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# the CBNC how to network book

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*a practical guide for successful strategic alliances*



**Canadian Business  
Networks Coalition**



part of a self-help tool kit published by the

**Canadian Business Networks Coalition**

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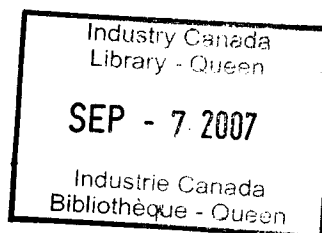
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# harnessing the power of partnerships

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## introduction to strategic alliances

Strategic alliances are fast becoming a key business tool for small and medium-sized companies working together to boost their bottom line. These alliances are flexible, can take many forms, and are used to achieve specific short or long-term business objectives.

Whether you're seeking new markets overseas or looking for partners to share the cost and expenses of sophisticated technology, a successful alliance can offer that extra edge in an increasingly competitive world.

Establishing a strategic alliance can be as simple as getting together with partners to make bulk purchases, or as complex as a long-term research and development program resulting in an exported product or service. In other words, a strategic alliance allows firms to capitalize on synergy, and focus on what they do best – share risks, profits, and expand activities without sacrificing their independence.

Today, business must face new and different hurdles. The removal of trade barriers, de-regulation and globalization of markets can pose difficult challenges for smaller companies. These economic shifts raise new questions about how to survive and grow at home and abroad. New realities demand creative solutions.

Harnessing the power of partnerships could be the competitive strategy your company needs to survive and thrive in the year 2000 and beyond.

# about the CBNC

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## **what is the Canadian Business Networks Coalition?**

To help you harness the power of partnerships, the Canadian Business Networks Coalition (CBNC) was established – made up of more than 60 business organizations and educational institutions across Canada.

Spearheaded by the Canadian Chamber of Commerce and Industry Canada, the CBNC represents a broad range of sector organizations, local economic development groups and small business associations. Together, they work with you to support the formation of your strategic alliance and to foster a climate in which these networks can grow and flourish.

At the request of small business organizations, the CBNC was launched in late 1995 with substantial financial support from Industry Canada. The remaining funding comes from the private sector.

By the end of its two-year mandate, CBNC will have helped establish 30 viable strategic alliances across the country. To fulfill this objective, we offer a program of information, educational materials, financial support and training incorporating the best features already in place in Canada and around the globe.

CBNC has one focus: to make strategic alliances both a practical tool and an achievable goal for businesses across Canada. It is our job to kickstart the process of alliances and to help local business organizations carry on the practice.

# the how to network book

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## **an introduction**

This How To Network Book is part of the self-help tool kit of the Canadian Business Networks Coalition – the CBNC. It's designed to provide small and medium-sized business owners and senior managers with a ready reference to the networking process, information on how to get started, seeking partners, forming the alliance and actually implementing the arrangement.

Organized into nine sections with extensive headings, the How To Network Book includes an extensive appendix with reference lists, definitions, answers to your questions as well as an index section. There is also a worksheet section where you can practice developing a SWOT analysis, a one-page business plan to fill out, a partner selection check-off list, creative thinking tips, plus the opportunity to complete other topics that will get you ready to network.

Designed to be readable and user-friendly, this book is obviously not the last word on business networking. There are many more elaborate treatments of the subject matter, and our extensive bibliography and materials list contains references on the subject. We invite you to consult these other sources by contacting your local bookstores and library.



# the self evaluation workbook

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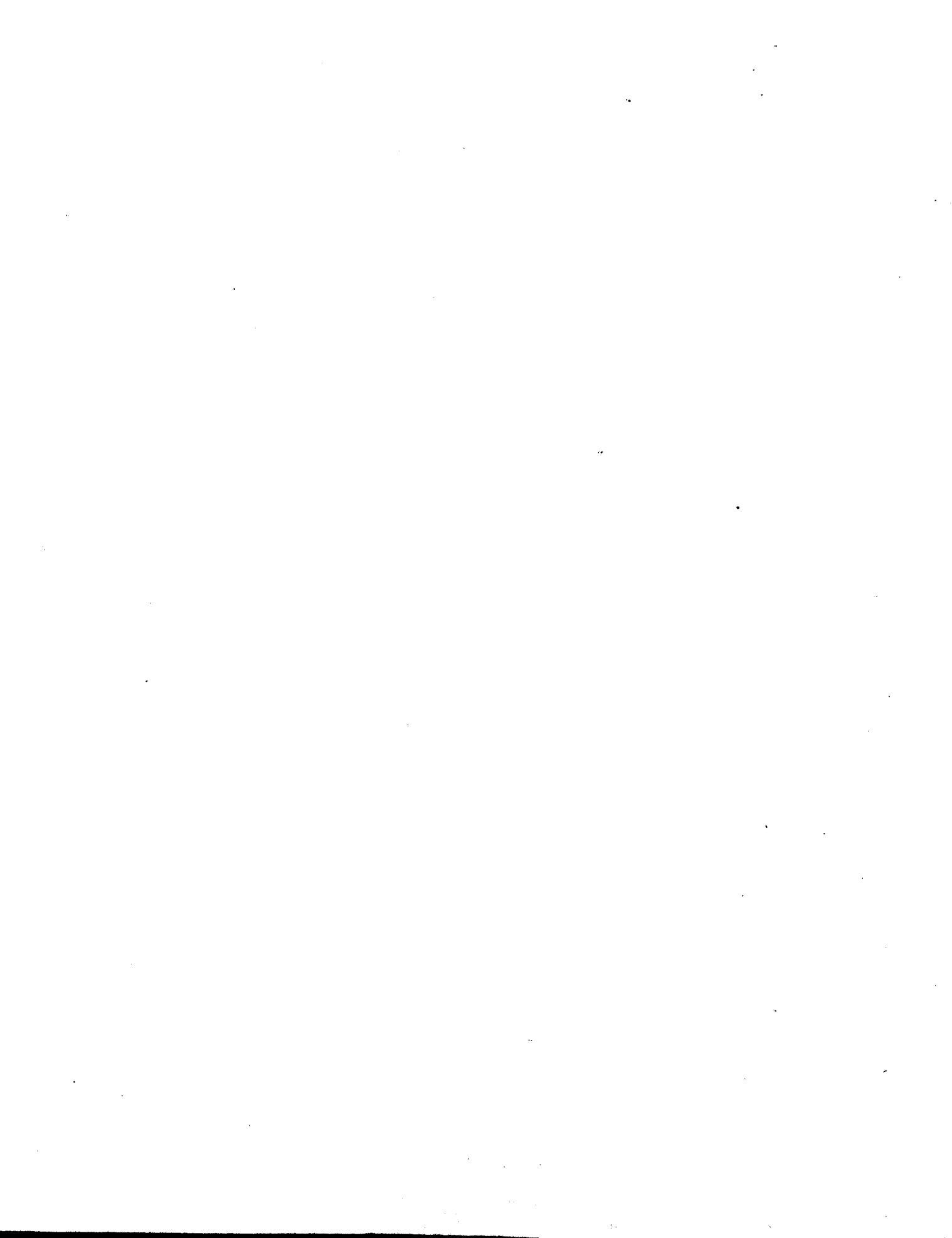
## **about our companion document**

A companion document to this How To Network Book is our Self Evaluation Workbook, also part of the self-help tool kit of the Canadian Business Networks Coalition. The workbook publication is designed to provide a sneak preview of the sort of questions, issues and concerns that will be dealt with as you form and implement business networks or strategic alliances.

Topics represent the issues and areas you and your potential partners would face at the outset. Subjects cover such areas as success and failure factors, company values and areas of cooperation, as well as topics like network operation and expectations. It's a sort of network readiness guide.

The workbook is formatted in a series of worksheet spreads – each topic begins with notations and instructions on the left hand page while the page on the right contains the checklists, tables, charts and lists to work on and prioritize. Many topic areas are related to getting a better understanding of your own business, and what makes it tick – better still, what makes you tick as the owner or senior manager. Completing the workbook should also help you measure the value of a strategic alliance for your company or enterprise in meeting your business objectives.

Both the workbook and the How to Network Book are designed to be used by new and potential networkers before they negotiate their business alliance, by established business networkers who may already operate successful alliances and by those who may decide to proceed without CBNC involvement.



# the CBNC how to network book

*a practical guide for successful strategic alliances*



## section 1

### introduction to strategic alliances

summary

what is a business network?

why network?

characteristics of a business network

what do networks do?

why network now?

the Canadian context

facts about Canadian business networks

the Canadian Business Networks Coalition

how can CBNC support your strategic alliance?

business network advisors

the international scene



**Canadian Business  
Networks Coalition**

# introduction to strategic alliances

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## summary

Take a new look at the companies in your community. Take a new look at your competitors, at their strengths, and at your expertise and specialties. Ask yourself if there are things you should be doing that you don't have the resources to do. Ask yourself how a business network could make your company more profitable. Then, see if you can join forces with other like-minded companies to help yourself and each other to reach specific objectives. These are the ways you can become more competitive.

