Small businesses find strength in partners

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One of the most powerful drivers for growing a business is the strategic partnership. Such relationships enable firms to take advantage of opportunities by focusing on their strengths and obtaining other essential skills and resources elsewhere.

Attorney Jon Summers of White & Lee LLP in Portland discussed the advantages and process of strategic partnering at the November meeting of the Three Rivers Entrepreneur Network (formerly the Three Rivers Venture Group).

According to Summers, "strategic partnership" is a generic term describing a mutually beneficial arrangement between two companies. The relationship can be as informal as a handshake or as structured as a development, distribution or marketing agreement, joint venture, equity investment, merger or acquisition.

What's in it for me?

Most strategic relationships connect a small company with a larger one. Motivations for big companies include gaining a competitive advantage through special technology or expertise, reducing time to market and reducing competition.

Small firms can acquire funding, production capabilities and broader distribution channels. They also can piggyback on the credibility and reputation of a larger firm, building toward becoming big firms themselves.

For example, Kenne wick-based InStar Corp. added a retrieval capability to its electronic filing system software by forming a strategic alliance with DocSTAR, a New York maker of document imaging products.

"Working together, we blended our technologies to increase the functionality of both applications and enhance customer productivity," said InStar president Tom Hatcher.

An agreement with a distributor in Texas is opening new opportunities for educational software producer eLearning Tools of Kennewick. "Their sales force is getting us tremendous exposure in a market we would never have been able to enter on our own," said marketing director Mary Kay Utecht.

How'd they do that?

Writing in the Washington (D.C.) Business News, Virginia attorney Tom Knox offered four "hints for catching and keeping a strategic partner."

Know what you want. "Many alliances founder on mismatched expectations," Knox said. Successful strategic partnerships share common business philosophies and goals. Knox encouraged both parties to share a written definition of their goals for the alliance before negotiations begin.

Good sources for locating prospective partners are friends, professional associations, industry events, publications, customers and your personal network.

Accountants, attorneys and other professional service providers, as well as economic development supporters, such as the Tri-Cities Industrial Development Council and PNNL, also may be helpful.

Know your partner. Satisfy yourself that your potential partner is financially sound, well-qualified in your areas of interest and capable of fulfilling its commitment, Knox said. "Picking the right partner is harder than it seems," Summers said. "It's critical to know your strategy and their motivations."

"Always have a mutual non-disclosure agreement," Summers said. "There is risk in any relationship. Build trust first, then disclose information." Knox advised also examining the non-financial aspects of the other company and interviewing its customers and investors.

Outline the structure. Strategic alliances come in many forms, each with its own equity, control, tax and accounting consequences. It is essential that participants agree on the basic structure of the relationship.

According to Summers, strategic partnership formation usually progresses in three steps: initial discussions that establish the non-disclosure agreement, the letter of intent or memorandum of understanding that contains more details of the relationship, and the definitive agreement.

Decide who controls what. A strategic alliance is a collaborative relationship, but at some point there will be disagreement. Summers said that a good definitive agreement creates incentives for the partners to work out issues. It also clarifies ownership, distribution and licensing issues and details exit strategies.

Trends in partnering

"We've seen a sizeable increase in partnering by early-stage technology firms," Summers said. "Be patient. Companies are choosier today in selecting strategic partners, and the initiation process takes longer, generally three to six months."

"Partnerships are like all relationships. It can sometimes take a while to find the right ones, but once you do, they become a real asset," said NewEdge president Pamela Henderson said.

Henderson looks for what she calls the "hungry principle." Both companies should be equally hungry for the opportunities the relationship offers, she said. They also need similar growth objectives and the infrastructure to support them.

Henderson advocates partnering with other small companies. "Things take too long, and it is easy to be overlooked or squashed when you're trying to partner with an 800-pound gorilla," she said.

But NewEdge's first criterion for a partnership is customer benefit. "Over time, partnerships that bring value to your customers will bring value to your firm," Henderson said.