Teaming up with other businesses

Strategic alliances or joint ventures allow you to partner with an existing business to share the risks and opportunities in a new market.

Strategic alliances

A strategic alliance is a form of collaboration between two or more companies, which can take on forms such as:

- technology transfer
- purchasing and distribution agreements
- marketing and promotional collaboration
- joint product development.

Each partner in the alliance usually retains their independence while contributing towards a mutual shared goal.

A joint venture involves a potentially long-term investment of funds, facilities and resources by two or more companies to a combined venture, which benefits all companies. All involved will have an equity stake in the new venture.

A joint venture may be formed to:

- run production facilities in another country
- establish a marketing and distribution presence
- use complementary technologies held by each participant.

Joint ventures can also be used to get around country trade barriers. In some cases a joint venture with a local company may be required to enter some overseas markets.

Why consider a strategic alliance or joint venture?

Forming a business relationship with a partner, or partners, may provide you with a number of advantages. You may be able to access technologies or patented processes owned by the other partner. Alternatively, you may be able to access their distribution network.

If you are thinking of forming a partnership, consider your strengths and weaknesses compared with your potential partner's. The ideal partnership takes advantage of your core competencies while strengthening weaker areas of your business.

Advantages and disadvantages of working with a partner

Well-chosen partnerships can provide advantages.

- Share the risks – working in partnership allows you to offset your market exposure.
- Opportunities for growth – access to your partner’s distribution networks may help you gain market share faster than if you go it alone.
- Access resources – your partner may be able to help by giving you access to resources such as specialised staff, finance and technology.
• Access the target market – working with a local partner may be the only way you can access your target market.

Disadvantages of working with a partner include:

• Less profit – as profit will be split between partners, it may take longer to make a return on your investment.
• Disputes – if the relationship breaks down, ownership of intellectual property (IP) and jointly developed products can be an issue.
• Cultural difficulties – working with an overseas company or a company that is a different size to your business can bring some cultural issues, as ways of doing business may be very different between the companies.
• High level of commitment — to make a partnership work requires a high level of commitment both in terms of finance and management time.
• Overwhelmed by partner – if you are partnering with a larger company, you risk getting overwhelmed and pressured into going in the direction the larger partner wants to take.

Choosing the right partner and making the partnership work

If a partnership breaks down, it can be expensive and time consuming to pick up the pieces. It is important you take time to thoroughly research and evaluate all potential partners. Working with a partner you already have a working relationship with can be a good solution. For example, you may wish to create a more formal arrangement with an overseas agent or distributor.

There are some simple steps that can reduce the potential of your partnership running into problems.

Make sure you take time to research and evaluate a potential partner. Check to see if their goals and values align with your own business. Consider the following.

• How well do they perform?
• Will they share your level of commitment to the venture?
• Do you trust them?
• Are they financially secure?
• What do their customers say about them?
• Do they have any existing partnerships that could cause a conflict of interest?
• Develop a personal rapport between yourself and the other party. Make sure you get to know and understand your potential partner.
• Ensure a management voice for all partners on the direction of the partnership. Make sure communication channels are kept open.
• Decide on reporting methods, milestones and goals for the partnership. Agree in advance how the partnership will proceed if these goals are not being met.
• Agree in advance on what arbitration methods you will use if there is a dispute between the partners.
• Get a written agreement between the partners. Because strategic alliances tend to be less formal than a joint venture, an exchange of letters should suffice as a written agreement. In the case of a joint venture, a joint venture agreement should be signed by both parties.

Partnering with overseas businesses

Overseas partnerships can be complicated and potentially costly if things go wrong. Make sure you get plenty of advice before entering into any partnership arrangement. Information sources can be:

• Market research — export and marketing consultants.
• Finding and evaluating a partner — international accountancy firms, international legal firms, international banks, venture capitalists.
• IP protection — patent attorneys.
• Negotiating an agreement — seek legal advice from lawyers specialising in international contract law (look for a firm with experience in the country you are looking at doing business
A good partner will offer complementary strengths that can free you up to focus on the things your business does best.

For example, you can focus on product development while your partner focuses on sales and marketing.

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