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BDO MANUFACTURING OUTPUT

BDO Manufacturing Output regularly examines how manufacturers are rethinking strategies, operations, supply chains, workforces, business systems, products and markets to achieve competitive advantage. This issue — *Power of Partnerships and Alliances* — will help executives structure and manage partnerships, alliances and business collaborations in order to optimize the value of both organizations and minimize risks.

WHY ALIGN?

Executives at small and mid-sized manufacturers typically wish that their organizations had additional resources to support growth, including new capabilities and additional capacity for successful existing facets of their businesses. Mergers and acquisitions (M&A) are options for some companies to attain these needs, but deal-making can be time-consuming and complex, and it requires its own expertise and can derail growth plans if integrations of new acquisitions don't proceed smoothly.

NEEDED CAPABILITIES

Partnerships and alliances offer an attractive alternative for growth-minded companies. These looser affiliations frequently allow companies to maintain their independence while leveraging partner capabilities. The skills and market reach provided by other firms to address functional and/or strategic opportunities, include:

Functional opportunities

Sales and marketing

Customer-focused expertise for a new product or market. For example, a food manufacturer expanding into institutional sales from its traditional grocery market aligns with a non-competitive manufacturer already selling to institutional customers.

Distribution and logistics

Regional or global expansion is a common reason for developing an alliance with a distribution partner, gaining quick access to executives and processes familiar with regulations, customs, cultures, etc. of the target location.

Production and engineering

New product opportunities can emerge by combining R&D functions with a non-competitive company whose equipment and production skills can readily accommodate new designs.

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WHAT MAKES A GOOD PARTNER?

Every successful partnership begins by developing a good understanding of the partner in three critical areas:

Performance: How good is your potential partner in the marketing, manufacturing, maintenance skills, etc. that your company needs? Visit their facilities and see their production lines, or attend customer calls to witness their sales reps in action. If you'll be leveraging a partner's supply chain, evaluate individual vendors. Are you comfortable incorporating their material and components into your products?

Alignment: Today's partner could be tomorrow's competitor. Explore the long-term strategies of your potential partner, and develop an agreement that specifically details how IP will be shared and areas covered by non-compete stipulations.

Culture: Most important of all is compatibility. Make sure your potential partner conducts business in the same ways your company does, with a focus on similar values. A partner's unethical behavior can saddle your company with lawsuits and liabilities.

If a potential partner's performance, alignment and culture seem appropriate, conduct due diligence to ensure that they'll be around for the long term:

- *Revenue* — stable and growing
- *Profitability* — stable and growing
- *Cashflow* — sufficient to fund ongoing operations and your requirements
- *Debts and obligations* — no significant liabilities that could impair your partner's capabilities
- *Business systems* — enterprise and operations technologies that can communicate without substantial customization and/or manual work
- *Other partnerships* — no restrictions that would prevent fulfillment of your needs

> *"A perfect partnership has no hidden agendas, a single purpose and an insatiable commitment to delivering incremental revenues resulting in a mutually beneficial relationship."*
>
> ***Don Farrell***, Chief Cultivating Officer, Fresh Revenues Inc. and author of *Ethical Theft: How to Steal Business from Your Competition*

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WHY ALIGN?

Supply chain

Manufacturers often align with another organization to leverage its supply chain for material and components that do not exist among its current vendor base. This "instant" supply base can also bring built-in advantages that come with the partner (established criteria, volume discounts).

Strategic opportunities

Innovation

A manufacturer with a mature product lineup may look to outside partners with innovation skills to move their products into the future.

Intellectual property (IP)

Manufacturers can combine for know-how related to product development, service techniques and/or unique processes.

Leadership and talent

Some opportunities require unique leadership skills. An alliance can provide temporary executive support to leverage a unique opportunity and/or weather a business storm.

Workforce development

During expansions and plant startups, manufacturers often align with a training/workforce development provider to meet recruiting and training needs.

Continuous improvement

Manufacturers often establish relationships with consultants to implement continuous-improvement methodologies, such as lean manufacturing.

Information technologies

Companies frequently partner with high-tech vendors and/or value-added resellers for software implementations and upgrades.

ADDITIONAL CAPACITY

Business partnerships also help manufacturers increase capacities during times of high demand. For example, manufacturers can align to pursue common (but not competitive) business interests, rapidly expanding their existing capacities, such as production volumes on similar equipment or service and support volumes (e.g., accounting, R&D, HR). Each company can use these deals as knowledge-building endeavors as well, bringing in best practices and benchmarks that drive both companies toward higher levels of performance.

In some cases, an alliance also can add value by just the presence of a partner who provides access to customers and markets. For example, Birds Eye® Frozen Produce launched the Step Up To The Plate program that uses a partnership with Disney to market vegetables to kids.

