

Strategic Alternatives to M&A in the Spotlight



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New Drivers Put Partnerships on the Rise

Mergers and acquisitions have been—and for a long time— the most common route for companies that pursue inorganic growth. Strategic alliances and joint-ventures (JVs) have also played a key role in companies' growth strategy. Traditionally, companies have entered into JVs or alliances to gain access to new markets to expand their customer base. But nowadays, these new drivers are pushing companies even more towards partnering up: globalisation, competitiveness, technology disruption, geopolitical uncertainty, the wish to strengthen innovation capabilities. Partnerships are therefore on an upswing and are a fundamental part of corporate strategy for many organisations today.

Partnerships Offer Several Benefits and Come in Many Forms

Partnerships provide access to resources such as IP rights, technical expertise, permits, and markets that might be difficult to reach without a local partner. They also offer access to strategically important partners that cannot be acquired. Furthermore, they allow risks, costs, and resources to be shared, all of which are elements that a party would not be capable of bearing on its own, or even willing to bear them. Entering into strategic alliances is a useful tool to respond quickly to disruption. Finally, and perhaps easily overlooked, partnerships are an excellent precursor to a full-fledged M&A.

Partnerships can take many forms. These include arrangements in terms of contract and structure. Strategic contractual alliances in the form of, for example, franchising, licensing, long-term purchase, supply contract, or virtual JVs, are contracts between two or more companies whereby they share resources or knowledge to pursue mutually beneficial objectives while remaining independent from each other. These types of alliances require less involvement and are less permanent than a JV in which two or more companies pool resources to create a separate company. A minority equity investment is another form of structural partnership whereby the investor contributes funds, IP, or other asset to an existing entity. The use of alliances and JVs may depend on the industry. Asset-heavy industries tend indeed to prefer JVs over alliances, while information/technology-heavy industries prefer alliances. Governing the flow of information does indeed not require joint ownership of physical assets.

Challenges and Keys to a Successful Partnership

As partnerships are on the rise, they are also becoming more complex. So, the amount of challenges in managing them increases too. Trust, cultural differences, lower upfront financial investment leading to a lesser priority, mismatched strategic ambitions and time horizons, lesser commitment, unanticipated events, lack of performance monitoring, and exit issues are all common challenges in partnerships. However, the following factors can increase their chances of success:

Move partnerships up to C-level: recognise the benefits and challenges that the partnerships bring and place partnerships, like M&A, at the heart of strategic decision-making.

Strategy first: focus on strategy first, rather than on a partner. Why and how can the alliance support the strategy? Consider the alternatives available.

Building trust: be transparent and understand each other's strategic rationale to facilitate negotiations and the entire cooperation, especially in case of unanticipated events.

Upfront planning: make a partner selection and carry out due diligence; develop a detailed mutually understood business case; agree on priorities, governance and decision-making; work on an efficient tax structure. Agree on a lean operating model and realistic timetable.

Agree on the ending: consider the circumstances that may lead to the end and agree on a framework; decide what will happen with jointly developed IP, with other assets, and with termination/liquidation costs.

Monitoring performance: agree on the metrics for tracking performance and goals.

Build an alliance capability: invest in a permanent, professional alliance team (just as what is common for M&A) that can lead and guide the entire process.