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Whitepaper

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Procurement means business development – Ready to start?

Commercialize partnerships

Develop relationships into successful business models

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I. Nowdays

The only constant in life is change. Global economy is growing at a rapid pace. Even recessions are slowing its development only to a limited extent, and so far - onlytemporarily.

Industry 1.0 – The first mass production by machines: It started around 1800th, with the machines (e.g. looms) using man power. It was a mechanical production of plants, where machines were driven by water and steam power. The industrial revolution was born.

Industry 2.0 – The industrial mass production: It started before the First World War, when new branches of industry emerged, such as oil production and steelmaking, followed by electrification that allowed the mass production approach. Since then, technical development has been accelerating continuously.

Industry 3.0 – The digital technology, with industrial process automation and robotics: Back in the 70s, the focus shifted again and further automation started through electronics and IT. After large calculating machines, personal computers for office and household use established a new branch of industry. Rapid technological evolution began, where development cycles became increasingly shorter.

Industry 4.0 – The digital revolution in the world of production and work - the global age: Since the beginning of the new century, the focus is on increasing digitalization of previous (analog) technologies and the integration of cyber-physical systems. Just-in-time strategies are being implemented everywhere. Fields of environmental protection, occupational safety and new work models became more important. The world has been changed.

Industry 5.0 – The combination of smart robotics & human creativity: Automation and optimization have become more and more important over the years, and the need for man power seems ever so threatened. But, in a world where the demand for individual, personalized products is constantly growing, the main focus now is not on robot-controlled mass production, but on human creativity to meet this demand for variety.

In an increasingly digital world, success can be achieved by three types of partnerships, which can further be distinguished by specific characteristics:

Innovation partnership: Used to develop innovative new products & services: These partnerships are mutually beneficial and focused on topics such as shared costs, joint teams and speed-to-market. Even in public procurement, the importance of these partnerships has been recognized and explicitly regulated at the EU level (see most recently Brussels, Commission notice of 15.5.2018 Guidance on Innovation Procurement C (2018) 3051).

Cooperation partnership: Companies are establishing partnerships with other companies in order to gain certain advantages, such as approaching new markets, supplementing missing resources, etc. Today, three types of cooperation are of particular relevance - joint ventures, strategic alliances and corporate networks.

Consolidation partnership: There are five most common types of business combinations known as mergers: conglomerate merger, horizontal merger, market extension merger, vertical merger and product extension merger. Each term that describes the merger type depends on the economic function, purpose of business transaction and relationship between merging firms.

In this Whitepaper, we want to show what rationales, risks and benefits are most important for your business development, and provide you with a phased approach to start your journey into an optimized leveraging of your partnerships.

II. The journey is the reward

(a) Rational for partnerships

There are many reasons why you should cooperate and partner with other entrepreneurs, freelancers, self-employed persons and companies. Some of the examples are:

Business area and description	Usage	Partnerships		
		Innovation	Cooperation	Consolidation
Sales: Your range of services will be wider if you add know-how from other companies. Together, you can handle larger orders that you would not have been able to accomplish on your own.	HIGH		X	
Research and development: What a medium-sized company cannot achieve, a research institution might be able to do. Scientific institutions and companies both benefit from this cooperation.	HIGH	X		
Distribution and network: Companies in one sector can also represent the products of a supposed competitor. This way, the customer always gets the product that suits him best and everybody makes money from such business.	MODERATE			X
Procurement: When companies in one industry join forces, they can obtain lower prices from their suppliers, gain higher margins and thus have a better chance to thrive alongside long value chains. Bicycle dealers do it, as do many other industries.	LOW *		X	
Logistics: Leaving transport vehicles idle around - what for?	LOW *		X	
Production capacities: Purchasing machines is only worthwhile if they are used to their full capacity, especially when talking about expensive purchases or entire production plants. It is worth considering? Who else has this or who else needs it? For such purchases, cooperation can be advantageous.	LOW			X
Training & Education: For example, if several small local companies need specific software training, it can save costs for all of them to book joint training sessions.	LOW		X	
Market research and advertising: The dealers of a street or a small town together form an advertising community. In this way, they can jointly organize open sales Sundays and advertising. It may also be worthwhile to share the costs of your market situation analysis by a market research institute.	LOW		X	
Personnel and administration: For example, if there are several companies in one office building, perhaps not all of them need their own receptionist? So the costs can be shared in cooperation. This also applies to other administrative staff, IT technicians, cleaning staff etc. You create jobs that each company could not afford on its own.	LOW		X	

**High potential areas*

(b) Risks in partnerships

1. General

- You are often no longer able to make your decisions alone.
- An exact division of the cooperation tasks is difficult.
- If innovations are developed together, they cannot be used separately later on.
- They have to share the profits, but in case of doubt, they also have to share the losses.
- Employees of cooperating companies are often not as motivated as before.
- A part of independence can be lost - both legally and economically.

