieving economies of scale. For example, by combining orders for everything from raw materials to office supplies, both partners may qualify for supplier discounts and reduce overhead costs. What about jointly purchasing capital equipment or upgrading both companies' IT networks? Or you may want to find a partner to improve transportation logistics by consolidating warehouses. Another idea: Sharing intellectual property, such as customized software.

Keys to success

Your strategic alliance may require time and effort to get up and running. But if you've thoroughly vetted your partner and have a well-structured agreement in place, you're likely to realize benefits. If you don't, and the relationship becomes a drain on resources, take immediate action.

Some problems can be fixed. For example, it's easy for alliances to drift from their original purpose. A partnership forged mainly to upgrade an IT system could wind up focusing on improving employee productivity instead — with mixed results. In this case, the partners could refocus and reinforce their alliance objectives. But if problems seem intractable, it's usually better to terminate the alliance.

Profitable arrangements

Not only can strategic alliances be mutually profitable, but they can help both partners envision a permanently combined company. Alliances often begin informally or as short-term agreements that eventually lead to mergers when the companies realize their synergistic potential.

A successful prior relationship can smooth the merger process. Before joining a strategic alliance, companies typically conduct due diligence on one another. Financial and other conditions can certainly change between the initiation of a strategic alliance and the beginning of merger negotiations. But a well-structured alliance allows partners to keep tabs on each other. If one of the companies experiences leadership challenges or has trouble getting financing, the other is likely to know about it. Such knowledge can speed up the merger transaction process and simplify integration.

Exercise in discipline

Regardless of whether your business eventually merges with a strategic partner, the discipline of building and managing your relationship can strengthen operations and expand your market reach. It can also enhance financial transparency and position your business more favorably to potential buyers.

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