

Building Strategic Alliances

By John Vamos

The term "*strategic alliances*" may sound like a phrase from a Hollywood war movie, but it's actually part of a theory that is outlined in this BCS How-to Guide on gaining the most reward from the least effort. If done properly they provide the opportunity for securing additional sources of new business. As well, they can dramatically reduce the cost of marketing by delivering, in volume, a steady stream of qualified prospects that fit your target market.

Alliances: how and why do we pursue them and how can they impact on our numbers?

Essentially, whenever they need a service, you help your clients by referring them to one of your alliance partners, knowing that they will do the job properly - and that referrals will come back to you. Each new referred entity they deal with increases the chance that they in turn may be referred to as well. You build goodwill with both your client and your partners, which translates to mutual loyalty and you also get the chance to access a whole new client base: those of your alliance partners', cutting down substantially on marketing costs. (Not selling costs because, remember, marketing is everything you do to get a 'name', selling is everything you do once you have a name - see our How-to Guide - Recipe for Sales Success.)

Strategic Alliances are not built on kickbacks. Losers and thieves do that.

Think about the idea of saying to a person "I have found a service you need but I will only make the introduction if I get a piece of the action!" This sort of karma will come back and bite (I hope!). My pet hate is the accountant who tells us, "What you people do is incredible, what's in it for us if we refer you?" Our answer is simple: Happy clients who you have helped! (Not to mention the benefits outlined above).

If you do what you do well, you deserve to derive the income from it. The 'kickback' that comes from any Strategic Alliance should only be in the form of savings and goodwill. Alliances built on kickbacks have a short life, alliances built on savings and goodwill will endure.

Building Alliances

Think then about what businesses - that do not compete with you - might be able to hand their list of prospects over to you. US "guru" Jay Abraham talks about a concept called 'host beneficiary'. It goes something like this: consider who has your client before and after you.

The best example of this I have heard is the hire car company that specialises in weddings. The local jeweller has the hire car company's clients before they do. So they build an alliance with the jeweller. The alliance relationship goes something like: Buy your engagement ring here and get 10% off your hire car costs. In turn, the hire car company might devise the same kind of deal to their clients to reward them to go back to that same jeweller - assuming that is that have their engagement rings but not their wedding rings.

This is a powerful medium for building alliances and one that we have applied with enormous results. And so, a 'host beneficiary' is this specific type of marketing and is a subset of Strategic Alliances, not the other way around.

The best place to find a Strategic Alliance is in your supplier list. There are a host of benefits if you build alliances with your suppliers: You already know them and can presumably trust them. You know they deliver. You might benefit as the relationship grows and they reward your assistance (with things like even better quality or terms). They will not compete with you. They know what you do and when someone needs your services.

At BCS we strive to do business with people that do business with us, whenever we have a choice. This means our suppliers generally know when their clients might need us. Of course, if you know them, it is easier to negotiate the relationship and, therefore, the alliance can be built faster – and become strategic sooner. So check your supplier list and prioritise it to decide who you will talk to first about the opportunity. Remember the benefits and remember to go for the biggest outcome for you. It



takes just as long to build a strategic alliance with a company that has 1000 clients as it does to build one with a target of 10,000 clients, so choose carefully.

Negotiating

An alliance means mutual benefit. So, before you begin you need to get a pitch together that will excite the partner. You need a pitch that will make the target feel as if you are doing them a favour by proposing the alliance - not the other way around.

How do you do this? Look at your client base. Work out what percentage would be prospects for the partner. Work out the average 'spend' by your clients on the target's goods or services. Now you have the opening gambit: "Ralph, this is John, I was wondering whether you would be interested in getting access to \$X thousand worth of opportunity?" Be ready to explain how you arrived at the calculation when you meet with them. People get a buzz out of knowing that you have taken this level of interest in their business.

At this point you should also have done the reverse calculation - what is it worth to you? Guess their client base and the spend, calculate what's in it for you, and match the two. Strategic Alliances work better if the benefits enjoyed by the parties are equivalent. The greater the imbalance, the greater the possibility for disinterest and, ultimately, failure.

Always negotiate these arrangements face to face. The agenda is as follows: Welcome and meeting purpose. Review of calculation of benefit for the target. Review of calculation of benefit for us (remember, we guessed it). Confirmation of potential media for introduction (our offer to their clients and potential offer by them). Examination of costs involved. Agreement in principle. Next meeting.

The aim of our first meeting is to get agreement in principle and develop the basis for ongoing discussions. The costs referred to include the marketing collateral and discounts that may be the point of introduction.

Remember that if B (the referrer) introduces a prospect to A (the supplier) and the prospect is given a financial incentive, it should be B (the referrer) who is delivering the benefit, not A (the supplier). Think about this and why it is important because if you understand this point, you understand the crux of Strategic Alliances.

By way of "Q and A" let's analyse the conclusions from above and see how we can make them applicable to your business.

What is a Strategic Alliance?

Strategic Alliances can take many forms; from the agreement between the local pharmacist and the local health food shop to cross promote each other, to the recently announced alliances between the major airlines of the world to pool their frequent flyer programs. For our purposes though, and focussing on the small to medium enterprise markets, let's define them to be an agreement, with some level of formality, between two unrelated businesses, to share their marketing efforts and their client bases.

