INTERNATIONAL STRATEGIC PARTNERSHIPS

by

Tony Baker, Managing Partner, Market Access Worldwide

Trade is not a zero sum game. Trade breeds more trade. If you win, then your winning helps me win too. This is true for individuals, for companies, and for countries.

Partnering with other companies, in other countries, fits well with this philosophy. Especially for small and medium-sized companies, it is very desirable to develop overseas by using partnerships. This is because it is so demanding to set up abroad entirely on the basis of your own resources. And the partnership should be strategic because the effort and commitment entailed could hardly be justified for a one-time profit.

Three major advantages of partnering abroad are:

- Cheaper market entry
- Immediate local credibility
- Reduced local overhead.

Partnering is a two-way street: embracing imports as well as exports. Competitors in your home market may have products or technology you cannot match. You may be able to find a foreign partner who has similar or better products or technology to give you the advantage on your home turf. Each partner must bring something the other needs. This may be a valuable resource such as intellectual property, market knowledge, distribution channels or available productive capacity.

COMPANY SIZE

Many people think that you have to be big to be an international company.

For successful exporting, size is not necessarily an advantage. The winners are usually middle-sized companies, with high expertise in their field. Often they are small, twenty-plus people, or even a husband and wife team. But they almost always concentrate on a single product or technology.

Manufacturers, distributors, retailers, service companies, franchisors, should all look over their shoulders at competitors from abroad.

SERVICE COMPANIES

Service companies can be challenged by overseas competitors. For instance, a Dutch property management company now controls more than 50% of the market for management of large office towers in New York City.

PUBLIC SECTOR ORGANIZATIONS

These days not even public sector organizations are immune from foreign competition. They can be challenged by privatized organizations from abroad, claiming to do the job at less cost to the taxpayer.

If your public sector organization is to be privatized, seize the opportunity to think strategically of how to exploit your new-found freedom on the global stage.

Even if your organization is not privatized, you should be looking at what foreign companies are doing in your industry. This way you can avoid being surprised by them, and can maybe benefit from their ideas or products yourself.

Even as a public sector organization, you might benefit by participating in a partnership with an overseas organization, public or private.

FOUR STEPS TO SUCCESSFUL PARTNERING

The four essential steps to successful partnering are:

Step 1: Plan your Strategy: decide what type of partner you need

Step 2: Seek and Select your Partner

Step 3: Negotiate the Agreement

Step 4: Manage the Partnership.

In planning and preparing for a foreign partnership you should do everything you would for a new venture in Canada, but do it even more thoroughly.

You first need a strategy for global trade. Note: even if you will never branch out into the big wide world yourselves, you really should be able to say why not, and how you will deal with the foreign companies who will nevertheless compete with you in your home market..

First: Carry out a **global** review of your own industry. Examine worldwide trends, opportunities, threats, competitors, other major players.

From this review you will get a sense of:

- the most promising markets
- the most suitable products
- the niches they should fill.

Second: Provisionally select your target region or country.

When deciding your global strategy don't attempt too much. Entering several foreign markets at the same time is like fighting a war on several fronts. Recently, a client told me he wanted to find joint venture partners in all the English speaking countries of the world, and he wanted to do it within a year. I said "please don't underestimate the work it will require of you and your executives. Narrow the field. Select a region, focus on two or three countries in the region."

It is a good idea to prepare an evaluation matrix. This will help you eliminate risks and pinpoint potential opportunities.

Third: Visit the country.

There is an old joke about elections: vote early and vote often! The same applies to international trade. Visit early in the process and then visit often. Talk to your potential customers and partners. Find out why they would buy your products.

Go on a trade mission. Get first-hand knowledge of your chosen market.

Attend trade fairs. These are very important (especially in Europe).

Carry out detailed market research. Cover:

- existing and potential demand
- competing products
- competitors active in the target country
- your industry
- infrastructure
- regulatory environment
- taxation
- currency
- political stability
- culture
- potential alliance partners.

With this detailed information you are now able to make an initial GO/NO GO decision.

You should also now have enough information to decide which type of partnership is right for your company:

- agent/distributor
- outward product/technology licensing
- inward product/technology licensing
- cross-marketing
- franchising
- research & development partnering

- joint venture
- merger/acquisition.

SELECTING YOUR PARTNER

The next step is to select your partner company. First, research possible partners. Develop a short-list, and approach the short-listed companies.

