GROWTH PROCESS TOOLKIT

Strategic Partnerships

Accelerating Growth through Principled Partner Selection and Proactive Relationship Management
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INTRODUCTION

Defining Strategic Partnerships
When a company assesses its resources and capabilities, it may discover gaps between what it aims to achieve and what it realistically can achieve. It may then fill those gaps by allying itself with an outside organization. That alliance might take the form of a straightforward, transactional agreement, a highly complex acquisition, or something in between. That “in between” is the subject of this Growth Process Toolkit: strategic partnerships.

Strategic partnerships refer to any relationship between separate companies that involves shared contributions, ownership, and control (short of a joint venture, merger, or acquisition, as discussed further below). They work best when each participant seeks to augment its existing capabilities with the resources of the other, creating a synergy that enables the organizations to deliver a unique offering that they could not provide on their own. In sum, they grant a company access to new capabilities that allow it to become more competitive. The following graphic differentiates between strategic partnerships and its cousins: transactional agreements, joint ventures, and M&A:

<table>
<thead>
<tr>
<th>Transactional Agreement</th>
<th>Strategic Partnership</th>
<th>Joint Venture</th>
<th>M&amp;A</th>
</tr>
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<tbody>
<tr>
<td><strong>Goal</strong></td>
<td><strong>Goal</strong></td>
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<tr>
<td>- Access a specific, readily available capability through a contract with a third party</td>
<td>- Create shared value through combined risk, funding, and resource contributions</td>
<td>- Combine assets to establish a separate business entity</td>
<td>- Assume ownership of another company’s IP, capabilities, resources, and talent</td>
</tr>
<tr>
<td><strong>Characteristics</strong></td>
<td><strong>Characteristics</strong></td>
<td><strong>Characteristics</strong></td>
<td><strong>Characteristics</strong></td>
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<tr>
<td>- Minimal collaboration</td>
<td>- Long-term commitment</td>
<td>- Each company maintains its own business operations and continues to exist apart</td>
<td>- Permanent, legally binding arrangement</td>
</tr>
<tr>
<td>- Specific goals</td>
<td>- Reciprocal relationship</td>
<td></td>
<td>- One organization formally cedes control to the other (in most instances)</td>
</tr>
<tr>
<td>- Finite commitment</td>
<td>- Shared strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Example</strong></td>
<td><strong>Example</strong></td>
<td><strong>Example</strong></td>
<td><strong>Example</strong></td>
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<tr>
<td>United Colors of Benetton, Small-shop Italian textile manufacturing companies</td>
<td>Appleton, P&amp;G</td>
<td>Toyota, GM, Nummi, Kellogg’s</td>
<td></td>
</tr>
</tbody>
</table>

Cost; legal and integration complexity

Low

Growth through Strategic Partnerships
If executed successfully, strategic partnerships can deliver access to new markets or customers, accelerate new product development cycles, and improve a company’s competitive positioning. They help companies expand their capabilities without the added step of creating those capabilities in-house. Companies therefore perform more efficiently and adapt more quickly than they would on their own.

Given these advantages, it is no surprise that strategic partnerships are increasingly a centerpiece of corporate strategy. Many companies commit more than 20 percent of their assets to developing and managing partnerships, while others depend on partnerships for 30 to 50 percent of their research expenditures or annual revenues. A recent Frost & Sullivan survey underscores this trend: more CEOs cited strategic partnerships as their number-one growth strategy than any other (eclipsing new product launch, geographic expansion, and other traditionally favored strategies). Part of the reason for this trend may be the uncertain economy: strategic partnerships represent a path to accelerated growth, but without the cost, risk, or complexity associated with M&A.

(Continued on the following page)
The Risks of Strategic Partnerships

Although strategic partnerships present myriad growth opportunities, success is by no means a given. Studies indicate that between 30 and 70 percent of alliances fail (that is, do not meet the goals of the parent companies, or end up being “paper partnerships” and not real collaborations that produce meaningful results). Furthermore, the cost of repairing or terminating an unsuccessful partnership can be high; some of these costs are listed below.

- Losses incurred through a partner’s underperformance
- The opportunity cost of executives’ time spent managing a troubled partnership
- Job dissatisfaction, lost productivity, attrition
- Mediation, arbitration, or litigation costs
- The expense of exiting the partnership

Therefore, while companies may pursue strategic partnerships as a means to achieving growth targets and expanding capabilities, the reality is that partnerships often fail to deliver their expected value—and may drain companies of valuable resources in the process.

