



Strategic Alliances

Identifying and Managing Risk in an Alliance

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Presented by

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Strategic Alliances

Identifying & Managing Risk in an Alliance

I. Strategic Alliances – An Overview

II. Types of Risk in a Strategic Alliance

III. Parameters of a Strong Alliance

- Typical **risks** and **dangers** for practice

IV. Key Contract Provisions for a Strategic Alliance

- **Legal** and **liability** issues surrounding alliances

V. How to make a Strategic Alliance work

- Methods to **plan** for and **manage** risk factors

VI. Strategic Alliances: Looking Over the Long Term

I. Strategic Alliances – An Overview

The Need for Strategic Alliances
is **Imperative...**

if your firm wants to:

...expand its marketing reach through
affiliated team members

...maintain a strong, vital organization

...keep and attract the best talent

...work with leaders in related design disciplines

...stay focused on the most challenging
projects

...become a highly profitable firm while
producing projects of the highest
order

20 years ago

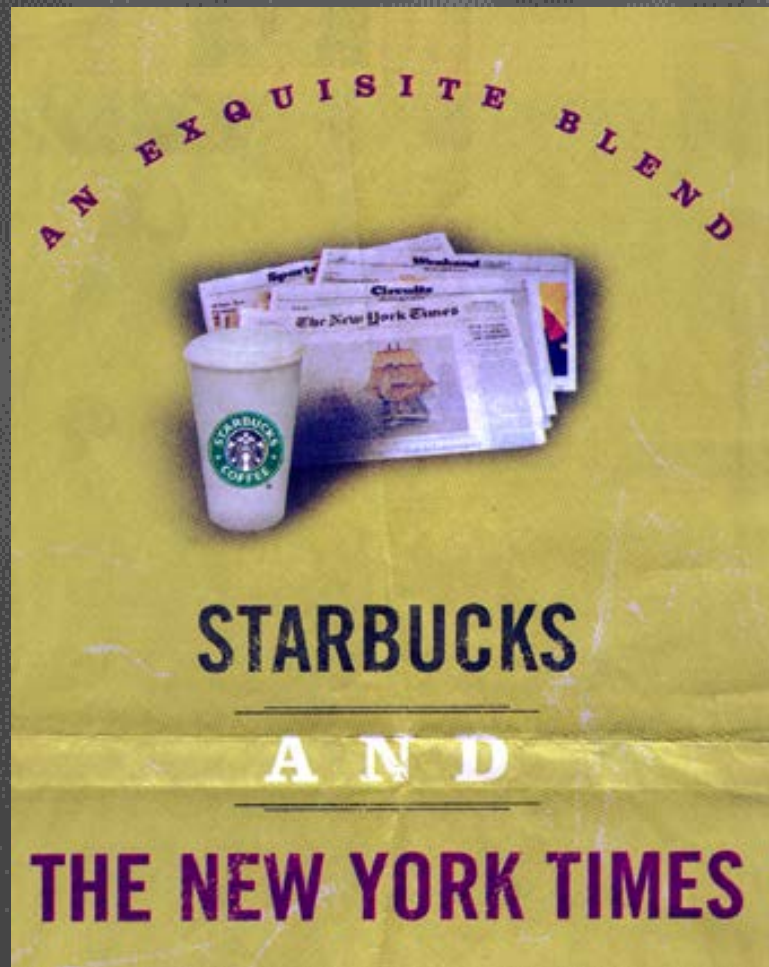
1% - 2% of US corporate revenues came from alliances.

Today, that percentage has grown to **18%**

It is expected to grow to **35%** by **2005**



**Strategic
Alliances
form
when one
company
alone can't fill
the
gap
in serving the
needs of the
marketplace.**

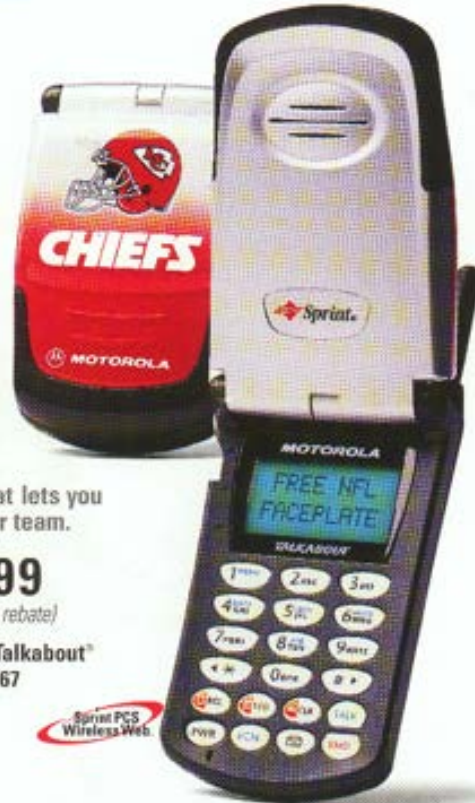


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Perhaps the best way to understand
What is special
about strategic alliances is to ask,
when the future business is successful,
who, in the end,
will own that business.

