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Buddy System

Would a strategic alliance be profitable for your business?
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David Jacobson wanted to offer his credit union clients a sophisticated tool to help them make vehicle loan decisions. But his company, GrooveCar Inc., a $3 million supplier of automotive purchasing services that he founded in Melville, New York, lacked the financial and technical resources to buy or develop such a system. So the 43-year-old entrepreneur allied with a technology firm that had the right product and wanted to get into the credit union market. "They got us an amazing product that we didn't have to pay for," says Jacobson, who employs 17 people. "In return, they got relationships with credit unions all over the country."

A strategic alliance like Jacobson's, where two companies come together to accomplish a particular objective, is more than a supplier-vendor relationship. Alliances are on the rise, according to Gene Slowinski, director of strategic alliance research at Rutgers University, because they can give entrepreneurs and their partners access to technology, distribution and other valuables for less than it would cost to develop them in-house. Here's how to do it:

1. Seek an alliance that supplies something you can't make on your own and that has high profit potential. Alliances aren't good for opportunities offering standard profit margins, says Slowinski. "The reason is [that] you have to split the margin." The high management overhead makes alliances inefficient for obtaining something you can create yourself. "The energy, time and other resources required to coordinate with a partner are enormous--and underestimated," Slowinski says.

2. Pick your partner with the utmost care. "There is no recovery from selecting the wrong partner," says Slowinski. He recommends a framework for alliance discussion that leads you through questions about both sides' objectives and roles, resources and contributions, market and brand perceptions, financial risk and reward, intellectual property creation and ownership, and finally, the term and termination of the agreement.

3. Make it win-win, and deliver what you say you will. Alliances need to help both sides. "If it's going to benefit GrooveCar and not them, it won't last," Jacobson says. Having had experiences with allies who didn't follow through on promises, Jacobson is now careful to choose trustworthy partners and to always do what he says he will.

4. Don't leave the agreement to the lawyers. Finding partners isn't as challenging to many businesses as figuring out how to structure the deal, according to Slowinski. Entrepreneurs and senior executives on both sides should be the ones to hammer out the details. Legal assistance is vital when drafting alliance agreements, but the biggest problems are related to business and should be negotiated by businesspeople.

5. Communicate with your allies. Strategic alliances can have their problems, and it's essential to keep lines open to discuss issues as they arise, Jacobson says. Also consider keeping partners informed of your future plans; otherwise, you risk growing apart unwittingly. Says Jacobson, "You have to keep them with you step by step."

For more tips on building a strategic alliance, visit www.entrepreneur.com/expandbeyond.