Where Strategic Partnerships Go Wrong

Given that M&A and strategic partnering share many similarities, it is perhaps unsurprising that many of the reasons cited for partnership failure are similar to those cited for acquisitions that yield disappointing results. In both cases, executives point to poor integration as the primary cause of unsuccessful transactions—blaming a lack of people and skills, a plethora of internal challenges, and cultural friction for the enterprise’s demise. Although integration effectiveness is directly linked to a partnership’s likelihood of success, a singular focus on integration presents a distorted view of what really determines a partnership’s performance.

Frost & Sullivan’s Growth Process Toolkit for M&A argues that companies often overlook the importance of conducting rigorous upfront research and due diligence that, if executed properly, lay the foundation for a successful merger or acquisition; companies are equally guilty of such an oversight when undertaking a strategic partnership. Although a disciplined, unbiased partnership strategy and selection process can improve the odds of a happy collaboration, many companies fail to invest in these activities and therefore succumb to the following pitfalls:

**Pitfall #1: The Need for a Partner Goes Untested**

Given that partnering often presents a more direct path to growth than in-house capability development would allow, many executives automatically conclude that a partnership is the appropriate strategy for their organizations—without considering where on the spectrum (illustrated on page 4) their needs really lie. Is a partnership right for our company? Would we be better off in the long run if we built our desired capabilities in-house? Would a partnership strengthen or undermine our competitive position over time? Answers to these questions not only help companies avoid the pitfall of pursuing a partnership for the wrong reasons; they also help articulate the specific goals that a partnership should accomplish (a pitfall discussed next).

**Pitfall #2: Partnership Goals Go Unarticulated**

Too often, executives pursue a partnership, sign the deal, and only then realize that its purpose has never been articulated or contextualized within the company’s larger growth strategy. Such non-linear thinking is a pervasive cause of partnership failure. Indeed, a recent study found that a lack of understanding of the partnership’s “goals, scope, or roadmap” was the number-one cause of failure during the first hundred days.

**Pitfall #3: Partner Incompatibility Goes Unnoticed (Until It’s Too Late)**

Many executives screen potential partners in exclusively financial terms, ignoring such critical compatibility factors as company size, culture, strategy, governance mechanisms, willingness to collaborate, and trust between partners. While partners might engage for financial reasons, they will often dissolve the relationship because of misalignment in these other critical areas.

This pitfall is closely linked to the one above (if you don’t know what you want, how will you know what to look for?). An inability to screen properly for partner fit can lead to significant and costly integration challenges once the deal is complete—so a clear definition of compatibility is crucial to ensuring partnership success.

(Continued on the following page)
Pitfall #4: Partnership Bolsters Weaknesses (And Does Not Play to Strengths)

As noted previously, strategic partnerships work best when each participant acquires desired capabilities from the other. Ideally, the value transfer is proportionate, with each side perceiving its return as greater than its investment. Companies may fail to attain this level of collaboration if:

- **One partner is stronger than the other**—If the more powerful partner receives fewer capabilities from its counterpart, its interest in the partnership may wane, thereby putting a strain on the weaker partner (whose future is often tied to the continued success of the partnership).
- **Two weak partners become codependent**—Companies struggling on their own often continue to struggle in a partnership—and if the relationship begins to suffer as a result of this instability, neither company can provide the needed capital, resources, or agility to resolve the situation.

This is not to suggest that only equally strong companies should pursue partnerships (indeed, partnerships between organizations of differing stability or size are often successful, strengthening each without undermining the other). However, the above caveats emphasize the importance of equivalent give-and-take—as well as the importance of selecting the right partner. The following case example demonstrates how Volvo and Renault’s partnership ultimately dissolved due to poor partner fit, strategy articulation, and oversight.

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**Case-in-Point: Volvo and Renault’s Partnership Misadventure**

**A Promising Start**

In 1990, Volvo and Renault entered into a strategic partnership that integrated the two organizations’ development, purchasing, and marketing efforts. To ensure the partnership’s success, the firms created a complex set of governance and management groups that were to coordinate activities and preempt conflicts. Since Volvo and Renault already had a track record of 20 years of industrial cooperation, most analysts applauded the alliance’s scale, objectives, and structure.

**Cracks in the Foundation**

While the partnership was ostensibly created from a set of shared financial objectives, each organization possessed its own (unarticulated) goals for the partnership. Volvo sought a long-term collaborator, while Renault viewed the alliance as a precursor to an eventual acquisition. As this underlying tension became apparent, conflicts began to arise between the two firms. When Renault officially pushed for a full merger, Volvo’s Executive Chairman, Peter Gyllenhammar, resisted by requiring quick decisions and limiting information-sharing with Renault. These acts further undermined the partnership’s productivity and performance and initiated a string of events that eventually dissolved the relationship, nearly bankrupted Volvo, and ousted Gyllenhammar and many senior managers from the company.

