

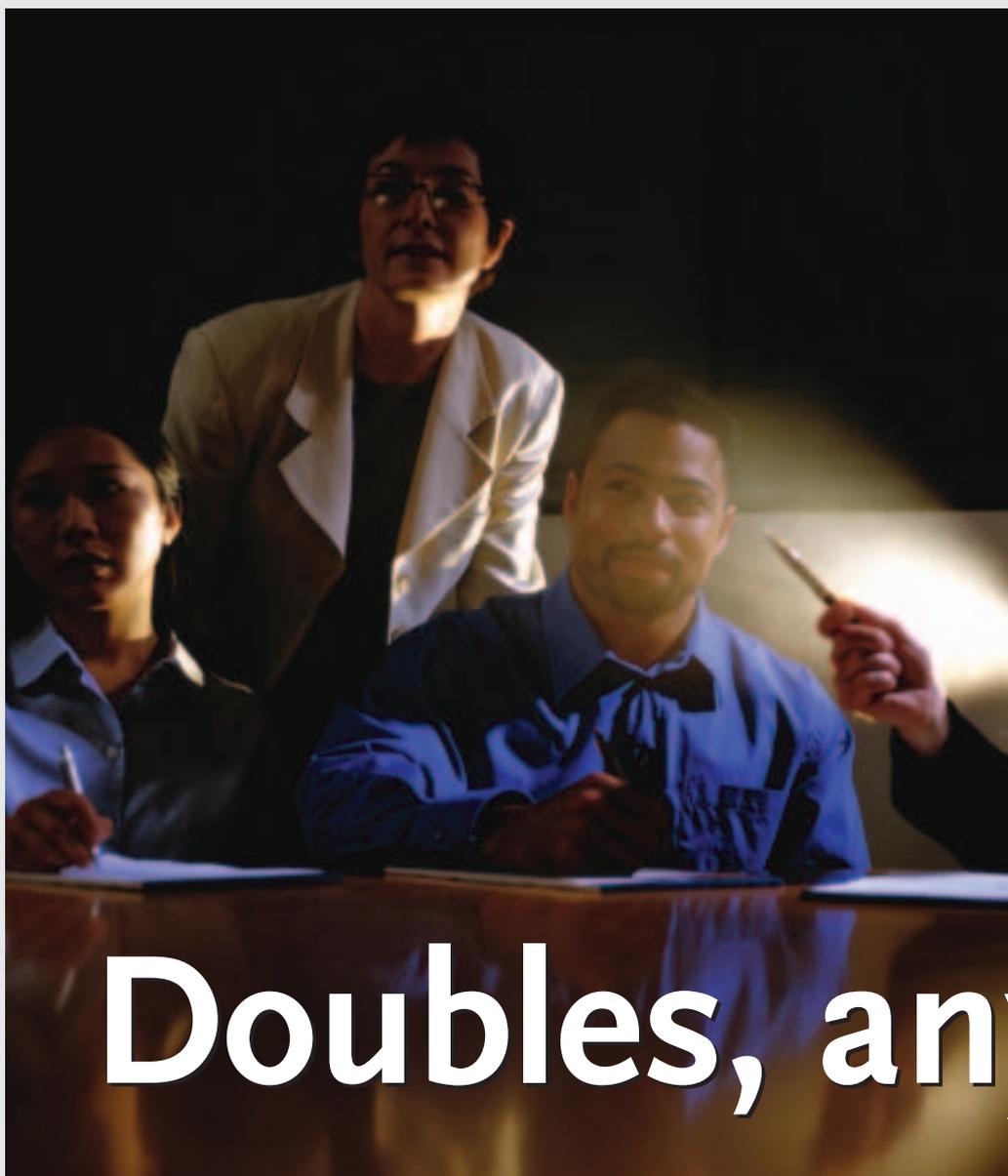
In today's dynamic and rapidly changing world economy the issue of cooperation is becoming more and more important. But before you throw in your lot with another company, it's good to be aware of the risks. As fifty percent of all cooperation ventures fail, you may find yourself wasting a lot of energy and money if you don't prepare yourself properly. In this first of three articles on the subject, we'll be looking at what might trigger you to consider cooperation and the pro's and con's of cooperation.

Let's get one thing straight: cooperation can be very profitable. In fact, the issue of cooperation is more relevant today than ever in international business. Market research among enterprises in the Netherlands has proven that companies that cooperate with other companies have a better market performance than companies that do not. In one particular survey, 75% of the companies said their turnover and profits increased after joining arms with another business. In most European enterprises, cooperation has become a structural part of management. So if you're an exporter in a developing country, it makes sense to consider cooperation.

