



Partnership

Good business partnerships between companies are vitally important. They come in all shapes and sizes from mega-alliances to normal distribution networks that most companies use to get their products out to market. Whilst all businesses have them, I think that all too often Management do not fully appreciate the dynamics involved and in the end how delicate the relationship may be.

In a partnership two businesses have decided that it will be mutually beneficial to collaborate in order to grow both companies. The mutuality aspect is obvious at the outset but often becomes lost as time goes on. This challenge is often exacerbated when one company is significantly larger than the other because what is seen as acceptable growth may differ on either side of the relationship. Where a large manufacturer is concerned that the distributor is not capable of growing at the pace required all too often decisions are made to side-line or even drop the partner and this may eventually prove to be mistaken. Smaller distributors offer a number of valuable aspects to any network including loyalty, innovation and market intelligence. Using a smaller distributor means that the manufacturer represents a significant proportion of their turnover and this in effect means that they will act almost as a *de facto* subsidiary: holding cushion stocks, buying early etc. Therefore, taking the decision to side-line or cut such a partner is risky.

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The larger dealer who might be considered as a replacement will not display the above behaviour and in fact it is quite common for the role to be reversed and the manufacturer is asked to dance to the tune of the dealer. In the final analysis the manufacturer needs to know that the majority of the relationships within its global sales network are solid and will hold in good times and bad, otherwise the validity of longer term planning is suspect.

I mentioned innovation and this is a huge benefit of good partnership. The 'Lead User' concept (pioneered by companies such as 3M) states that the people who best know your products are the end-users and that you should seek out leading examples to road test new concepts as part of your R&D programme. This is fascinating and will be dealt with in a later post. At this stage we need to simply recognise that the lead users are customers of your distributor and committed partners will be motivated to reach out to such leaders to initiate projects with your products to try to better fit the benefits into the local context. Sales are always 'local' at the end of the day and many companies fail to properly recognise and act on that concept. The local distributor is your representative in front of the end users and can directly affect the success of your products therefore. As the dealers come to understand the mode of action of your technologies better they can even propose new formulations or blends of products or indeed new applications. Once you reach that level (let's call it Top Level) the partnership has become more than the sum of its parts and offers true value to both parties.

A CEO once said to me that if you need to write a distribution agreement then that is the end of the partnership. Whilst I fully understand the sentiment behind the statement, agreements are necessary and offer a degree of certainty to both parties that is important for planning. That said, where a top level partnership exists a large degree of flexibility should be exercised when interpreting recent performance compared to the text of the document. 'No plan survives contact with the enemy' is a paraphrase from Field Marshall Helmuth von Moltke that has been reinterpreted many times over the years since and is extremely relevant to any budget or business plan today. Even the best, most committed partner may have challenging years often for reasons beyond its control and true partnership behaviour demands that empathy is shown at that time.

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Indeed where top level partnership exists, a bad year will not come as a shock in month twelve because constant, honest feedback will have been forthcoming throughout the year. Such feedback allows for adjustment of forecasts and perhaps redistribution of resources to other markets to help compensate for the lost performance. Just as with any other relationship in life, the successful riding of a storm often strengthens the bond and makes the partnership even more powerful going forward.

Most distributors are continually concerned that the manufacturer will eventually look to sell direct in the market and cut them out. This in my opinion will later be seen as a mistake more often than not. Manufacturers must recognise the value that local dealers offer; fundamentally in the goodwill that they have earned over many years and also the risks that they take – with payment from end-users, for example. All this will land in the lap of the manufacturer once the decision is made to go direct. Not to mention the fixed costs that will now be required for local staff and facilities.

Overall, growth via a network of loyal, top level partners is less risky and more reliable and therefore should form an important part of most business strategies.

A J Low of Discussing Business Ltd, Jan 2016.

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