**Hindsight is 20/20**

In spite of the best of intentions and a strong case for partnership, this alliance was doomed from the outset for a variety of reasons, several of which are listed below.

- **Uneven commitment to the partnership**—Partnership commitment and trust did not extend through the entire organization. Although the CEOs from each company maintained a close relationship, middle managers were less inclined to work together.
- **Unspoken intentions**—Renault’s aspirations for the partnership were never fully discussed. Each partner assumed it was in full alignment with the other and only realized after the fact that they were committed to divergent growth strategies.
- **Incompatible cultures**—The French and Swedish companies were never able to overcome language, cultural, and geographic barriers in the interest of achieving a fully integrated partnership.

In the end, each organization applied its lessons learned to future partnerships that would prove more successful. Volvo eventually entered into an agreement with Ford, while Renault pursued a more openly controlling relationship with Nissan (that precipitated the Japanese company’s eventual takeover).
The Solution
As noted previously, successful partnerships are based on a clear growth strategy, tight partner alignment, and shared capabilities. Successful organizations understand that integration challenges can be offset by conducting rigorous opportunity analysis and partner due diligence. Importantly, they understand that partnerships should play to their strengths, and they do not allow their growth strategies to become overly dependent on the performance or commitment of a single partner.

The following case example demonstrates how Appleton took a principled approach to partner strategy and partner selection, with positive results:14

**Case-in-Point: Appleton Papers and P&G’s Happy Marriage**

Facing stagnating demand within its existing market, chemical and paper products manufacturer Appleton Papers began a search for new markets that fit with the organization’s core capabilities and growth strategy. To manage this search, Appleton developed a structured process for identifying and commercializing new growth opportunities by:

- Conducting internal and external interviews focused on defining Appleton’s competitive advantages
- Assessing the fit between its product offerings and untapped demand in new markets
- Prioritizing the most promising opportunities through an objective scoring system
- Weighing the growth and revenue potential of each potential market against Appleton’s core capabilities

As a result of these due diligence exercises, Appleton eventually identified a close fit between its core capabilities and opportunities in the fabric softener market. To pursue these possibilities, Appleton developed a strategic partnership with Procter & Gamble focused on product innovation tailored to this market.*

Importantly, Appleton understood that a successful strategic partnership would flow organically out of insights gleaned through the above process. It did not force an alliance and only pursued opportunities that (1) fit within the organization’s larger growth strategy, and (2) granted Appleton access to promising opportunities that, without a partner, the organization would not have been able to pursue.

Ultimately, this approach to strategic partnership development—focused on a single opportunity, backed by significant resources and a solid business case—produced positive results for Appleton. The organization was able to access new markets and reinvigorate growth in its product line without straying too far from what it does best. Furthermore, Appleton executives established a repeatable process for evaluating growth opportunities and accompanying strategic partners, thereby improving the approach over time.

*Click here to access a companion Best Practice Guidebook further detailing Appleton’s strategic partnership development process.*
INTRODUCTION (CONTINUED)

How Should You Approach Strategic Partnerships?
Frost & Sullivan structures the strategic partnerships development and management process around the phases listed below.

### The Four Phases of Strategic Partnerships

<table>
<thead>
<tr>
<th>PHASE</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Capability Assessment</td>
<td>Unbiased identification of your company’s unique strengths; assessment of critical capability gaps</td>
</tr>
<tr>
<td>Market Due Diligence</td>
<td>Systematic identification of high growth opportunities within a market; determination of which opportunities could be best pursued through a strategic partnership</td>
</tr>
<tr>
<td>Partnership Formation</td>
<td>Screening and evaluation of best-fit partners to take advantage of market opportunity; partner negotiation and contract finalization</td>
</tr>
<tr>
<td>Partnership Management</td>
<td>Assessment of partner’s performance and partnership’s continuing viability</td>
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On a final note, many factors influence a company’s approach to strategic partnerships (such as M&A, vertical market or geographic expansion plans, innovation efforts, distribution channels, or competitive strategy), which are not covered comprehensively in this toolkit. For this reason, we provide a wealth of resources focused on these activities in companion Growth Process Toolkits, which you can access by clicking on the links below.