Regardless of the motivation for an alliance, there are clear fundamentals that exist within good partnerships. First and foremost, there should be a comfort level among the organizations, especially within the leadership team. There must also be an agreement that clearly details the partnership (see Path to a Powerful Partnership Checklist) and establishes the processes to regularly evaluate and communicate progress; address issues with or expand opportunities; and share the wealth and risks.[1]

1 Amy Sung, "Q-and-A: Birds Eye on its partnership with Disney and marketing produce to kids," *SmartBlog on Food and Beverage,* March 20, 2014

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PATH TO A POWERFUL PARTNERSHIP CHECKLIST

Successful business partnerships and alliances follow a common development path. The following checklist can help your organization identify, secure and leverage collaborative business alliances:

☑ Detailed understanding of why your organization should partner:
- Specific business need(s)
- Timing (window of opportunity to fully leverage partnership)
- Plan for how a partnership will address needs if in place
- List of potential candidates

☑ Approach potential candidates:
- Existing or previous business relationships, often suppliers or customers
- Mutual/shared business relationships
- Existing or previous personal/community relationships made via boards or business or civic organizations

☑ Conduct partner due diligence:
- Strengths and weaknesses
- Business requirements (ability to address your company's needs)
- Existing relationships and business restrictions
- Culture, values and commitment

☑ Define and eliminate gray areas of ownership:
- Intellectual property
- Technology transfer
- Access to executives/employees (during and after the partnership)
- Exclusivity

☑ Identify the type of alliance:
- Non-equity alliance (partners remain independent but share capabilities and/or capacities)
- Joint venture (partners create an independent company to share capabilities and/or capacities)
- Equity alliance (two or more partners create an independent company with different percentages of ownership and share capabilities and/or capacities)
- Public-private partnerships/alliances (these often involve private companies funding and gaining access to government or university research projects)
- Other arrangements (i.e., you may decide at this point that simply outsourcing work is preferred)

☑ Cement the relationship (contract/agreement):
- Duration
- Roles and responsibilities
- Revenue sharing and risks (balanced)
- Expenditures
- Performance metrics
- Rights/ownerships
- Reporting (e.g., accounting requirements)
- Exit route/dissolution strategy

☑ Roll out the partnership/alliance:
- Jointly develop implementation plan
- Communicate plan and objectives to both organizations
- Execute the plan

☑ Regularly review the relationship with fresh eyes, addressing again all the checklist criteria above.

▶ EXECUTING AN EFFECTIVE, ONGOING PARTNERSHIP

It takes an enormous amount of work to establish a business alliance. Don't waste the effort by failing to address how your company and its partnering organization will implement the deal in a way that delivers successful results for all involved (e.g., service desired, fees received).

▶ COMMUNICATION

The cornerstone of any relationship, business or personal, is regular and frank communication. Establish a consistent schedule of calls and in-person meetings. Depending on the type of alliance, these could be as frequent as daily, or as intermittent as quarterly. Ongoing communication keeps both parties focused on the alliance, and allows each party to surface issues or problems before they fester.

In structuring the deal, be clear about which executives are expected to attend calls and meetings; identify modes of communication specific to activities (i.e., what warrants a call or meeting, rather than an email, text or automated report); and establish a chain of command within both companies for resolving problems or exploring new opportunities.

▶ TRANSPARENCY OF OUTCOMES

There should never be confusion as to what the alliance is intended to deliver — and, more importantly, what it's actually delivering. This could be production capacity, services or branding (e.g., identification as a project sponsor).

Clearly identify the objective(s) of the alliance and detail the frequency with which partners share performance data (actual vs. goal) and proof of performance. For example, if you partner for capacity, you'll want to see goods on your dock or shipping documents to your customers. If you partner for marketing services, you'll want well-designed promotional pieces and tracking data for response rates. It's best to focus on

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the outcome produced by the partner, and not the process; your interest is in results, not the labor, resources and costs incurred by your partner.

Your agreement also should specify corporate performance measures required to ensure that both parties remain healthy.

▶GIVE THEM SOME SPACE

It's a business relationship, not a marriage. You have the right to expect agreed-upon performance, as well as regular, transparent communication. That could mean 24/7 response times, but most alliances don't go to such extremes.

Play by whatever access rules you and your partner establish. For activities beyond the scope of your deal, stay out of your partner's business, allowing the company to operate as it sees fit and, ideally, to flourish. A thriving partner will be in a better position to support your firm.

▶CORRECT IMBALANCES

Ideally, your business alliance will perform precisely as you expect:

- Deliver outcomes that help your organization to thrive
- Require only those resources (time, money, etc.) anticipated
- Avoid potential risks

But when this doesn't occur, you and your business partner should be able to amend the agreement, adjusting it in ways that both parties find acceptable.

There are many valid reasons why outcomes differ from expectations. Try to fix them. But the agreement also should allow partners a smooth exit when imbalances can't be corrected, when the relationship has deteriorated beyond repair, or when the business need for the alliance has been successfully achieved and the relationship is no longer required.

FOR MORE INFORMATION

For more information on these and other service offerings for the manufacturing and distribution industry, please contact one of the service leaders below:

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