-John Harbison

Booz-Allen & Hamilton

II. Types of Risk in a Strategic Alliance

1. Relational Risk

**2. Performance
Risk**

II. Types of Risk in a Strategic Alliance

Relational Risk

- Cooperative relationships are the goal
- Avoiding non-cooperative Partners or partners with a separate agenda is critical
- Assumes alliance partners perform their services capably

II. Types of Risk in a Strategic Alliance

Performance Risk

- Accepts premise that intended strategic goals of alliance may not be achieved
- Though cooperation of partners is satisfactory, risk factors external to the partners must be foreseen and minimized
- Contractor non-performance
- Client dissatisfaction

III. Parameters of a Strong Alliance

Typical risks and dangers to be avoided at outset:

1. Unclear roles and poorly defined responsibilities
2. Unclear communications plan
3. Ineffective client proposals that are not flexible
4. Weak or no model for delivery of services
5. Lack of a problem-solving plan

Overcome these risks by implementing:

1. Well-defined roles and responsibilities

You need from the outset, to define the following roles and responsibilities:

- Financial (who invests how much and when)**
- Resources (technology and human)**
- Time (of senior principals and everyone at all levels)**
- Boundaries (geographic, size of projects, markets)**
- Critical Importance of Due Diligence (of all team members)**

2. Clear, concise communications plan

Provide a game plan for interaction by and between alliance players, staff with clients, consultants and suppliers.

- Who will be the contact point?**
- Who will make formal and informal presentations?**
- Who will decide on major marketing issues?**
- Who will handle client problems?**

3. Creation of client-driven proposal that is flexible

Keep a focused perspective on client services, deliverables, and project follow-through.

Incorporate a photographic rights and credits provision into the alliance agreement.

4. Successful model for delivery of services

Seamless delivery of services is the goal. Emphasize coordination by alliance staff

Senior principals

Project managers

Technical specialists such as CAD and IT staff

The consultant team

Anticipation of all risks of each project and who will assume them

A game plan for staying close to the client throughout the project

5. Implement a problem-solving plan

Incorporate a dispute resolution mechanism at every level of the alliance.

Anticipate disputes and plan to intervene at multiple levels of management.

IV. Key Contract Provisions

for a Strategic Alliance

Legal and liability issues surrounding alliances

1 **Scope of Agreement** Establish boundaries of geography, customer segments, technologies, and fixed assets between the new entity and the parents.



3 **Compensation** Make sure every appropriation is allocated

4 **Term of Agreement** Events that will trigger right to terminate

“Partners in a **strategic alliance**
have to understand the implications
of the contract.

They can't just walk away without first
understanding that it's going to be
deleterious to them, **the alliance**
partners, and the client.”

-- **Barry LePatner, Esq., Hon. AIA**

AIArchitect, March 2002

Continued...

5 **The Parties' Duties**

6 **Confidential and Property Information**

7 **Dispute Resolution Procedure**

8 **Indemnification**

9 **Assignment and Withdrawal of Members**

10 **Audit Rights**

11 **Copyright, Ownership and Use of Documents**

12 **Warranties and Guarantees**

13 **Insurance**

V. How to make a Strategic Alliance work

Methods to plan for and manage risk factors

Here are four steps to ensure that your alliance becomes a Risk-Averse Strategic Alliance:

- 1 — Create a Task Force
- 2 — Establish guiding principles
- 3 — List all major decisions of the Alliance
- 4 — Create a Decision-Making Process
(and stick to it)

1 Create a Task Force

- Create a task force that is representative of all parties while still in the alliance planning process.
- Include key constituents in the future decision making structure (e.g., vice president of business development).
- Provide for a diversity of views (e.g., finance, marketing, operations) from various levels of the parent company.
- Task force should meet regularly.
- Task force should be democratic but always strive for the broadest consensus.

2 Establish guiding principles

- What is the vision? What are the operating assumptions, ideals and consumer value propositions.
- Consider the product and geographical scope of the alliance.
- Will the alliance be independent or will it be dependent on the corporate parents for resources such as research, staff and marketing intelligence?
- Consider the use of an outside third party to help build a consensus for guiding principles.

3 List all major decisions of the Alliance

- Decisions will range from drafting bylaws to setting information technology

- **strategies.** Decisions should be sorted into categories such as ownership structure, financial, third party transactions and human

- **resources.** Identify key decisions such as:

- a. Marketing scope – where will the alliance concentrate its resources?

- b. Staffing – how will members rotate in and out of the alliance?

- c. Membership scope- what are the mechanisms for adding additional members or dropping current

members?

- d. Performance Measures – how will success be determined?

- e. Compensation – How will the parent companies share the profits from the alliance?

4 Create a Decision-Making Process

- This may range from one parent company having unilateral decision-making power to a formal discussion/negotiation process among the parties.

VI. Strategic Alliances

Looking Over The Long Term

- Overcoming risks through different business cycles
- Risks of operating across international boundaries
- Protecting against risks to intellectual property

Afterword



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