In this first section, we examine the concept of business networks, why they make sense today, details on the organization established to promote them and highlights of an ambitious national demonstration project the CBNC has undertaken. We'll look at the international story where many countries are much more advanced than Canada. The trends, however, are turning in your favour as interesting statistics from a survey by the Canadian Chamber of Commerce will prove.

## what is a business network?

A business network is a group of three or more small and medium-sized enterprises (SMEs) that decide to cooperate as a group in order to undertake projects, regionally, nationally, or globally, that no member of the group could really do successfully by themselves.

In other words, a business network is a group of already successful businesses which cooperate and collaborate to seek a new business opportunity. It involves cooperation among the enterprises in order to undertake projects – and also involves collaboration to achieve objectives that each could not achieve acting independently.

Networks are not a new concept in the world of business. Indeed, for as long as there have been businesses trying to make a profit, there have been cooperative efforts among firms to develop joint products, share their expertise, provide valuable support and services to each other.

What is new, however, are some tools for you to use to design and implement a business network – it need not be a haphazard event. It can be carefully designed at the outset using a proven and established process with the aid of trained business network advisors. And you can also get the support and financial help of the Canadian Business Networks Coalition if your group qualifies.

## why network?

There are many reasons why companies join forces in a business network:

- to achieve advantages of scale, scope and speed
- to enhance their competitiveness in both domestic and international markets
- to stimulate new business opportunities to innovate and commercialize new products and services
- to increase exports
- to form new capital bases and create new businesses
- to reduce costs.

## characteristics of a business network

Even though no two networks are identical, business networks have a number of characteristics in common.

Networks form because the members require solutions to shared business challenges and opportunities. Once formed, the growth of a network will depend on how well it meets the business needs of its members, and upon their long-term commitment to the alliance.

Networks are collaborative, bottom-up organizations. Unlike many other formal relationships among businesses, networks are flexible and non-hierarchical with members sharing in decision-making and the design and implementation of strategies.

Networks can vary in size, objectives and structure. Membership can range from fewer than five members to more than one hundred. Objectives vary widely according to the needs of the members. And the organizational structure may be very formal, or so informal as to be almost nonexistent, or anywhere in between.

## what do networks do?

The possibilities for inter-firm collaboration are as endless as the imagination. Here are some of the projects commonly undertaken by business networks, falling into three broad categories:

### 1. **input projects including:**

- joint purchasing
- staff training
- joint financing
- research and development
- sharing resources, skills and information
- identifying market opportunities
- subcontractor and supplier linkages.

### 2. **operations projects including:**

- joint processing
- joint manufacturing
- technology transfer and diffusion
- global quality standards (TQM/ISO 9000)
- cost reduction projects
- productivity improvement
- world-class benchmarking.

### 3. **output projects including:**

- innovation and design
- commercialization of new products or services
- import substitution
- marketing
- exporting
- problem solving.

## **why network now?**

Small and medium-sized enterprises (SMEs) are emerging as a significant force in the global marketplace. New international trading agreements and the building of regional and world trading blocks mean that small business must enhance their competitiveness if they are to survive in both the global and domestic markets. Canadian SMEs, in order to remain competitive, need to reorient their methods and operations and utilize new approaches, based on international best practices. This is why cooperation and collaboration will be vital tools for survival in the marketplace of the next century.

## **the Canadian context**

Historically, within the entrepreneurial culture of Canada, and of the United States, small and medium-sized businesses have tended to act independently. They have traditionally undertaken projects alone and refrained from involving other companies.

There are a number of reasons for this independence. The primary reason is that, until now, alliances have not been necessary for business to achieve their objectives. Other reasons include lack of trust and poor communications, a shortage of information, possibly a lack of role models and cultural conditioning.

This is changing – now, in the late nineties, a number of successful Canadian business networks are in place.

On the East Coast, 45 innkeepers operate the Atlantic Provinces Heritage Inns Association which acts as a network to market these historic stopovers.

In Northwestern Ontario, a group of aboriginal-owned fishing camps and hunting lodges operate a network to market their businesses in the United States, using cooperative trade shows and videos.

In the Eastern Townships of Quebec, six golf courses and resorts have formed a network to market group tours for tourists from major Quebec, Ontario and Northern U.S. markets. As a result, they realized a considerable increase in business.

In Southern Ontario, a group of metal fabricating firms have formed a network to design, build and market site redemption equipment for the North American environmental services market.

In the Ottawa area, 60 high-tech telecommunications and computer products manufacturing companies operate the Manufacturing Managers' Network. Their activities include cost reduction strategies and local infrastructure development.

In Northern Canada, several aboriginal-owned fishing co-operatives have formed a network to sell smoked fish to cities in southern Canada and the United States.

In Newfoundland, a group of home-based entrepreneurs in the knitting trade are linked to a firm which markets their products nationally and internationally.

In Atlantic Canada, a privatized government geomatics service is combining with several private-sector firms to serve global markets.

## **facts about Canadian business networks**

A recent national survey conducted by the Canadian Chamber of Commerce discovered interesting statistics about the business networks already in place and operating in Canada.

- 50% of networks involve 10 or more companies
- 72% are involved in marketing or export activities
- 42% were established in 1994 or later
- 50% are organized as associations or informal groups
- 36% were started with subsidies or tax credits
- 42% received some sort of government in-kind assistance
- In 50% of cases, government or the Export Development Corporation played an advisory role
- In 30% of cases, a network member played the advisor role.

The survey concluded that the time was right for a Canada-wide business networks strategy. And the Canadian Business Networks Coalition was formed.



## **the Canadian Business Networks Coalition**

The Canadian Business Networks Coalition (CBNC) is a public/private-sector initiative dedicated to improving Canada's economic competitiveness by developing alliances among small and medium-sized Canadian firms.

For several years, business associations and Industry Canada have been tracking network strategies undertaken in other countries to make small and medium sized enterprises more competitive in the new global economy. These business network initiatives, implemented on a large scale in Denmark and Norway, offered promising solutions to the challenges facing Canadian SMEs.

In 1993, the federal government, together with several business associations, decided to develop a business network initiative for Canada. The Canadian Business Networks Coalition demonstration project is the outcome of three years of research and planning. The project is funded by Industry Canada with support from the Canadian Chamber of Commerce, and 63 other coalition members.

The objectives of the CBNC are:

1. to raise the awareness of small business enterprises (SMEs) as to the benefits of strategic alliances;
2. to establish a systematic approach for SMEs to implement these business networks;
3. to create grassroots competence and experience related to business networking;
4. to develop and train business network advisors (also called brokers, facilitators or project managers) skilled in facilitating business network formation, by means of a formal training program.

## **how can CBNC support your strategic alliance?**

CBNC has developed a practical, no-nonsense approach to help small and medium-sized businesses establish innovative and successful partnerships.

We offer guidelines and some financial support for member business groups to organize informational roundtable sessions. We have prepared a tool kit to help businesses measure the value of alliances in achieving their business objectives. These resources include this how-to workbook as well as a video and other materials. And we offer practical education, training and ongoing support through our own trained business network advisors.

Once you decide to proceed, we provide limited matching funds to qualifying applicants for the design and implementation of a working strategic alliance. And you remain in control of the process.

## **business network advisors**

The key to a viable partnership can be the quality of commitment among members and skilled hands-on support and experience at each stage of early development. Entrepreneurs and business people often don't have the time to tend to all the details such ventures may require. This is where a business network advisor can help set up an alliance, while allowing you to get on with running your own business.

CBNC trains business network advisors to play this critical brokering role in the development of new strategic alliances. They acquire specific professional knowledge to help emerging alliances avoid many of the pitfalls common to new partnerships.

Advisors bring parties together, help in the preparation of business plans, advise on legal and financial matters, and ensure that everyone stays on track. Business network advisors are now available in every region of the country so that alliances have access to local advice and guidance. Contact CBNC for an up-to-date list of qualified business network advisors in your area.

## **the international scene**

A number of industrialized countries have implemented strategic economic development programs using business networks to help their SMEs to become more competitive, and to help improve the national fiscal balance.

Countries that have adopted the business network strategy report real bottom-line benefits in increased exports, economic growth, new capital formation, business expansion, and employment growth.