2. Corporations and Startups

The World Economic Forum not only examined the various forms of cooperation in terms of their advantages, but also specifically evaluated potential problems and risks of a partnership.

For Startups:

- The need for a revenue
- Getting engulfed by one customer
- Delayed projects
- Waste of resources
- Premature scaling
- Loosing the start-up spirit

For Corporations:

- Reputational damage
- Lost investment
- Misaligned employees
- Unsure outcome
- Maturity misalignment

3. Main reasons for failure

- A partner wants to consolidate through cooperation: Both partners should be financially secure when they establish cooperation.
- There are interpersonal problems: Even if you had known each other before you started working together, some character traits are only recognized when you start working closely together. The only way you will build trust, credibility and corporate culture with the other party is by truly hearing them out and probing deeper for the pressing Business Pain. Once you have a good sense of pains, you can start telling stories about times when you dealt with similar pain and develop a joined corporate culture together.
- One partner "steals" the customers of the other: In many cases, it becomes problematic when there is a conflict within the cooperation. If this is not contractually regulated, a partner can walk out with their partner's customers.
- The hoped-for advantage does not result for one or both partners: Each cooperation partner pursues one or more goals, for example, an increase in sales, better capacity utilization or new customers.
- The partners cannot trust each other: Trust is the most important factor for a successful cooperation. The partners have to trust each other to the extent that each one fulfills their part of the agreement.
- There is a lack of clarity about the distribution of tasks: Particularly when the distribution of tasks is not contractually agreed upon, there are often problems in practice with the question of who has to complete which task.

(c) Benefits in partnerships

- **Shared workload & costs:** Partners share both workload and costs of their business, although they may bear different responsibilities.
- **Reduced paperwork:** The amount of paperwork a partnership needs to file with local, state and federal entities is considerably less burdensome than what is required of a corporation upon its establishment. Less paperwork also means your organizing and management costs are lower. That is why acquiring an attorney to ensure that your paperwork is in order and that your partnership information is filed with the country where you will conduct business is important.
- **Raising capital:** A partnership can attract investors more quickly, particularly those who don't want to assume liability.
- **Partner replacement:** Limited partners in a partnership can leave the partnership or be replaced without dissolving the partnership.
- **Simplified taxation:** When structured as a partnership, your business avoids paying income taxes. Business profits and losses are passed on directly to its partners.

(d) Phased start approach for successful partnerships

A partnership is commonly formed where two or more people or corporates wish to come to together to form business. Perhaps they have a common business idea that they wish to put to the test or have realized that their skills and talents complement each other's in such a way that they might make a good business team. Forming a partnership seems like the most logical option and, in some cases, it is. However, partnerships are successful only if they are **planned and implemented as projects**. Here, in addition to the interpersonal aspects, factors such as time, quality and cost are decisive.

In addition to the common understanding of objectives, roles and contributions to results, t**he binding nature of the (verbal) agreements should also be ensured**. This poses a particular challenge for the contractual partners if deviating behavior is difficult to detect or if flexibility and the time or cost advantage is lost due to necessary control instruments.

At the beginning of cooperation, the participants assume that they have mutual interest with each other: What are the benefits or costs to the other side if it betrays the trusted third party? There is no leap of faith, but it is usually in the mutual interest of both parties to cooperate. The consequence: a unilateral breach of trust leads to a greater loss of reputation than advantages. **Trust situatively**.

III. Commercialization

(a) Utilities (Lifecycle)

Utilities across the globe are under pressure. Shared service center and Client Utilities (established exclusively for one customer) as well as Market Utilities (which was build to serve multiple customers). These newly distributed utilities value chains – subject to ever more regulation – force many to face declining revenues, smaller profit margins and high customer turnover. Utility companies are moving toward new operating models. **They need to reinvent themselves** (in industry 4.0 and upcoming 5.0 times).