- **Mergers & Acquisitions:** Accelerating M&A Growth through Early-Stage Planning and Evaluation
- **Geographic Expansion:** Accelerating Growth through Principled and Repeatable Entry Strategy
- **New Product Development:** Accelerating Growth through Unbiased and Rigorous Early-Stage Product Evaluation
- **New Product Launch:** Accelerating Growth through Rigorous Planning, Principled Execution, and Continuous Monitoring
- **Competitive Strategy:** Accelerating Growth through Principled and Informed Competitive Decision Making
- **Distribution Channel Optimization:** Accelerating Growth through Rigorous and Unbiased Partner Evaluation, Selection, and Monitoring
- **Vertical Market Expansion:** Accelerating Growth through Principled Market Opportunity Evaluation and Entry Strategy Development
Phase 1: Capability Assessment

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<th>Step</th>
<th>Company Performance Analysis</th>
<th>Company Resource Analysis</th>
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STEP ONE: COMPANY RESOURCE ANALYSIS (CONTINUED)

Tool #3: Strategic Partner Needs Assessment

Overview

What is it?
A series of questions to help you pinpoint your company’s need for a strategic partnership—and where that strategic partnership should focus.

Why should you use it?
It will help you think through your partnership options by contextualizing them within your company’s larger growth strategy (and the barriers to growth confronting your organization). This perspective will help you screen partners based off fit and need—helping you avoid impulsive or reactive pursuit of opportunities.

Strategic Partner Needs Assessment

A. Baseline Questions:
- Where do we see disconnects between the capabilities we have and the capabilities we need?
- What kind of a partner would be able to deliver the capabilities that we need?
- Should we consider partners inside our market or in a new one?
- Should we consider a company with whom we already have a strong relationship, or explore new opportunities?
- If we do not pursue a strategic partnership, are we limiting our growth opportunities in the near or long term?
- Based off our assessment of our most unique resources, what sort of company might find value in those offerings (i.e., who would want to work with us)?
- Should we pursue specific companies, or should we wait for them to come to us? Why?
- What is the risk of becoming dependent on a strategic partner's key resources if we do not develop them in-house? Does the potential reward make this risk a worthwhile tradeoff?

B. Identification of Partnership Needs:
- Is our industry experiencing a rapidly expanding technology base?
- Are we frustrated with the difficulty of penetrating a foreign market where the opportunity is attractive?
- Are we struggling to overcome critical employee talent gaps?
- Are we not adopting productivity methods as quickly as we would like?
- Is an increasing R&D burden being felt by our company and industry?
- Is our edge in core competencies under pressure by capable competitors?
- Are we facing increasingly heavy investment burdens that make it harder for us to leverage scarce resources?
- Are destabilizing economic or industry conditions forcing a new look at delivery/distribution alternatives in our markets?
- Do we need to strengthen our process efficiency and raise the level of competitive intensity in our industry?
- Are acquisition opportunities limited because of size, geography, or ownership reluctance at loss of control?
- Are we struggling to access critical segments of our customer base?

For questions in Part B, try to determine to what degree these issues are a factor for your company. It will help you determine how critical a priority a partnership is for your organization—and narrow the partnership’s focus and purpose in the process.
STEP ONE: PARTNER SCREENING (CONTINUED)

Tool #3: Partner Alignment Audit

Overview

What is it?
A series of questions to help you consider the degree of alignment between your organization and a potential partner.

Why should you use it?
The more tightly aligned you are with a strategic partner, the greater the partnership’s odds of success. Answers to these questions can help screen for compatibility and remove poor-fit candidates from consideration. Since you will have to conduct background research on each candidate to answer these questions, this tool can also aide your early-stage due diligence efforts.

Partner Alignment Audit

Partner: ____________

1) Why do we want to engage with this partner? Why does the partner want to engage with us?

2) How important are the following to the partner, and how important are they to us?
   - risk sharing
   - technology access
   - supply access
   - geographic access
   - funding availability
   - product or service extension
   - operational skills
   - marketing skills
   - innovation skills
   - regulatory freedom
   - market segment access
   - management skills

3) Are the partner’s capabilities complementary to ours (e.g., they provide the product; we provide the market, they provide the technology; we provide the capital, they provide a global network, we provide local customers)?

4) Do we foresee any conflicts of interest or channels to market with this partner (e.g., overlapping geographic markets, competing sources of production, transfer pricing across companies)?

5) In what areas, if any, do we and the partner compete?
   a. How would we manage those overlaps?
   b. At what point would overlap become intolerable?

6) How similar are our targets and missions with that of the partner (e.g., do we share common rivals, time horizons, company values)?

7) What results would the partner expect this partnership to produce? What do we expect?

8) What contribution do we need from a partner, and what is this partner willing to contribute?

9) How would the partner expect to share revenue generated from the partnership? What do we expect?

10) How would this partnership reinforce and build the business strategy of each participant?

11) What commitments would we expect a partner to make? What commitment is the partner willing to make?