### **Denmark**

A business network strategy raised Denmark's stagnating economy to one of the world's top per capital exporters and competitors in three years, according to OECD and World Economic Forum reports. Danish SMEs formed 1,000 business networks in five years, and Denmark is now a world leader in the application of business networks.

### **Norway**

Norway is another world leader in business networks. The Norwegian program saw 400 business networks started in 14 key industry sectors in four years. The program advocates strategic, sustained, long-term efforts to create and support business networks. It complements government grants with development bank loans, venture capital loans plus private sector and commercial loans.

### **Italy**

In Northern Italy, regional economic development commissions began implementing business networks about 20 years ago. Since then, the region moved from 17th ranked for economic growth and standard of living in Italy, to become 2nd ranked.

### **Spain**

In the Valencia region, more than 140 business networks have been created in a short period of time. Already the economic benefits are apparent in greatly increased trade, job creation and improved standards of living.

### **Australia**

Australia has recently launched a \$25 million national business networks program, with plans to establish over 400 networks. They obviously believe they work!

### **elsewhere**

Other network initiatives are underway in the United States, New Zealand, the United Kingdom, France, Poland, Hungary and Mexico. Network strategies are currently being developed in China, India, Ukraine, Czechoslovakia, various Pacific Rim countries, the Baltic States, the Caribbean, and a number of countries in Central America.



# the CBNC how to network book

*a practical guide for successful strategic alliances*



## section 2

### **business network cooperation**

#### summary

the concept of cooperation  
creating interest in cooperation  
trends that favour cooperation  
the benefits of cooperation  
areas of cooperation

purchasing

product development

marketing

human resources development

production

logistics and distribution

administration/management development, training

international trade and export

**Canadian Business  
Networks Coalition**



# business network cooperation

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## summary

Business networks work in theory – but for most business owners, theory alone will never be enough to convince them of the benefits of cooperation. The business network option must be shown to be a real solution to a definite opportunity, problem or challenge that a company is facing.

In this section, we will look at the concept of cooperation and describe how it can be used to achieve the objectives of the partners involved.

Trends and benefits of cooperation will be explored along with the ways that cooperation can enhance the participants' competitiveness and profitability – where the gains exceed the costs of the transaction and compensate the participants for any inherent risks and limitations on freedom of action. We will also look at various areas of business networking and inter-firm collaboration.

## the concept of cooperation

A company will only become involved in networking if it seems likely that the benefits associated with networking outweigh the costs and risks that are incurred. Usually, the benefits associated with business networking are greater than the disadvantages. Each business, however, must assess the pros and cons for its own particular situation before entering into any form of network arrangement.

Cooperation tends to be a new concept to most businesses who traditionally use an adversarial strategy to get the best contract or terms of a sale. Negotiating a partnership requires us to cooperate with other firms, even if they might be our competitors. New techniques and processes must be learned and practiced if cooperative strategic alliances are to be successful.

When a business partnership operates in a climate of cooperation, negotiation becomes largely a process of defining mutual interests, establishing trust, and developing a problem-solving attitude. While winning and improving the bottom line is still the goal of the collective business alliance, getting a better perspective on the other side's personality, capabilities and weaknesses becomes an important step towards that objective.

## **creating interest in cooperation**

Generally, circumstances that can trigger the need to cooperate are defined by the market. That means that the rationale for cooperation will vary among industries and across regions. The more relevant the arguments are to the specific problems experienced by the companies, the more genuine and committed the companies' interest in the cooperation will be. However, there are development trends that point toward cooperation as an increasingly important business strategy.

## **trends that favour cooperation**

### **higher development costs**

The costs of product are rising steadily, which means that the demand for cutting edge expertise and technological developments is at a premium. At the same time, there is a general decrease in the life span of products, which means a decrease in the period of time that products actually earn money. Cooperation in the areas of product design and development, and product marketing may offset these challenges.

### **access to sources of supply**

Lack of access to supplies can present serious problems, whether it's a scarcity of raw materials such as fish and lumber, or a shortage of expertise, labour or technology. This is especially true in industries (such as the food industry) where the reliability of sources of supply is essential. Cooperation allows companies to take advantage of geographic differences and complementary expertise, as well as to coordinate purchasing.

### **global competitiveness**

International trading agreements and the opening of new markets mean that competition is becoming increasingly complex. Even local and regional markets demand that enterprises be internationally competitive. Cooperation can improve competitiveness both locally and internationally by allowing companies to offer better and more products, prices and service, as well as improving their marketing capabilities.

### **supplier rationalization**

There is a global trend toward companies and consumers wanting to deal with fewer suppliers than ever before. From the point of view of the purchaser, larger quantities and a broader range of products per supplier increase the efficiency of transactions and reduce the risk to the buyer. This means that small companies and niche suppliers can be left out in the cold when their customers' purchasing procedures are centralized and streamlined. Cooperation provides small companies with a strategy for addressing their customers' demands for a simpler supplier structure.

### **new demands for expertise**

Today's market demands that products and services be accompanied by a higher degree of expertise than was previously expected. Cooperation can allow suppliers to develop new proficiencies together, and to take advantage of complementary areas of expertise.

## **the benefits of cooperation**

### **a successful business network**

To be successful, a business network must enhance the participants' competitiveness and profitability. The gains must exceed the transaction costs and compensate for the inherent risks and any limitations on freedom of action.

The benefits of cooperation may be achieved through economies of scale, complementary business activities, and reduction in transaction costs.

Economies of scale, for example, can include:

- reductions in average costs by means of increased production
- favourable purchasing and financing arrangements
- better negotiation position in terms of suppliers, customers and/or regulatory bodies
- greater capacity and more effective use of resources
- reduction of risk through strength in numbers
- better access to critical resources
- opportunities for large-scale marketing efforts
- financial strength
- greater flexibility and versatility.

### **complementary business activities**

Complementary business activities allow a company to achieve cost reductions through specializing in what they do best, and leave other jobs to other network members. Among the ways that businesses may complement each other are:

- mutually dependent products or services
- complementary technological expertise
- complementary labour and management skills.

### **reduced transaction costs**

Transaction costs are incurred when companies trade with each other.

Networking can reduce these costs by means of:

- better coordination of business activities
- reduction in time-to-market
- less uncertainty about the activities of other parties
- less opportunism.



## areas of cooperation

The possibilities for business networking are almost unlimited. However, we can identify several areas that are especially suitable for cooperation.

### **purchasing**

The purchase of raw materials, expertise, distribution and other goods and services represents a big expense for individual companies. Cooperation in this area can result in substantial price reductions and often in better delivery terms, especially if the companies are creative and well organized. An important feature of cooperative purchasing is that gains can be made quickly and at a fairly early stage in network development.

### **product development**

Product research and development offers good opportunities for cost-sharing. Companies can also cooperate both to share areas of expertise and to access development resources.

### **marketing**

Many small companies are limited by their lack of marketing expertise and funding. Cooperation can address these problems by pooling information and resources, or even by representing one another in various markets and at trade shows.

### **human resources development**

Companies that network usually benefit from sharing and developing the expertise of each individual company. One example is the use of individual companies' experiences, knowledge and expertise to be shared with all network partners.

### **production**

Cooperating on production can result in gains such as improved quality, increased production capacity, and higher return on capital investments.

### **logistics and operations**

Logistics, including product management from contract to delivery, can be a fruitful area for cooperation. Business networks can coordinate products and services, and offer coordinated deliveries.

### **administration/management development, training**

Companies can cut costs and increase efficiency by personnel exchanges and the utilization of resources. Networks can also allow small companies with limited management capacity to have access to management time and expertise that would not otherwise be available to them.

### **international trade and export**

Cooperation here can lead to new markets and export opportunities around the world by partnering to bid on big international contracts. This is where inexperienced partners can greatly benefit from the global experiences and sales expertise of the larger export partners.



# the CBNC how to network book

*a practical guide for successful strategic alliances*



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## **section 3 business networking models**

### **summary**

competing in a changing market  
making the networking decision  
strategic reasons to network  
networking models  
functional business networks  
structuring your network

# business networking models

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## summary

In this section, we look at how networking functions as a strategic instrument to achieve a number of business objectives. We also examine the ways in which business networks can be organized, depending on the needs and resources of the participants. Finally, we look at some networking structural formats that have worked well for other groups.

## competing in a changing market

Many small and medium-sized enterprises today are facing new challenges in international and even domestic markets. Small companies may flourish by producing customized products for niche markets, but this degree of specializing can sometimes lead to limitations and rigidity.

Business networking – cooperative relationships with other specialized companies – is an effective way for these enterprises to optimize their complementary skills and, at the same time, maintain the degree of flexibility that is required in the increasingly competitive global marketplace.