Standard approach to tackle challenges:

1. Identify opportunity
2. Design thinking and re-engineering
3. Proof of concept
4. Business case
5. Transform to business as usual

(b) Innovation partnerships

Innovation hubs are popular and common nowadays. They provide different ways to drive the collaboration. **Five types are established:** In-house (with 3rd Parties), Incubators, Accelerators, Corporations and Government agencies. The EU Economics of Industrial Research and Innovation Institute provides the EU Industrial R&D Investment Scoreboard, Areas of work shows schemes etc. on the annual figures transparently. **Currently**, the biggest collaboration which is boosting the growth of different businesses is the partnership between banks and fintech companies, regardless of their size. Banks can either choose to embrace fintech and innovate together or lose the competitive edge to other banks. **In the future**, innovative ideas that are results of collaborations will take the market to another level. For instance, the implementation of artificial intelligence by banks developed by fintech is improving customer experience and gauge business strategies, among others. These collaborations will become ever more popular in the marketplace by the increasingly driven forces of digital disruption. The digital future which will be forged by cloud services, smart mobility, social media and big data analytic power will help each and every business to flourish and grow rapidly. But, all off that won't be possible under one roof, only an industrial mash-up can provide it.

Standard approach to drive the innovative partnerships

1. Define the target (Strategy)
2. Deep Dive (Problem*)
3. Sprint (Pre-Seed, MVP**)
4. Marathon (Seed Invest, MLP***; go to market)
5. Market Fitting (Series A, Version 1; growth/scale)

** Problem: Handled via Customer interview sessions, studies, innovation sprints and break out sessions*
*** MVP: Minimum Viable Product (as first beta version of the product; normally 8-12 two weeks' sprints)*
**** MLP: Minimum Loveable Product (as first sellable discounted product version; 4-8 two weeks add. sprints)*

(c) Cooperation partnerships

The three terms (alliance, network and joint venture) imply different legal and functional characteristics, but in the discourse they often appear as synonyms.

- **Alliance**s are thus characterized as co-operation based on **incomplete contracts** facilitating, the knowledge transfer and (re) combinations of resources.
- J**oint ventures (JVs)** are a form of co-operation involving the setting up of a legal unit owned by two ore more partners. It entails the development of a separate identity, institutions and new competencies. JVs are a subset of strategic alliances and these alliances require and establish new network ties.
- Summing up, linked independent companies build a **network**, which has **no clear boundaries**, while alliances and JV are to different extend dependent on common identity building, which creates automatically a more vivid borderline between them and the "outside world".

Standard approach to ensure these partnerships are being manageable:

1. Define joint targets and objectives
2. Sign documents (partnership agreements)
   - Alliances: Memorandum of understanding
   - Joint Ventures: Founding documents
   - Network: Statutes
3. Establish and Measure Key Cooperation Success Indicators
4. Regular exchanges on management level between the parties

(d) Consolidation partnerships

Consolidation is the final step in a journey of partnering. The strategic fit is given (mostly proven) and usually refers commercially to a merger of two companies to form a single entity in the legal and economic sense (merger) or the acquisition of corporate units or an entire company (acquisition). The five types of consolidations have been previously mentioned (JV's could be also a sixth type of consolidation).

Standard approach to ensure successful M&A activities:

1. Merger strategy alignment/Strategic fit
2. Merger execution process
   - Initial activities
     - Buy: Target analysis (and due diligences)
     - Seller: Separation planning, sale preparation
   - Phase I: Non binding offer (NBO)
   - Phase II: Binding offer (BO)
   - Phase III: Signing/Closing

3.Post closing
   - Integration/Handover process
   - Controlling process

IV. Partnership agreement

(a) Partnership agreement guideline

Partnership agreement is a written agreement that identifies working relationships between partners involved in a project. It explains its common understandings, clarifies types of support that will be provided and creates efficient ways for communication or participation. The presence of such an agreement prior to the beginning of the project implementation is highly recommended.

- The **rights and responsibilities** of each partner should clearly state the purpose and goals of their collaboration or partnership. These agreements should be further developed into separate paragraphs or listings, along the lines of "What the coordinator institution will Do" and "What the partner will Do." Roles and the expected involvement/results of each partner in the experimentation must be spelled out accordingly.
- The different **management bodies in place** (role, composition, functioning, etc.) should be further revealed.
- Functionality of the partnership and the responsibilities of its individual partners or specific management bodies regarding management and monitoring, in particular:
    - Coordination bodies/Secretarial support/Communication channels and methods etc.
- **Practical information** concerning the management of the partnership agreement; in particular:
    - Duration/Revision/Amendment/Termination/Timetable/Procedures
    - The settlement of disputes and applicable laws.
- Information about the **financial management** and funding support situation. Detailed information on modalities for financial record keeping and reporting, as well as responsibilities for the review and approval of expenditures and financial decisions on behalf of the collaboration (if needed).
- Information about the **decision-making**, procedures and rules applicable in important cases without the consensus.
- Information about the **interaction between the partners**, including its structure, such as specific meeting time, or the informal "as needed" expectations of either party. It is also a suitable window where parties can specify their reporting needs and timeframes.
- Partner institutions must comply with **Data Protection legislation** in the Member State where the research will be carried out. Also, they must be aligned with the Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data, Official Journal of the European Communities (23.11.95) No. L 281/31 –39).
- Partner institutions need to define the most optimal level of **open access to materials, documents and media** that are useful for learning, teaching, training and youth work that are produced by the project. The open-access requirement is without prejudice to the intellectual property rights of the grant beneficiaries.
- The **exit criteria** from the partnership and what the end of the partnership will look like. How both parties will run through the separation process at the end of the partnership.