Who makes a good Strategic Alliances Partner?

There are many qualifications that a good partner might have. Let's look at a few business and personal qualities to look for.

Business

- They should NOT be competitors
- They should have no formal tie to a potential competitor
- They could be of a similar size to your business
- They should be able to demonstrate a reasonable level of systemisation in their business
- They should provide a product or service that your clients need
- Their need for an effective strategic alliance should be strong, preferably as strong as yours



Personal

- They should be with someone you feel you could build rapport with, that is, similar interests and business principles.
- They need to be reliable and trustworthy
- They need to be accessible

How do Strategic Alliances Work?

Simply, two organisations agree to find a way to refer their clients to each other. Why this is better than finding new clients by traditional methods: the opportunity to leverage the goodwill a prospect might have with an organisation that knows and trusts you, and is a user of your products and services. In turn, your organisation should fit the same description from the perspective of your alliance partner. An arrangement like this **MUST** increase the chances of a positive outcome for you, and at the same time reduce client acquisition costs.

When is A Strategic Alliance **NOT** a Strategic Alliance?

When it is simply an excuse to get a kick back for referring a client to another service provider **AND** where no formality exists in the relationship **AND** where the commitment is not **MUTUALLY** beneficial to the parties.

Concluding your Negotiations

The components of a successfully negotiated Strategic Alliance include:

- You identified the common interest
- You established the benefits for the partner and quantified them
- You agreed on the expectations you have for the alliance and that they are reasonable
- You have set minimum performance standards for both parties
- Your agreement has a review date allowing both parties to terminate the alliance with due notice
- Both organisations have nominated an individual to be responsible for the alliance
- You have a statement outlining for those individuals what those responsibilities are
- You have assessed the need for and put into place any confidentiality agreements and the impact of privacy laws has been embraced in the referral procedure
- The referral procedure is written
- The minutes of all the meetings between the parties are written
- The regular meeting schedule to monitor performance of the alliance has been agreed and diarised.

Who does what in the Alliance relationship?

I want to stress the importance of positioning alliance partners by allowing them to be the 'donor' of any additional benefits you might be supplying their clients. What is this really all about? Consider this statement:

"Mary, I appreciate your support of our company and the relationship that we have built. I want to bring to your attention the services provided by a company in the (identify the product or service) industry. We are clients of theirs and they have never let us down. I've managed to negotiate with them a special arrangement for clients of ours which means that you receive (specify the benefit) simply because you've agreed to make contact with them to understand what they do, and how they might be able to help you. The benefit is with my compliments and I'd like you to consider it a gift to acknowledge your support for us"

Clearly a win-win-win situation. The client **wins** because the benefit they get is a real one. You **win** because the gift should not cost you anything (and of course your client is grateful). Your alliance partner **wins** because instead of spending money on marketing or advertising, they are spending on an initiative that will benefit a prospect they know from the beginning, meets their target market and is worth the investment.

Make sure the benefit meets the following criteria

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1. It cannot be an offer or award that is being publicly promoted by the provider (special offers made to their existing clients are OK)
2. It must have real value
3. It must relate to the nature of the provider's service (so steak knives are out unless they are a commercial catering supplier!)
4. Where possible it must be personalised for your client
5. It needs to be relatively easy to deliver

The quality of the delivery by your partner will reflect directly on the client's perception of you. That is why the partner has to see the benefit in the arrangement and they have to place real value on the referrals they expect to receive from you. If they see the value in that relationship, then they will not jeopardise it and risk the 'return' by under delivering.

Experience and Lessons

In a recent initiative of our own, we made a few mistakes in bringing to life one of our own strategic alliance initiatives. Ours was a major initiative that involved a number of partners. We invested considerably in the program. While it is now starting to deliver for the parties involved, it started too slowly for the energy we spent getting it together. I have looked at the thing from all angles now. Here are the two things we didn't do and what we will do next time.

Mistake One: Marginalising the Alliance

We launched our partnerships at the same time we launched new programs of our own. This meant that we were coming to terms with two separate challenges. One was understanding new programs and how they might be applied to our existing clients who would buy. This of course had the potential to deliver immediate pay-back through up-selling and cross-selling our existing customers. Second, we launched a powerful alliance relationship that was capable of bringing us a good flow of prospects that might buy. Clearly the people involved chose to concentrate on our new programs as their potential to earn was more immediate.

Lesson One: Focus

When you launch a strategic alliance, make it special and make it a stand alone initiative. Make sure you are in a position to focus your resources on understanding and quickly communicating the responsibilities to all the people in your organisation that matter.

Mistake Two: Assuming the benefits are recognisable to all involved

We did a lot of work to make the system sustainable and valuable. Most of this work was done between the key decision-makers in the organisations involved. Not enough was done to prepare the people at the coal-face prior to the launch. As a consequence there was lag between the time it took for the benefits to become apparent to the other important players and the point at which they became confident to promote the alliance.

Lesson Two: Training

Make sure that the people involved in the delivery of the program are as clear on the method, potential and benefits as you are.

Finally, make sure that your partnership gets off to a good start. Simply identify a number of strong prospects that are candidates for the program and have them primed and ready to go. Then when you launch your alliance you can deliver some immediate results for your partner and build some early momentum into the program.