## making the networking decision

Before entering into a discussion with other companies on the subject of networking, a company must be fully aware of its own strategic situation; that is its current status, where it wants to go and how it plans to get there.

There are basically three routes that a company can take to achieve its business objective:

1. **Go It Alone?** That is develop from the inside, using available resources within the company.
2. **Move Into The Market?** Secure the necessary resources by means of acquisition or dealing with suppliers and subcontractors.
3. **Network?** Cooperate with other companies to overcome any limitations based on lack of resources, capacity or expertise.

## **strategic reasons to network**

Business networking can be an effective instrument for achieving a number of development options available to a company.

### **networking to achieve market penetration**

With this strategy, companies attempt to strengthen and improve existing activities. Business networking can help participants reduce transaction costs through rationalization and coordination, take advantage of economies of scale, and at the same time, strengthen their market shares by means of vertical cooperation.

### **networking to achieve product development**

The object of this strategy is to complement the participants' resources in order to implement product change and development. Business networking with a product development focus allows companies to share existing resources and expertise, possibly share the cost of external resources and expertise, and be partners in sharing the risks inherent in product development.

### **networking to achieve market development**

Cooperation in the area of market development often occurs when enterprises with corresponding expertise or products identify with each other. Networking can be a means of accessing new markets through existing distribution channels, gaining insight into new markets and new users, and sharing comparable marketing resources and marketing knowledge.

### **networking to achieve diversification**

The strategy of cooperating to move into new markets with new products can be similar to a merger. However, with a business network arrangement, generally the risk and capital investment are much lower. Also, if need be, this agreement is considerably easier to dissolve. Networking arrangements allow companies who choose to diversify to exploit complementary resources, spread the risk of expansion and exploit economies of scale.

## **networking models**

In essence, there are three basic formats or models for interfirm cooperation. The terms are slightly different because the arrangements differ slightly. Although we tend to use the terms somewhat interchangeably, for purposes of this document, we generally are referring to business networks.

### **strategic alliance**

A strategic alliance is usually a goal-oriented cooperation among two or more businesses, based on formal agreements. Usually it does not involve the establishment of a separate new organization.

### **joint venture**

The joint venture arrangement is a goal-oriented cooperation among two or more businesses, involving the creation of a separate organization owned and controlled jointly by the parties involved. Usually they have their own management, employees, production systems, and so on. Cooperation tends to be limited to defined areas.

### **business network**

The business network is designed as a cooperation over the medium term among at least three (usually more) independent businesses in a strategic area of business activity. The objective is to improve the competitiveness and capabilities of the individual members of the business network while achieving collective goals. To accomplish this, the network may take on a variety of forms with regard to their function, structure, and organization.

## **functional business networks**

There are many forms a business network can take; listed below are three of the more common functional forms; production networks, service networks, and networks where a larger firm takes the leadership role, often as in a supplier relationship. Let's have a brief look at the form and benefits of each type of arrangement.

### **production networks**

These are usually enterprises who cooperate in the production of goods by making the best use of their combined resources and skills. There tend to be many shared areas of activity including people, production capability, technology and information. Production network members are able to achieve the level and range of production required to enter new markets, both domestic and global.

The benefits for the member companies of a production network include the sharing of knowledge, information and production capabilities. They also gain advantages in terms of economies of scale and utilization of the unique capabilities of each member, to specialize and undertake new product developments, and of course to capture new market opportunities.

### **service networks**

Business networks with a service objective tend to be enterprises that combine their collective resources to improve their competitiveness in the supply of some service. Members share the costs associated with research and development training, and marketing. An example of a service network would be an engineering consortium offering to do repair and maintenance work of complex electrical equipment. Members exploit the economies of scale by sharing work loads, geographic areas, specific expertise. Generally, the economies of scale would be out of reach of most small companies if it were not for a service networks arrangement.

### **lead firm networks**

The lead firm network is as the name implies – a network initiated by a large business called the lead firm. The purpose is to ensure that its suppliers can meet the quality, quantity and timetable of delivery required by the lead firm. At the same time, suppliers benefit by gaining access to a guaranteed market, as well as improved management and production techniques.

Such business arrangements have a number of benefits for the lead firm including a reliable long-term source of supply, and the opportunity to focus and specialize because production activities have been subcontracted. In many cases, the lead firm also has access to the innovations from smaller companies.

## structuring your network

When it comes right down to it, business network members can organize their activities in a number of interesting structures or formats: a vertical network, horizontal network, even something called cross-sectoral business network. Let's have a brief look at each.

### vertical business networks

In a vertical structure network participants have interrelated relationships which build on each other to supply the overall product or service. In other words, the specialized skills or talents from one firm, say purchasing from firm A, is combined with the skills of production from firm B, and they in turn rely on firm C to be prime in marketing, and so on. The structure is vertical and there is generally no duplication of effort. This type of arrangement is ideal to build and market a complex product for example.

### horizontal business networks

The horizontal business network is made up of companies that operate in the same industry, have similar skills, and decide to adopt a network approach to exploit the economies of scale. The combination generally achieves greater scope and speed through participation in projects-in-common. Such projects might involve purchasing, training, technology sharing, marketing or export development and international trade.

### cross-sectoral networks

Cross-sectoral business networks generally involve several SMEs in different economic sectors collaborating in the design and production of new products. For example, a firm of naval architects might network with an electronics manufacturer, a commercial boat manufacturer and commercial fisherman. Together they might develop a new sonar product for international markets. This networking model even extends to emerging industries where small companies on the cutting edge of innovation, science and technology cross-pollinate to form a next generation-type of network.



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## section 4

### **making the networking decision**

summary

strategic analysis

networking expectations

corporate values

competitive situation

SWOT analysis

the one-page business plan

success factors

networking traps and pitfalls

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# making the networking decision

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## summary

One of the most important factors in the success or failure of a business network is the financial and strategic stability of each member enterprise. Because these business alliances tend to be less formal than a simple company creating a new subsidiary or acquiring a new company, they are sometimes not preceded by proper analysis of a company's current capabilities and those it will need in the future to be successful. A company must understand its own situation before it can weigh the pros and cons of making the business networking decision.

In this section, we look at how small and medium-sized companies can evaluate their own strategic situation – that is the situation within their own company at the present time. The goal is to identify the gap between what you can accomplish internally within your own company and what you can better achieve with a cooperative business network.

This involves a thorough examination of your own internal and external strengths and weaknesses, accompanied by a clear statement of the strategic objective in terms of what a network will achieve, the time frame in which to accomplish the goal, the specific capabilities already in place, and those resources that will be required.

We also examine briefly, based on international experiences, some success factors and some traps and pitfalls to avoid. All these form part of the analysis you need for your decision-making process.

## strategic analysis

A strategic analysis allows a company to assess its current status in terms of both its internal circumstances and its outside competitiveness. The following are questions that a company can ask in order to get a good picture of its current and projected strategic position.

### the industrial sector

- What are the conditions in the industrial sector we operate in?
- What determinants (natural resources, technology, capital, human resources, knowledge) are affecting us?
- What are the important demand factors in this sector (volume, mix, customer profile)?
- What is going on with related industries – the suppliers and service companies that serve this industrial sector?
- What are the conditions in the competitive arena?

### the competitive situation

- What is the competitive situation in the industry?
- What conditions are influencing our suppliers? Our customers? Our competitors?
- Are there any potential newcomers?
- Are there potential substitutes for our products/services?
- What is our competitive position regarding our products? Our market areas?

### our strategic cores

- What are the resources, expertise and relations that give us an advantage in the marketplace?

## networking expectations

One of the best ways to determine if the business networking concept is right for you and your company is to answer a number of basic questions about your own expectations and your expectations for the strategic alliance. Many of these questions are usually answered in a feasibility study or detailed business plan. However, they are important starter questions to get potential network members thinking about the commitment required, the issues and concerns to do with network formation, and the smooth running and successful operation of the business network.

In terms of your own expectations, for example, are you willing to commit your time to managing the network? Are you able to attend regular network meetings? Can you accept decisions agreed to by other network members? Are you willing to resolve network issues and concerns according to the best interests of the group? Are you willing to be flexible and recognize that circumstances may change and that your agreement might also have to change?

In terms of the business network itself, ask the following questions: Will the network act independently of the companies with regard to management, staff, money? Will the network generate revenue and operate on a profit basis? Will the network invite other companies to join the network if it is in the general interests of the group? Will the network put into place measures to protect your company secrets both during negotiations and the operation of the network? Answers to questions like these will quickly determine if you and your company are ready for business networking.

To help you complete your assessment of network expectations, a worksheet is provided in the Self Evaluation Workbook companion publication available from the CBNC.