There are three main qualities to look for in a partner: capability, compatibility and commitment.

Capability to carry out what is required of a suitable partner for your company. For instance, do they actually possess the market share you need for your products, or do they have the research or development capability to augment your own capabilities?

Compatibility with your company: in terms of product range, standards, people and culture.

Commitment. For a venture into global trade, commitment is everything. Going foreign can produce great success, but only in the medium to long term.

Within your partner company, and indeed within your own company, the most important commitment is that of the CEO. Without his or her full commitment, the venture is unlikely to succeed.

Although committed, as CEO you may not have sufficient time to devote to the task. It may be a good idea to appoint a Champion for the cause.

NEGOTIATE THE AGREEMENT

Choose your negotiating team carefully. The purpose must be to structure an alliance which will achieve **both** partners' objectives. It's no good trying to get one over on your partner - this deal is going to be for the long term. Your partner company won't keep working at it if it doesn't give them advantages too.

If the best agreement you can reach does not achieve what you decided you needed when you developed your strategy, then reject it. Go back to the drawing board, and look for a more suitable partner. Don't accept a deal which fails to achieve what **your** company needs.

MANAGE THE PARTNERSHIP

It may be obvious, but bears stating: ***it is more difficult to manager a partnership than a single company.***

Make sure you put in place adequate monitor and control mechanisms.

It is essential to establish excellent communication channels between the two firms. Have regular meetings. To overcome problems of distance, use technology as appropriate.

For example, a Canadian company recently acquired UK and US subsidiaries. They made extensive use of technology to communicate: in addition to videoconferencing they set up channels using E-Mail and other computer-based technology.

You should keep your finger on the pulse of communications technology. Video conferencing is now a viable alternative to meeting, with overseas customers as well as partners.

The following are major factors in making a partnership work:

- Understanding you partners: what *they* want from the partnership
- A good match on key values
- A common understanding of goals
- A formal statement of obligations
- High quality and service levels
- Establishing at the outset why/when/how the partnership may be terminated.

RESOURCES

At the outset, you should ask yourself if you are prepared to provide significant amounts of time, money and people.

- Do you have sufficient existing manufacturing capacity? Alternatively, can you afford to expand?
- Will your present operational procedures support the demands of the partnership?
- Do you have, or can you hire, the trained and capable people international activities will demand?
- Is your existing management up to it? Will they need training? Will you need to recruit experienced international managers?
- Will your corporate culture have to change?
- Do you have the financial resources to fund initial activities, and to follow through with even greater investment if you are initially successful?

SOME TIPS FOR GOING GLOBAL

The following are indicators that you should be seriously looking at overseas partnerships:

1. Limited sales abroad already indicate you have a possible market.

2. Foreigners are already interested in or copying your products

3. Competitive analysis indicates foreign markets where your competitors are doing well

4. There is a clear "window of opportunity" for your product or service.

5. Your foreign competitors are invading your **home** market
   - if so, your market has become global already
   - you may be **forced** to fight them in **their** home market

6. A foreign partner might provide you with investment, technology or product to compete better in your home market, or to expand into a third market (eg USA)

7. To maintain your leadership in your industry, you need a partner to share the costs of research and product development.

There may occur apparent opportunities for overseas involvement which on close examination are not well founded. Sometimes companies will decide to sell or invest overseas for very narrow, non-strategic purposes. This can often lead to problems.

For instance, 'accidental' foreign adventures can result from unsolicited orders from overseas. These can lead to a decision to market in that country without due consideration and strategic planning. Alternatively, a management liking for a particular area of the world can lead to an ill-advised adventure.

On the other hand, personal interest in an area of the world can become a valuable asset to your strategy, if it is justified on other grounds.

SELECTING A TARGET MARKET

For any country or region you are considering, look at the factors which affect your industry:

- strength of the local competition
- current purchases of products like yours
- labour costs and productivity in your industry
- raw material and component costs
- distribution channels
- local suppliers of raw materials, components and services.

Look at the infrastructure of the country:

- plant and factories
- ports
- transportation
- shipping costs
- telecommunications
- airlines
- housing (for both expatriate staff and local employees).

Will your chosen country provide a base for further expansion? Will it serve as a hub for other countries? Is it the financial centre of its region? Is it the manufacturing centre? Is it the *Silicon Valley* of its region?