#### THE PROCESS OF COOPERATION

Considering the need of co-operating with other companies, the following steps could be helpful:

1. A particular event or incident could initiate the need to co-operate with other companies.
2. When it has become evident what prompted this need for co-operation, then gradually the pros and cons of such a co-operation can be formulated. In Article 2 the objectives of co-operation will be the focus.
3. After careful consideration of all the pros and cons, the decision of whether to embark on this joint effort should be made.
4. The next step is to determine with whom co-operation is desired – those companies who have the required knowledge, skills and finances to meet your objectives. Note that there are several types and forms of co-operation.
5. The following phase is that this co-operation will go into effect. In this early stage, minor difficulties should be examined. Trusting your partners



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is a must for accomplishing your objectives for this co-operation.

6. In this next phase, co-operation should commence as planned.
7. After a specific period of time, the goals set and possible improvements should be discussed. This is further developed in Article 3.

#### THE TRIGGER

A trigger is a specific experience or discovery that makes you want to pursue a particular idea. Such triggers can vary from meeting other entrepreneurs to reading about the worsening economy. Here are some examples of triggers:

- Globalization (multinationals, emerging countries)
- Changing consumer behaviour
- Technological developments
- Insufficient domestic markets (and the need to export)

The process of *globalization* is affecting

The first in a series of three articles on the gall and glory of teaming up with other companies

every marketplace and in these marketplaces world players are gaining influence. Also, emerging countries like China, India and others and their fast growing economies are heavily impacting the day-to-day lives of people all over the world. Rising oil and steel prices and the resulting rise of interest rates and in some cases inflation, will affect cost prices and margins. Teaming up with other companies to con-



centrate your joint purchasing power can be a solution to the problem of unfavourable raw materials prices or other issues such as energy, transport and the like.

These issues affect *consumer behaviour*. But so do many other developments – demographic trends (like ageing), cultural trends and ecological or environmental trends. Alert entrepreneurs can turn these changes to their advantage, but often you can't make them do so on your own. For instance, you might join forces with a group of companies to develop a line of products and aim it at a specific target group in Europe, like senior citizens.

The rate at which *technological developments* are taking place is another example that may necessitate co-operation. In many sectors, new products have to be developed all the time and at high speed. Co-operation in research and development can help you meet this challenge.

Again, many entrepreneurs across the globe have run up against challenges they realize they cannot accomplish alone. Let's say, for instance, that your machines can produce more than you can sell on your *domestic market*. So you want to export. This means acquiring knowledge of foreign markets, export transactions, export packaging, other calculation methods, foreign payment risks, other languages and more. To acquire knowledge in this field, you can do three things:

1. Buy the knowledge in hard cash
2. Develop the knowledge in-house, which will take considerable time
3. Cooperate with others, agreeing on counter services, cost and income sharing.

In most cases, entrepreneurs will prefer one of the first two methods. There are, however, many reasons why the third method might be the most profitable in the long run.

#### THE PRO-S AND CON-S

Before embarking on a cooperation adventure, you need to consider all the possible advantages and disadvantages. Let's start with the bad news:

- Image loss (joining forces and cooperating with larger partners will result in losing some of your identity and image; whether this is serious or not depends on how necessary your image is for marketing purposes – the improved time-to-market and added value your partner offers may be more relevant).
- Setting up a cooperation form is time-consuming and difficult (think of the time you might need to convince a partner that your idea is better than his; or the time you'll need to carefully explore whether cooperation is worth your while or not).
- Loss of independence (if you're a real entrepreneur, you probably feel very strongly about your independence, although you may find it useful to look at dependency purely from the point of view of business opportunities).
- Spill-over of knowledge (your partner may run off with your knowledge. This often explains why negotiators are not willing to tell all until they have complete trust in their partner. But there are measures you can take to prevent excessive spill-over).

#### HOW TO REDUCE THE RISKS

There are numerous actions you can take to reduce some of these risks:

- Cooperate with several partners to prevent dependency and to spread risks.
- Make use of a written contract to prevent misuse of power, especially if one

of the partners is large and the other small (but remember that it can cost a lot of time and money to compose a contract and failure to comply on either side can cause a lot of legal hassle).

- Work on open communication and mutual trust.
- Involve a third party to prevent spill-over and abuse of trust – an independent authority who can monitor the way in which each partner uses the other's knowledge and can be called on in case of perceived misuse.

#### THE GOOD NEWS

Fortunately, there's also a lot of good news about cooperation.

- Cooperation can improve your chances of success in the long run.
- It brings possibilities within your reach that you can't reach on your own (put two entrepreneurs together and they will come up with at least ten good ideas they might realize together, as entrepreneurs have a strong desire to create, perform and act).
- Especially if you're a small company, cooperation can enable you to reap the benefits of your partner's competencies. If your competencies are not competitive, cooperation can be very successful.
- Cooperation can help you reduce costs, increase turnover and improve efficiency. This is perhaps one of the strongest reasons to cooperate: the 'Together-we-are-stronger' argument creates immediate success and can be measured very well.
- Cooperation can shield you from the power of large multinationals as well as local governments.

#### OVER TO YOU

Now that you know some of the main risks and promises of cooperation, you'll have to decide for yourself whether or not you want to enter a form of cooperation with another business. In the next article we'll look at your cooperation objectives and at various forms of cooperation.