## corporate values

Corporate values are the beliefs, attitudes and actions a company practices about different aspects of its business. How it treats employees or customers for example. Determining corporate values is part of the strategic analysis process of evaluating your situation before you decide whether business networking is a good strategy and what kind of partners you need.

Before you seek partners, determine what your company's corporate values are. What attitude does your company have towards business networking? What aspects of the company's corporate culture must be taken into account when seeking network partners? Is your company able or willing to change to accommodate the needs of the other potential partners?

To help you complete your assessment of corporate values, a worksheet is provided in the Self Evaluation Workbook companion publication available from the CBNC.

## competitive situation

Part of the strategic analysis process allows a company to assess its current status in terms of internal circumstances and competitive situation. This is an opportunity to conduct your own internal and external audit and record a snapshot of your strategic position before you embark on a business networking exercise.

It is important for any company interested in business networking to have a clear understanding of its own competitive situation. There are several questions you need to ask yourself about your company before it commits to an alliance. You can make the list as long or as short as you like. The key is to select strategic areas that are crucial to your company's success and to realistically and honestly rate them in terms of their current status. The goal is obviously to have as many positives as possible. Could the implementation of a business network improve your strategic position?

To help you complete an assessment of your competitive situation, a worksheet is provided in the Self Evaluation Workbook companion publication available from the CBNC.

## SWOT analysis

The final tool in the strategic analysis category is the very popular SWOT analysis. This stands for **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats, a simple management technique for providing a one-page snapshot of a company's strong points and the ways that these competitive advantages and core expertise can best be utilized. It also uncovers areas where your company might have critical weaknesses and shows whether there is potential for improvement. All these are important elements that you should know in advance before committing to a business network.

By filling in the analysis sheet with answers to the four key questions, you have a much better understanding of your business and where it is going in the future. For example, can your company exploit the possibilities and opportunities with a strategic alliance? Would a network help overcome the threats and weaknesses the firm has?

To help you complete your SWOT analyses, a worksheet is provided in section 8 of this publication.

## the one-page business plan

Everyone has a business plan – it might be in their head or on the pages of a lengthy and voluminous document in the bottom of the desk drawer. The trick is to draft a plan of action that's on a single page – something that allows you and others to focus on your most important issues and goals, define directions in addition to quantifying your main products, services, markets, technologies and core competencies. Your one-page plan also helps your partners determine the critical success factors and projects to achieve your business networking goals.

In general, companies should strive at the outset to come to a general agreement on goals and overall project direction. The business plan is the blueprint for your networking idea and the final stage in a company's strategic analysis. It uses this information to set the overall direction for the strategic alliance. Simple, well-defined goals make it easier to determine whether the partnership is achieving its intended purpose. Getting it all on one page is the first step in that all-important process.

The business plan uses the information from the strategic analysis to set the company's strategic direction. Your business plan should answer the following questions:

1. What is the company's business idea?
2. What is the company's main corporate goal?
3. Which products/services should be given priority?
4. What are our market priorities?
5. What are the important purchasing criteria?
6. What are our core areas of competence?
7. What technology is most important to us?
8. What are the critical success factors for us to achieve our goal?
9. What projects will allow us to achieve our goal?

To help you complete your one-page business plan, a worksheet is provided in section 8 of this publication.

## success factors

Here we look at the success factors inherent in a business network.

International experience gives us a number of critical factors for business networks that are successful and meet objectives – elements to be in place before any company commits to the networking process.

The following list of success factors is taken from a number of international business networks. How many do you agree with? How many will be built into your business network?

- The network has developed its own structure based on the members' needs and objectives.
- The network is member-driven in terms of participation and decision making.
- The network is designed to achieve early success.
- Frankness and trust are a primary commitment.
- The network has clearly defined goals and objectives.
- The member companies agree to contribute sufficient resources to the network.
- Accountability and responsibility are clearly allocated.
- The network has an effective information system.
- Members monitor the progress of network activities by means of regular reporting and revision of cooperation agreements as needed.
- Each member company is represented by the appropriate level of management, with necessary authority to commit their enterprise when required.
- Members recognize the limitations of the network.
- Networks assign administrative/managerial staff to do the work.
- Clear, simple agreements form the basis for all network activities.
- The members have a genuine commitment to the network, based on self-motivation. This commitment is shared by all key people in each company.
- The network is focused on a specific target market.
- Member companies have the necessary funds and are prepared to commit them.
- Participating companies have something in common.
- All members have something to offer the network that is valued by other participants.
- Networks present an image of quality and stability.

## **networking traps and pitfalls**

Not all networks are successful. Some do indeed fail or have to be dissolved. Understanding where they fail in the overall process and the reasons for this may help your network avoid the same problems.

Experience with networking in several countries around the world identifies four critical stages at which network failure can occur. Challenge your network to avoid these traps and pitfalls.

### **strategy development**

Potential network participants cannot agree on which strategies to adopt.

### **partner selection**

Companies are unable to find suitable partners.

### **formalizing the agreement**

Partners abandon the process at the point of drawing up a formal agreement.

### **implementing the network project**

Even after formal agreement has been reached, partners may disagree on how to manage and operate the network.

Research around the world indicates that one of the biggest threats to a small business network is the lack of a focused, committed facilitator – a business network advisor – who can tend to the myriad of details of the alliance, thereby allowing the partners to devote most of their energy to their prime businesses.

Networks can fail for a number of other reasons as well. For example, network members go into competition with each other, or the network may move away from its core business. There could be a lack of a motivated seller for the network's products or services. Also, sometimes network members won't share business opportunities or lack the effort and commitment needed to make the group a success.

Section 7 of this publication deals with network termination and strategies for dissolving the business alliance.



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## **section 5 seeking the right partner**

summary  
the search for partners  
preparing to find partners  
developing search criteria  
identifying and ranking candidates  
selecting partners  
hidden agendas  
personal chemistry  
internal commitment  
champions  
conclusion

  
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# seeking the right partner

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## summary

When the decision has been made to pursue networking as a business strategy, a company will set about seeking suitable network partners. Your company may already have potential candidates or partners in mind. Or, you may have to start your search from scratch. This section looks at formulating specifications, implementing the search process, and screening potential partners for your business network.

## the search for partners

The search for partners can be approached in different ways. Some companies know which businesses they'd like to cooperate with almost as soon as they get the networking idea. Other companies are enthusiastic about networking as a concept, but have no idea what to look for in a partner, or where to start looking. Some approach the partner search in a casual way, through friends, colleagues and other personal contacts. Others take a more formal approach. In all cases, you should play an important role in helping your company identify what they need from their network partners, and carefully evaluate all likely candidates.

A formal partner search includes the following stages:

- 1. prepare to find partners**  
What network opportunities are available to us?  
What are our objectives?
- 2. develop search criteria**  
What do we need from our network partners in order to meet our objectives?
- 3. identify candidates**  
What companies are able to meet these needs?
- 4. select partners**  
Of the companies that meet our needs, which ones do we want as network partners?
- 5. form a business network**  
Invite potential candidates to an initial meeting.

## preparing to find partners

Many partner searches fail because the lead company has unrealistic expectations or a half-hearted commitment. For this reason, the point of departure should be the strategy document that states the company's expectations of networking and the strategy they are interested in pursuing.

It is always worthwhile for a company to spend time identifying the competencies and attitudes they bring to networking and clarifying their expectations of future network partners *before* beginning the search process.

### expectations

What kind of partner is the company looking for? An equal partner? An associate? An assistant?

What kind of network project does the company have in mind?

What directions for development would the company like to pursue?

### values

What attitude does the company have towards networking?

What aspects of the company's corporate culture or values must be taken into account when seeking network partners?

Is the company able and willing to change to accommodate the needs of potential partners?

### core expertise

What are the areas of core competence that give the company its competitive advantage in the marketplace? Resources? Expertise? Relationships?

Is the company looking for a partner that reinforces their areas of core competence, or one that complements them?

## developing search criteria

After the company has analyzed what they can bring to the network relationship, and what they expect from it, they are ready to formulate the search criteria or specifications for network partners. The company's strategic analysis is a useful tool for defining the search criteria.

It is important to identify partners whose development potential fits well with the company's own resources. Look for partners motivated to take advantage of the opportunities provided by business networking. Remember, the best motivation is financial!

Specifications should be detailed enough to limit the search to a fairly narrow sector. A search that is too wide will be expensive and time-consuming. On the other hand, if the requirements are too specific, the search may be doomed to failure. It is important to be flexible and to have enough alternatives.

## identifying and ranking candidates

The process of identifying candidates is divided into two activities: finding companies which meet the search criteria and ranking them according to their desirability.

Finding candidates that meet your search criteria can include a review of:

- databases
- directories
- network exchange markets
- advertisements
- business network advisors.