12) How would the partner share information and knowledge with us? How would we share it with them?

13) What would the partner do to build trust with our company? What would we do to build trust with them?

14) Does the partner have a style similar to our own for managing internal conflict and reconciling differences?

15) What level of risk is the partner willing to take? Is this level in line with our needs and expectations?

16) Do our company cultures and values suggest we would work well with this partner, or are they so different from us that it might hinder effective collaboration?

17) What is the partner’s track record on implementing strategic partnerships?
Step Three: Partnership Negotiation

Tool #1: Term-Setting Framework

Overview
What is it?
A list of key questions that can shape your approach to partnership negotiation.

Why should you use it?
By answering these questions before entering more detailed negotiations with a strategic partner, you can help build agreement on core elements of the partnership’s foundation before writing the contract.

Term-Setting Framework

Overview
- What is the scope of the partnership?
- What types of tangible and intangible assets will be contributed by each party? What happens if more is needed than originally planned?
- What is the realistic life span of the partnership?

Performance Assurance
- What timetables or performance quotas for completion of the partnership’s projects will be included in the agreement?
- What are the rights and remedies of each party if these performance standards are not met?
- What economic rewards and penalties should be included to encourage collaboration?

Governance
- How will issues of management and control be addressed in the agreement?
- What will be the respective voting rights of each party?
- What are the procedures for resolution in the event of a major disagreement or roadblock?

Legal Structure
- What covenants of nondisclosure or noncompetition will be expected of each partner during the term of the agreement and thereafter?
- What is the most efficient legal structure for the alliance in terms of taxes and liabilities?
- How should major risk contingencies be addressed, such as a change in the regulatory climate that affects how business is conducted in a particular market?
- What rights do the parties have to each other’s information (e.g., financial statements, tax filings, reports sent to government agencies)?

Termination
- What are the most likely reasons the alliance will end?
- To what extent would partnership termination threaten our company’s health or survival?
- What is the likelihood of the other party becoming insolvent or bankrupt in the near future?
- What if the other party files for bankruptcy and terminates the agreement under protection of federal bankruptcy laws?
- Are there natural decision points for terminating or recommitting to the alliance?
- Will certain structures or asset contributions make it easier for us to exit the alliance, or harder for the partner to do so?
- Is it in our interest to make it harder for our partner to exit the alliance?
- What will be the hardest tasks in closing down the alliance (for example, valuing assets or determining future ownership)?

Performance measurement is discussed in more detail in Phase 4.

Partnership termination is discussed in more detail in Phase 4.
Phase 4: Partnership Management

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<th>Step</th>
<th>Performance Measurement</th>
<th>Feedback Collection</th>
<th>Viability Assessment</th>
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**STEP THREE: VIABILITY ASSESSMENT (CONTINUED)**

**Tool #2: Partnership Termination Guidelines**

**Overview**

**What is it?**
A list of questions that you should consider when planning a partnership termination.

**Why should you use it?**
The termination of a complex, often long-standing agreement can be a cumbersome process. The better you plan for termination contingencies, the simpler it will be to end the relationship. Consider building answers to these questions into your partnership contract: it’s much easier to set the terms in a collaborative, non-combative environment than it would be once you (or your partner) have decided to dissolve the relationship.

**Partnership Termination Guidelines**

*Successful partnership termination will require you to have answers to the following questions:*

- Do we need to pay a termination fee?
- How do we need to notify our partner of our intent to terminate the agreement?
- What are the responsibilities of the parties after termination of the agreement?
- What is each party required or entitled to do at termination of the agreement?
- What is each party prohibited from doing?
- How will we ensure an orderly transition when the agreement terminates?
- How will we divide ownership of any tangible assets, such as technology, equipment, or land?
- Will we be subject to any non-solicitation or non-competition covenants? Will our partner?
- How will we deal with liabilities (e.g., termination costs of employees who may continue to be owed salary and benefits post-partnership)?
- Will we resolve any lingering disputes with our partner through arbitration, mediation, or litigation?
- How will we divide or share:
  - Intellectual property agreements
  - Licensing agreements
  - Rights over sales and territories
  - Obligations to customers
- What will happen to any staff directly employed by the partnership?
  - Will they be absorbed into our company? Into the partner’s?
  - Will some or all employees lose their jobs? If so, under what obligation are we to those who are terminated?

**Reminder!** You may want to consider these termination issues when drafting the partnership contract. If you’ve already got mechanisms in place to dictate the terms of termination, it will be much easier for you to extricate yourself from the partnership.
End Notes


2 Ibid., p. 13.


17 Ibid., p. 227.


21 Ibid., pp. 92-94.