(b) Exemplary cooperation agreement structure (special type of partnership)

The following structure shows an example of best practice table of contents of a cooperation agreement between corporates. In cooperation contracts with start-ups, a narrower structure is recommended (ideally a two-pager).

1.0 Initial situation and objectives of particular cooperation agreement

- 1.1 Purpose
- 1.2 Existing contracts between the parties
- 1.3 Success measurement and continuous improvement

2.0 Services

- 2.1 General
- 2.2 Further development and adaptation
- 2.3 Monitoring market changes
- 2.4 Towards customers
- 2.5 Personal service provision

3.0 Compensation

- 3.1 Compensation components
- 3.2 Fixed component
- 3.3 Transaction-related component

4.0 Rights and obligations of the parties in the framework of the cooperation

- 4.1 Nature of the cooperation
- 4.2 Prohibition of representation
- 4.3 Marketing
- 4.4 Professional monitoring of market changes
- 4.5 Exclusivity
- 4.6 Transfer of customers
- 4.7 Contact persons

5.0 IP Rights

6.0 Non-solicitation

- 6.1 Active enticement
- 6.2 Passive enticement
- 6.3 Contractual penalty
- 6.4 Duration of the non-solicitation agreement

7.0 Transfer of contract and change of control

8.0 Cost bearing, liability and indemnification

- 8.1 Cost absorption
- 8.2 Liability
- 8.3 Indemnification

9.0 Duration and termination

- 9.1 Entry into force
- 9.2 Termination by ordinary termination
- 9.3 Extraordinary termination
- 9.4 Legal consequences of termination

10.0 Confidentiality and earmarking

- 10.1 Obligation of secrecy
- 10.2 Earmarking
- 10.3 Permitted disclosure of confidential information to third parties