Once you have found candidates, they should be ranked according to how well they meet the needs of the company conducting the partner search. It is important to have information about the business strategy and organization of potential partners – details that are best gathered through meetings with business owners and managers, and through contacts in the relevant industry.

Other good sources of information about potential partners are the candidate's close associates, such as customers, suppliers and competitors, trade associations, the candidate's employees, and business advisors.

When ranking the candidates, consider their corporate culture, the results of previous cooperative ventures, their stability, decisiveness, management, and ownership structure as well as the quality of products and services and their competitiveness and core competencies.

Even though you have generated a set of specifications, it is important to stay open to other possibilities. Decide how much time and money you are prepared to commit to the search process. If the first screening fails to produce a suitable partner, will you continue the search? Suggest that a potential partner share the cost of the business network advisor; this shows sincere interest in the process. Be prepared to articulate what you have to offer to potential partners. Initially, cooperation should be based on what the partners do well, that is, on their established business areas. Focus the negotiations on a win-win situation.

## **selecting partners**

At this stage, you need to assess how appropriate the top-ranked candidates are, and how potentially effective their partnership could be. Two important factors are the elements of the candidates' resources and the quality of those resources.

The candidates' resources may include:

- production capacity
- distribution network
- warehouse facilities
- raw material supply
- technological expertise
- financial resources.

The quality or extent of those resources may consist of:

- how much capacity
- what technology
- turnaround performance
- strength of the distribution network
- reliability of suppliers
- other factors.

## **hidden agendas**

Potential partners may bring hidden agendas to your negotiation table and you should be aware of this in advance if possible. Therefore understand what benefits the partners seek from the business network or these could be at your expense. Are you going to create a competitor or strengthen a competitor by forming a business network with this partner?

For example, firms can gain exclusive marketing and distribution rights to a product only to mothball the item because they saw it as competition for their own product line. Sometimes larger firms use business networks as insurance policies to hedge their bets. As such, they are not really interested in having the network succeed or are not fully committed to its success. Do some homework in advance and avoid these unhappy circumstances.

## **personal chemistry**

Good personal chemistry among the key decision makers and a sense of compatibility are important parts of the business networking success. No matter how good the eventual deal or partnership looks on paper, when you come right down to it, it will be the personal chemistry among the partners that will make or break the deal. While there is no hard and fast rule to evaluate this part of the equation, spend time trying to get to know your partners on their own turf – their character and compatibility with yourself and your firm.

## **internal commitment**

You must also have commitment from the operational staff in the various companies who will actually carry out the implementation of the business alliance. Companies must sell the venture to their own staff and ensure that equal support is present in their partner firms. Sufficient effort and incentives must be put in place up-front to bring the middle management on board and to channel their energy into supporting the partnership as opposed to undermining it.

## **champions**

A champion is someone who believes in the business networking idea and strives to get it accepted and implemented by the rest of the organization. If your network can find or recruit this type of champion person as a partner – someone who can steer the project through the bureaucracy of the corporation and be credible in defending its merits – then your business network is on the road to success. Seek out these people and build your networks around them.

## **conclusion**

Personal factors such as trust, commitment and bonding are less tangible and more difficult to assess than the business criteria outlined in the previous section. Nonetheless, such factors are very important in your final selection. Your business network advisor should be aware that if the companies fail to meet each other's expectations in the personal arena, even though the business factors indicate a good fit, partnering may not be a good choice.

The conclusion of the partner search may be that the company identifies as many suitable network partners as it needs; in this case the group will proceed to Phase I in the business network process which consists of a feasibility study for a cooperative project. However, it is also possible that the first search may not turn up any appropriate partners. In this case, the search process may begin again with the development of new search criteria.

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## section 6 forming the alliance

- summary
- clarifying relationships
- surveying partners' resources
- prioritizing areas of cooperation
- negotiating your alliance
- conflict resolution
- the letter of intent
- building good relationships
- professional practices
- drawing up the business plan

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# forming the alliance

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## summary

After the partners have been identified, the network moves into the formative phase. The purpose of this stage is to clarify the basic network idea, assess strategic directions for member companies, and establish the group's priorities. This work is summarized in the letter of intent, an interim agreement that covers the activities of the business network before the final agreement is signed.

In this section, we will look at how a business network moves through the various phases, including the role of the business network advisor throughout the process. We will also talk about building good relations among all the network participants, selecting areas of cooperation, developing good business practices, and finally drawing up the business plan itself.

## clarifying relationships

Once the network partners have been identified and have made a commitment to participating in a business network, what comes next? The first step is to establish agreement with regard to the business objective, the levels of responsibility, the expectations of the members, and other fundamental considerations. The goal here is to clarify the business network relationships.

You may think this is a repeat of what we said in the previous section on seeking partners, but the reality is that many companies form a business network without thoroughly clarifying their collective business strategy, their motivation for networking and their expectations or level of commitment to the process.



Here are key questions to ask yourself and your partners in the early stages of this process. This can be done either during initial network meetings or one-on-one with network members.

- Can the member companies identify the areas in which they expect to see positive effects on income and costs? Are these expectations justified? Are they shared among all the partners?
- If the network's objective has been difficult for individual members to achieve, how will the network solve the problem?
- What are the risks involved? Are they too great for any of the participants?
- Will individual participants have problems raising the capital needed to get the network up and running?
- How quickly will the network develop into an important part of the member companies' overall business activity?
- Do the member companies understand the diversity of common network projects?
- Are the member companies committed to the concept of networking?

These questions prepare the members for challenges that may arise later in the process, and improve their chances of handling them successfully.

#### **other points**

- Here are other key points to consider in clarifying the relationship:
- Is there a sincere commitment to cooperation among the group members?
- How will the members deal with conflicts within the group?
- Does each members' motivation extend beyond economic factors?
- Do any of the member companies have major suppliers or customers who could stop the project?
- Are there any agreements in place which could limit the sharing of skills and, market insight needed to achieve network objectives?
- Is the success of the network dependent on any key companies? If so, how certain is their participation and contribution?
- Are any of the members obviously fence-sitting or looking for a free ride?
- Are there any major differences of opinion as to how the network project will be organized and run?
- It may be helpful to review the benefits of business cooperation with the network members.

## surveying the partners' resources

It's important to get an accurate picture of the member companies' strengths, individually, and ability to work as a group, in terms of market demands, competitors, and implementation. This evaluation should be based on the one-page business plan and strategic analysis (SWOT – referred to earlier in this document) for each member. All partners should then share the individual one-page business plans and strategic analyses.

Sharing their completed one-page business plans and strategic analyses will bring the member companies closer together and further strengthen the network bond. This information sharing also sets the stage for effective communication among members, demonstrating the need to be open with each other, and providing opportunities for members to learn from each other. Once compiled, the business plans and strategic analyses form a resource that can be used to identify new network opportunities.

For many companies, preparation of the individual one-page business plan will be their first exercise in completing any sort of formal plan. In this case, there are side benefits to this activity: first, it demonstrates the value of business planning; and secondly, it sets the stage for the network planning process.

There are one-page business plan and SWOT analysis forms for individual companies to complete in the worksheet section of this publication (see section 8).

## **prioritizing areas of cooperation**

The next step in the process of forming your alliance is to select areas of cooperation and then assign priorities. In section 2 of this publication, we explored a number of areas that are especially suitable for cooperation – proven network experience in international business applications. Here, we look at the process you can take to develop your own cooperation priorities.

In many cases, network members come together with clear ideas for areas of cooperation. For example, complementary suppliers may be under pressure to provide coordinated delivery or turnkey projects, or small companies may be forced to work together to explore new markets in order to achieve the status associated with size.

Typically companies have fixed ideas about what areas of cooperation will be most rewarding to them. But in fact, experience shows that network members often discover additional complementary skills and resources. These spin-off projects are not only profitable, they reinforce the value of networking.

There are three steps you can follow to help your business network develop its own priorities.

### **step 1**

Each company makes its own list of areas for cooperation, and ranks them according to its own needs. The group then compares the lists. If there is conflict among the members as to which area or areas should take priority, they may need to ask more questions to help them arrive at a consensus.

### **step 2**

Through discussion, the group reaches agreement on cooperation priorities and a shared understanding of the timelines. In addition, they should develop a mutual understanding of the expectations, the consequences of the companies' investments in the cooperative project, and the allocation of resources.

### **step 3**

The group then commissions a feasibility study on one or more of the highest ranked projects. This feasibility study may be undertaken by the business network advisor or one or more of the network members. An effective feasibility study will take into consideration the management of the work schedule for the proposed project, working relations among the member companies, communications, consensus building, problem solving, and so on. Remember, the feasibility study should be seen as the lead-in to the network business plan.