Is the country or region politically stable? Are there threats to the government, from internal or external sources? Are changes of government orderly or revolutionary?

Is the government sympathetic to business?

Is the local currency stable? What factors affect it? Are there links to a major currency: dollar, yen, euro etc? What are the implications for product pricing and your accounting?

What is the fiscal environment?

- tax incentives
- local taxation
- repatriation of profits
- tax treaties with Canada and other countries
- tax implications for corporate structuring and inter-corporate trading
- personal taxation of expatriate owners or employees.

Is there a tax-free or reduced tax manufacturing environment? This could be in the form of a tax haven or tax holiday.

If so, is it in a convenient area. Is there adequate and reliable communication and transportation?

Successively narrow locations. First, select the general region (eg. Europe). Next select country (eg. Holland). Then select city (eg. Antwerp).

CULTURAL DIFFERENCES

A most important factor in managing and setting up a partnership is an understanding of cultural differences. It is essential to be well-equipped in this area.

Obtain a library book on the culture and customs of the country or region. You will find it fascinating, and it may give you some insights and useful conversation starters.

Learn a few words in the language of the country. Even if your customers or partners speak excellent English and all you can say is "hello," "goodbye" and "thank you", see how their eyes light up when you speak to them in their own language.

Your confidence should be bolstered by the knowledge that around the world Canada has a very high reputation in the eyes of other nations.

All countries' cultures are different, but the Anglo-Saxon countries differ from nearly all others in the following important respects. We are often:

- legalistic in business relationships
- confrontational in our labour relations
- short-term oriented in our business decisions.

In most cultures around the world you will find that the social niceties come before getting down to business. They don't want to rush. They want to get to know you, understand you, and trust you before committing themselves.

This is the case with continental Europeans, middle eastern countries, Latin Americans and countries of the Asia-Pacific region. A Chinese government representative told me that to arrive with a contract ready to be signed at a first meeting would be very ill-mannered.

Like the Americans and the British, our labour relations are confrontational. We regard this as normal and necessary in a hard-headed business environment. But in two of the world's major economies, Germany and Japan, there is a history of excellent cooperative relations between management and labour. Canadian and American companies operating in those countries often report that they get on just fine following the customs in those countries, although they are not keen to adopt them here.

WHERE CAN YOU FIND HELP AND INFORMATION?

There are numerous sources of information available to the potential global company. Start with the international business publications for your own industry. From these you should get a general background of trends and advances and information on business around the world.

There are regional and specialty newspapers and magazines. These will inform you of conditions in specific markets, and information on the companies operating there. Many of these publications are available from libraries and databases.

Information is freely available from government sources. Both the federal government and the Ontario government have fact sheets and details of the conditions and needs in various markets.

Try the international trade associations. The Canadian Manufacturers and Exporters and the various International Chambers of Commerce will provide information about their regions of interest.

Foreign embassies, consulates and trade missions provide information on their governments' inward-investment programs and can be helpful to exporters also.

Many municipalities and regional governments provide information and assistance to potential exporters.

Your accounting firm, bank or lawyer may publish information on foreign markets you can access, and statistics on international trade.

GOVERNMENT PROGRAMS

In addition to information, governments provide assistance and funding to exporters and to inward investors. These are provided by Canadian federal and provincial governments, and by some foreign governments to encourage inward investment at all levels including regional. There are many programs, with a wide range of applicability and conditions.

In future, government assistance may no longer be free. With a growing number of medium and small companies involved in global trade, it is increasingly impractical for governments to provide individual services to them all. Canada still provides free services, but for how much longer this will be the case we do not know.

The emphasis of government action is likely to change to providing a climate for business success and foreign investment, leaving specific help activities to private sector consultants.

CONSULTANTS

Consultants can help with many aspects including market research, economic studies, planning for entry to new markets, and staff training. They can also help clients through the maze of governments and agencies, and point to the government programs and funding available to them.

They may advise on trade shows and trade missions. They may search for strategic partners. They may locate sources of finance, perform project management, set up your export department, even be your champion for overseas development.

The cost may be justified by providing crucial input during the research and strategic planning stages. It may also prevent an ill-conceived foreign venture. It could be a small cost compared with the profits to be made and the losses to be avoided.

For information on services provided by Market Access Worldwide, please contact Tony Baker at:

phone: 1-877-399-1649 or 416-570-7287
email: tony.baker@maww.com
web: www.maww.com