(c) Benefit tracking & continuous improvement

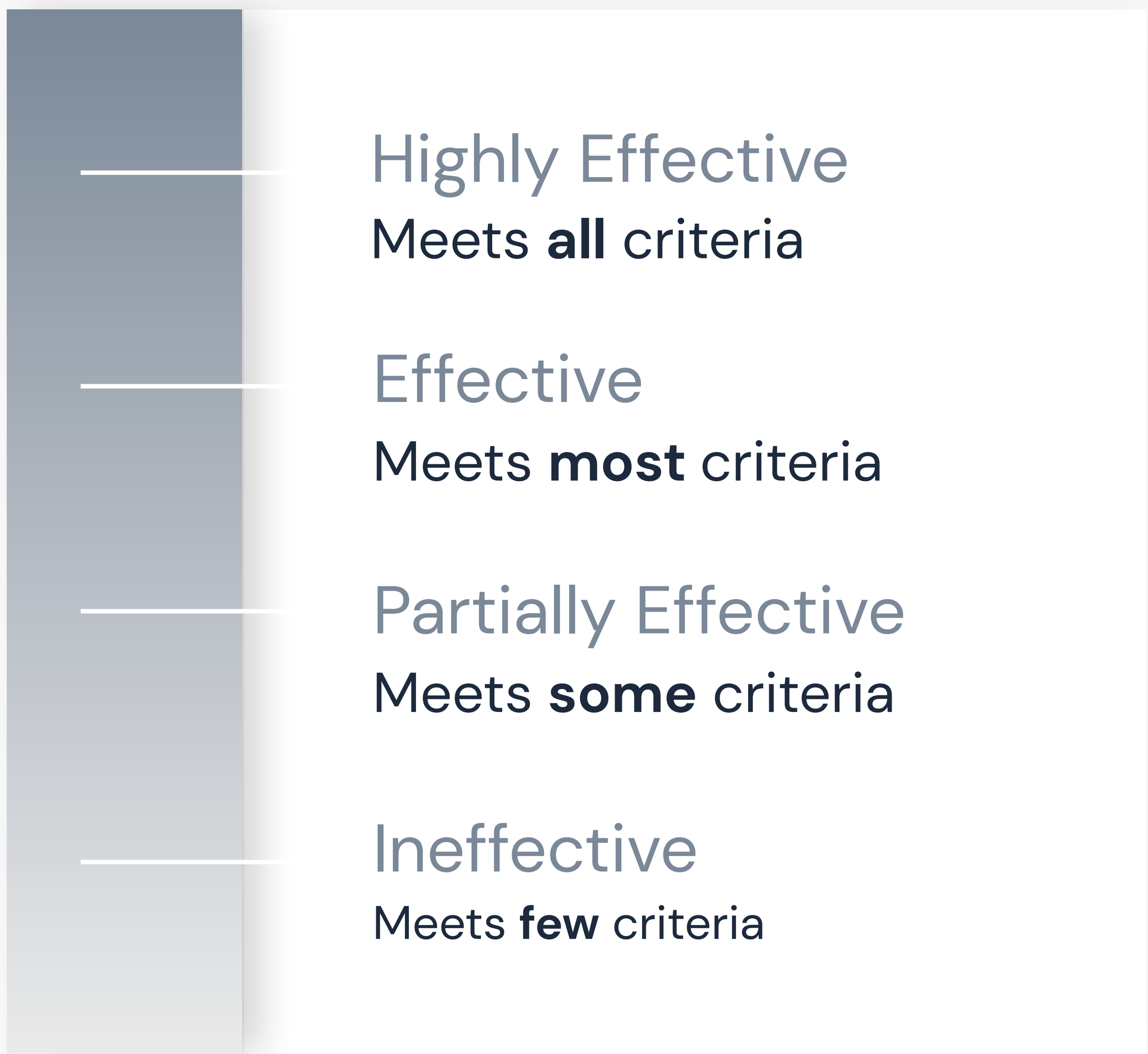
In order to ensure a long-term successful partnership, measuring effectiveness makes perfect sense. The necessary regulations and measuring points should be recorded in the initial partnership agreement. The potentially resulting expenses and costs for improving the partnership cooperation should be borne jointly by the parties. Any costs should also be shared fairly between the parties.

1. Partnership vision

- Mission & beliefs
- Shared goals
- Joint reform agenda
- Strategic action plan
- Measures for assessing progress

2. Institutional leadership

- Shared leadership
- Leader engagement
- Resource commitment
- Participation incentives



3. Communication & collaboration

- Communication tools and protocols
- Information dissemination
- Partnership advocacy
- Collaborative relationships
- Decision making

4. Joint ownership & accountability for results

- Roles & responsibilities
- Boundary- spanning
- Performance based assessment
- Benchmarking and outcomes
- Using data
- Sharing progress

5. System alignment, integration & sustainability

- Alignment
- Integration
- Sustainability

6. Response to local contact

- Community
- Partner recruitment and selection
- Policy environment

Source: https://www.wallacefoundation.org/knowledge-center/Documents/Quality-Measures-Partnership-Effectiveness-Continuum.pdf

About Titan

A certified network of extraordinary experts for strategic sourcing. A boutique consultancy for comprehensive solutions and a sustainable future. Your powerhouse strategic partners, project managers, and communicators. Our industry expertise includes banking, capital markets, insurances, e-commerce, automotive, public sector, real estate and pharmaceuticals.

We provide services in the following areas:

- Corporate Strategy
- PMO setup & support
- Digital enablement
- Procurement & Sourcing, i.e.

Organizational level

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Overall sourcing strategy
Operating model development
Business process re-engineering
Transformation management
User interaction and simplification

Business development
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Strategic sourcing implementation
Regional sourcing advisory
Shared services setup & design

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Category strategy and planning
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Savings calculation and reporting

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Request for proposal execution
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Final contracting and negotiations

Post-sourcing
Sourcing event review
Business case audit and CSI
Training in best-in-class sourcing
PMI and carve-out execution support

Our indirect spend sourcing category portfolio

- Professional services Contingent workforce and outsourcing
- Marketing, communication and public relations
- Facilities and workplace management
- IT related services (hardware, software, telecom, infrastructure)
- HR related services (recruiting and training)
- Travel and fleet management related services

Want to hear more about our approach and to discuss a tailored approach for your specific needs?
Contact Us – We would love to hear from you!

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