## **negotiating your alliance**

Negotiating a partnership is quite unlike most business deals where companies try to get the best contract or terms of a sale. New techniques and processes have to be learned and practiced if cooperative strategic alliances are to be successful.

With a business partnership, negotiation is largely a process of defining mutual interest, establishing trust, and developing a problem-solving attitude while at the same time, establishing a business plan for the proposed strategic alliance. Therefore the negotiations should be used to get a better perspective of the other side's personality, capabilities and weaknesses, to clarify mutual goals and to establish the business and operational framework for the venture.

### **the negotiating team**

There is no simple formula for how to conduct business network negotiations or who should be involved. Negotiations will likely occur at several different levels in the various organizations.

Experience has demonstrated the importance of involving both senior managers, preferably the top executive and middle managers. Discussions should be focused on issues related to strategic and financial fit. Moreover, CEO involvement and visible commitment to the venture at this early stage provides important cueing for middle management and staff. The involvement of middle managers should focus on the day-to-day issues related to implementing the venture. For the venture to be implemented quickly, as many key players as possible should be sold on the venture early in the process.

Overall, the involvement of senior and operational management in the negotiations is the key to building a level of trust and collaborative attitude among the parties – things that can't be written into a legal agreement or letter of intent.

In certain cases, particularly when dealing in a foreign business culture, it is useful to involve specialized consultants to assist in the negotiations. Consultants knowledgeable in the culture, language, and business practices of the foreign environment and who have credibility and contacts in the area of your proposed venture can be of enormous benefit both in creating a better understanding of the potential deal and in facilitating it.

## **conflict resolution**

Business networks often involve partners with different cultures, capabilities, and ultimate objectives. A certain amount of conflict, therefore, is inevitable.

A moderate degree of conflict in an alliance can be quite healthy and a stimulus to creativity and improved performance. The key is to have a process in place that will keep conflicts from getting out of hand and causing serious disruption to the venture. Hence, companies should strive to reach agreement as to how conflicts among the parties are to be handled once the network is operational. Where a high degree of conflict is anticipated, it may be best to start with a highly focused alliance and a simple structure and build the relationship from there, working to find solutions to potential conflicts before attempting a more complex arrangement.

Having a mutually agreed upon and consistent set of management principles for the venture also helps. Many of the conflicts that arise within business networks are the results of misunderstandings or unclear or misread signals among the partners. Clearly defined and widely understood management principles and well-defined responsibilities can avoid some of the problems.

In the end, a formal method for resolving disputes will be beneficial and should be outlined as part of the agreement. This mechanism should be consistent with the nature of the network and the resources of the partners. It can range from having a designated mediator independent of the partners, to the establishment of an arbitration board consisting of people in each partner company who have dispute resolution experience and who are not involved in the conflict.

## **the letter of intent**

A letter of intent is an interim agreement that spells out the realistic goals, actions, and measurable results that must be achieved before a final agreement is signed. Certain networks will want to see a feasibility study before they create the letter of intent. Others will prefer to conduct the feasibility study after the letter of intent has been signed.

The letter of intent has two important purposes. First, when the members sign their letter, they make an active commitment to the business network process and to the decision making process. Secondly, it acts as a work plan for the network project.

The letter of intent should include the names of the members, the network goal and business idea, members' responsibilities, division of work and costs, proposed model for organizing the network project, and a progress plan for this level of network development.

## **building good relationships**

The members of the business network and their business network advisor all play a key role in building positive and productive working relationships among the network team. The network team should know how to generate confidence in the networking process, build trust among partners, and facilitate problem solving. It's important to have good relationships among all the parties involved in the business network. This includes not only the individuals involved in the network, but the member companies as well. Here are points to consider.

### **building trust**

Trust is one of the key success factors in business networking. There are no magic formulas for creating trust – you have to build it, and it can take time, but it will be well worth the effort. The first ingredient is to set a high trust example for yourself. Right from the beginning, display a high level of integrity in all your dealings with network partners. This will set the tone for all future network relationships.

Listen to negative as well as positive views and show that you understand your partners' fears and concerns. Loss of control, information sharing, working cooperatively with competitors, and the uncertainty of a new venture are threatening to many business owners.

### **share information**

Provide information about your business experience in order to encourage an insecure partner to feel more comfortable about the process. Details about how other members have dealt with their concerns can be very helpful.

### **participation**

We've said that to make progress and build trust, the network partners should be high level decision makers in their companies, such as general managers, CEOs or owners. But when you start talking about details of production, product development, marketing conditions, etc., it is equally important to include the people in charge of those areas.

### **cooperation**

It's important to consider how the business network will handle ongoing relationships after an agreement has been reached. The participants should discuss these points in advance. It is usually helpful for the people who will be working together to get to know each other away from the negotiating table. The group should clarify how they want to work together. For example, must they reach consensus on every decision?

Participants must understand each other's corporate culture. How is criticism offered? How are people motivated? The network members may be familiar with their own company hierarchy, but a network is a group of equals. The group should also decide on how conflict will be handled.

Finally, keep in mind that as the network develops, the people involved may grow farther apart instead of closer together. Without the necessary trust and motivation, the network is much likelier to fail. In this situation, it may be best for the group to split up. Termination strategies are outlined in section 7 of this book.

## **professional practices**

While good networking relations are important, so too is the quality of the relationship among the individual network members, and between the business network advisor and the network as a whole. Here are practice guidelines that help place the business network on a professional level.

### **conflict of interest**

There must be no conflict of interest regarding the management or ownership of the network, which might lead to unfair dealings and distrust among the partners.

### **confidentiality**

All network members must maintain confidentiality, an important factor in trust building. Remember that information sharing is a key factor in successful networking. Resolving issues that may arise between confidentiality and openness requires good judgment on the part of all parties.

### **attitudes**

Confidence breeds confidence. Positive attitudes towards business networking should be maintained at all times by all network members.

### **relationships**

Your network advisor can act as a consultant both to the partner companies and to the network itself. For the companies, it is important to know who you're dealing with and to make sure that your company representative is senior enough in the organization to be mandated to make decisions. For the network, keep in mind that the advisor has an equal responsibility to each member in the network.

### **internal support**

It is important for the success of the network to have support from within the participating companies. Naturally this will depend to a great extent on the confidence and enthusiasm shown by senior management representing each of the partner companies. Personal involvement in network activities at the executive level demonstrates the company's commitment to cooperation as nothing else can.

The network project will inevitably involve change in each of the member companies, which may lead to uncertainty, and perhaps even opposition among employees. Prepare the network partners for the concerns they may receive from employees.

You can help the partners with advice on creating a culture of change in their organizations. Encourage them to explain the goals and strategies of networking, the background, the benefits as well as the risks. Help them to market the network internally as a venture that will bring new opportunities for individual employees, as well as for the company as a whole.

### **good communications**

Good communications are vital to network success from the very beginning. Establish an open, effective communications style that will benefit everyone associated with the network.

Get to know the network members. Meet them socially, as well as in a business setting. The better you understand them and their organizations, the more effective you'll be as a network partner.

Encourage your associates to share their ideas. Get them to state their views on all aspects of network business, from potential partners to organizational and management issues. This will allow the partners to get to know each other. It also helps to develop the habit of thinking in terms of the network.

### **drawing up the business plan**

The network business plan is a tool for selling the network and a set of guidelines for managing the network. In other words, it has the same function as a single company's business plan. However, you may find that the network business plan presents more challenges, for these reasons:

- the network is a new venture
- the network is a combination of several companies, each with its own culture, goals, and priorities
- not all the participants may have experience in business planning
- not all of the participants may have experience in assigning and accepting partnership responsibilities.

Here are simple guidelines for facilitating a successful network business plan:

- think of the network business plan as a process, not an end result;
- make sure that the plan reflects the network's goals and ideas, not just your personal goals;
- challenge the strategies and assumptions in a constructive way;
- don't get too caught up in detail.

Remember that a business plan is not a guarantee of success, and it will not prevent failure. It is really a process to consolidate the members' commitment to the network and to invite questions and challenges about network strategies and assumptions.



**writing the business plan**

Before sitting down to write your plan, the group must discuss what should be included.

