

Partnering with a Larger Company

Creating a business partnership with a large company can be extremely beneficial for a start-up firm. The smaller company may get any number of benefits from such a deal including access to the resources, customers, channel partners, and infrastructure of the larger company. In exchange, the larger company will get some share in the products' revenue.

While partnering is intended to be of mutual benefit to both firms, there are several pitfalls a company, particularly a small company, should avoid when seeking to partner with a firm. Chief among these is insuring a proper incentive program exists for the salespeople of the partnering firm. Say, for instance, that Joe's Widget Shoppe partners with Walter's Widget Emporium, a larger retail chain, in an agreement where Walter's agrees to sell Joe's widgets for a cut of the revenues. A problem may lie in the incentive program of the salespeople at Walter's. It is likely their performance is based on set quotas and/or commissions that they must meet for widget brands that Walter's already carries. If these quotas and commissions are not changed to include some incentive – perhaps selling 100 cases of Joe's widgets a month, or receiving a commission on each Joe's widget sold — the salespeople will not have any incentive to sell Joe's widgets.

Joe must take these incentive problems into account when constructing the partnership deal with Walter. In addition to Walter keeping 30 percent of every sale, Joe could, for instance, require that 10 percent of that 30 go directly to the salesperson who sold the product. By offering 10 percent of the retail price to every salesperson completing a sale of his product, Joe insures that the salespeople at Walter's Widget Emporium will be motivated to move his widgets off the shelves. If Joe's does not set up as lucrative a compensation plan with the Walter's sales force, the salespeople will ignore the new product and continue selling what is already making them money. This new incentive plan should also be complemented by product training which will further equip a big firm, like Walter's, to effectively market and sell the new product.

Another potentially disastrous area for a firm partnering with a larger company is that the partner chosen must not alienate the firm from future deals. That is to say, if your company's product improves the quality and speed for Internet search engines, partnering with Google may not be the best way to go. On the surface, partnering with Google would seem like the perfect deal for a company whose technology improves Internet search engines. But by aligning oneself with Google, other search engines such as Yahoo, Ask, and Dogpile will avoid doing business with the firm as they know such business will indirectly aid their competitor. Additionally, if Google realizes they have exclusivity over the firm they can alter price structures without fear that the firm will be able to retaliate. The firm has become trapped in an alliance with Google in which Google wields all of the power.

Likewise, caution should be taken when entering into exclusive agreements with other companies. One exception to this would be if your firm does not have the capability to effectively distribute the product to a geographical region. A small but emerging firm

may have its sights on the Chinese market, but be lacking the funds necessary to set up an efficient distribution system there. One solution to this problem is to enter into an exclusive agreement with a Chinese distribution partner who would facilitate the distribution of the product. Thus, the firm would still reap the benefits of having its product available to the Chinese market while at the same time not having to endure the extensive costs of setting up a foreign distribution system. Yet even in this instance it may be preferable to create distribution agreements with multiple distributors so as not to give a single distributor a monopoly over the firm's Chinese market.

Partnering with a larger firm can be the catalyst that launches a company to a new level, but caution must be taken when hammering out the details of the partnership agreement. The small firm needs to insure a proper incentive structure is in place so their product will actively be marketed and sold. The firm must also make efforts to avoid becoming a kept company, and thereby being beholden to the desires of the larger partner. In addition, if exclusivity must be granted to another firm, steps should be taken to place time limitations on the exclusivity contract, causing it to need renewal at regular intervals. Though other potential pitfalls exist for a firm seeking to partner with a larger company, these general tips address some of the major errors owners should seek to avoid when partnering with a larger firm.

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