Some elements to consider:

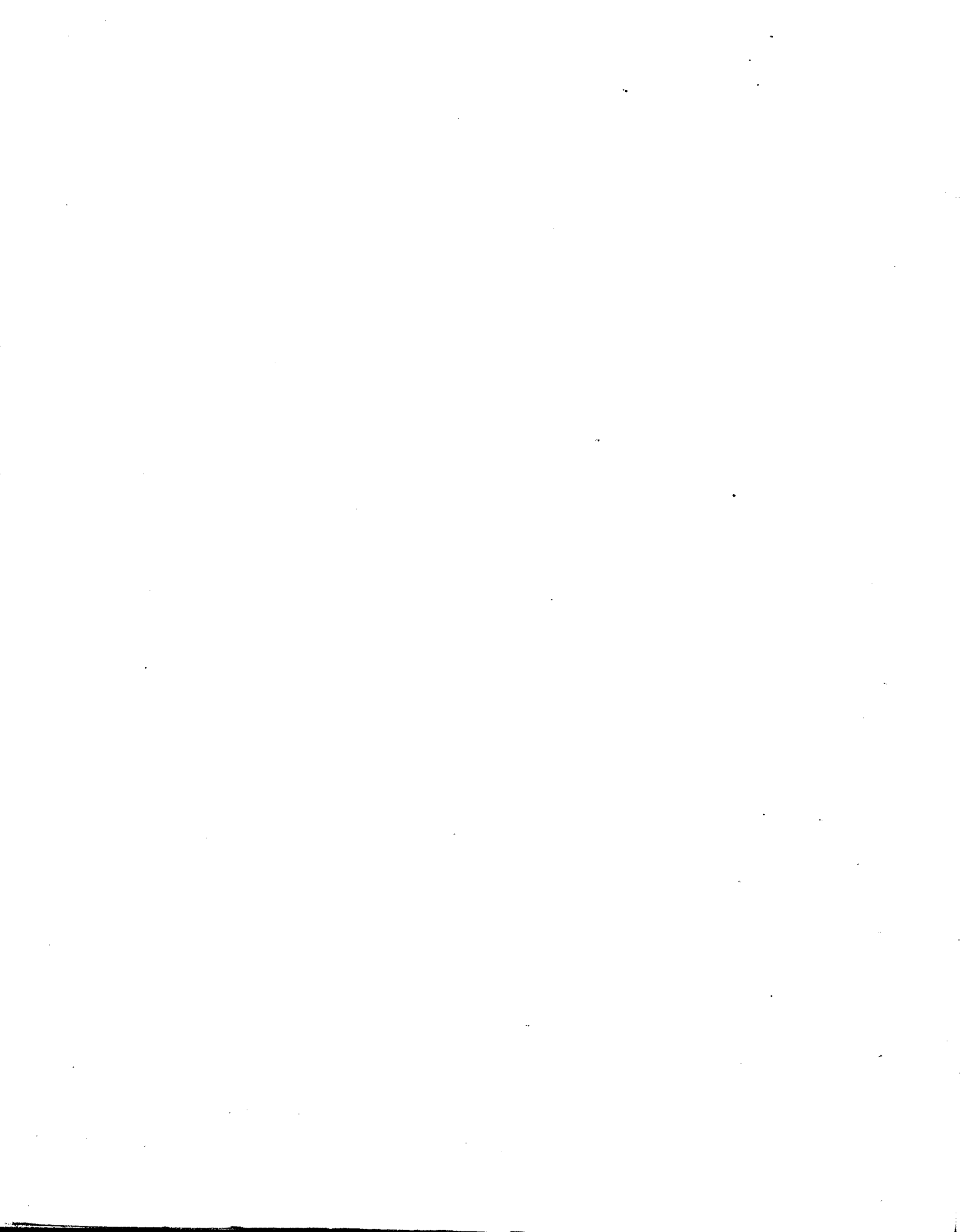
- short-term and long-range goals
- business idea
- budget and financial issues
- key strategies
- products and markets
- purchasing criteria
- expertise
- technology
- individual and group competitive advantages
- weaknesses and areas that need further development
- new demands on expertise and capacity created by cooperation.

The completed business plan will include a detailed market survey or analysis, the strategies for achieving the goals, and the division of roles and responsibilities. The plan should also identify and address conflicts that could affect the network's progress and results and prepare budgets for network projects (sales, operations, capital expenditures, financing). Finally, it should examine the effects of the business plan on the participating companies' operations and finances.

**some tips on style**

Here are style tips that might help your network business plan become an easy-read:

- include an executive summary
- be positive and objective, clear and concise
- explain why the project will succeed, and provide support for your claim
- assume your reader knows nothing about business networks in general, or your project in particular
- stay focused on the network and maintain a commitment to integrity and quality.



# the CBNC how to network book

*a practical guide for successful strategic alliances*



## section 7

### launching the business network

summary

network startup

managing size differences

protecting assets

managing network change

network growth and ownership

the learning process

network deliverables

network termination

termination strategies

CBNC program phases



**Canadian Business  
Networks Coalition**

# launching the business network

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## summary

Business networks occupy an increasingly prominent role in the competitive strategies of today's companies. The ability to form and manage cooperative networks and to reap the benefits that they can create will be a key to surviving the intense and dynamic competitive environment of the next decade.

To be successful, alliances require great care in design, preparation and implementation. Taking shortcuts can result in either lost time and money or, in certain cases, a loss of key skills and competencies. In this section, we look at the final stage in the process – getting the network up and running and producing results – facing the trials and tribulations of success and failure, and managing change and growth.

## network startup

Once a letter of agreement has been signed by the partners, the real work begins. Success depends on the day-to-day operating practices of the business network – what you do after the contract is signed, the news release is issued and the euphoria wears off. No matter how good the agreement, and how clearly defined the goals and responsibilities, success will be achieved only through careful and attentive management of the venture.

Unfortunately the implementation stage of an alliance is often referred to as the 'Cinderella' phase. Several studies have shown that partners forming an alliance put a great deal of effort into the details of negotiating the agreement, but tend to pay insufficient attention to managing the venture.

The management of the venture is really the management of a relationship: it requires the same nurturing, care, attention, trust and respect as human relationships. Often, it involves the same kinds of ups and downs. Unless partners have substantial experience in managing business networks, care should be taken to avoid trying to force results too quickly.

## managing size differences

To be successful, partnerships among companies of substantially different sizes frequently require the fostering of a special environment. Although the business network may be among a small company and a particular business unit or division of a larger company (as opposed to the company as a 'large' whole), the differences in bureaucratic cultures and operational practices may still stifle the venture and overwhelm the smaller partners.

To ensure a smooth relationship in these types of ventures, the larger partner should consider stepping outside its traditional hierarchy to create a special task force or horizontal team with decision-making capability to relate to the smaller partner. Other techniques to address the size problem include regularly scheduled meetings among the partners to ensure mutual understanding and speedy decision-making. Perhaps the most effective approach is to provide the venture with as much autonomy as needed in its specific area of activity, whenever possible.

## protecting assets

Partners must ensure that knowledge that isn't required by the relationship is protected both formally and organizationally. Formal protection may be achieved through patents and the terms and conditions of the agreement. Organizational protection involves:

- monitoring information flow
- isolating project teams from the rest of the company
- setting up special walls
- educating employees about the type of information they can share
- establishing a project manager for information exchange.

When considering what knowledge needs to be protected, don't think only of patents and formulas. The knowledge that you take for granted, such as management or organizational skills, may be extremely valuable to a competitor and could do serious damage to your company if inadvertently divulged.

## managing network change

A critical aspect of alliance management and implementation involves the management of change. Numerous studies have shown that successful networks undergo dramatic changes in their first few years as a result of changing economic conditions, new competitors, new technologies, revisions in partner goals, changes in capabilities and circumstances, and the loss or reassignment of key managers. Managing a business network requires paying close attention to internal and external changes that can affect the venture.

Network management involves a continuous process of negotiating and reaching agreement on the nature and value of current arrangements. Any ideas about rigid planning and control should be tempered by the reality of the alliance's competitive environment. Partners unwilling to change or be flexible are unlikely to enjoy much success from their business network.

## **network growth and ownership**

Imagine a successful network operation in which the member companies have shared their resources to achieve a good market position and strong potential for growth. The network is managed very well by personnel from the member companies. As a result, the operation is experiencing healthy growth. Communication with the member companies is handled formally through board meetings and budget and strategy sessions. Transactions with member companies are based on market prices, so they're not very different from any other transaction.

The result of all this is that the network begins to separate from the member companies; stops depending on them for financing and production; and starts making decisions that are in its own best interest. The members may not even realize that this is happening, particularly if the network operation isn't demanding help in the form of capital or expertise.

If the network members have not planned for this degree of growth, problems may arise. One solution may be to consider network growth and independence in the long-range planning that is done during network start up.

## **the learning process**

Learning is the key to extracting value from a business network. Partnerships can and should be an opportunity to learn and adopt the capabilities that your company needs to be successful in the longer term. This involves the creation of special procedures and attitudes to ensure that what needs to be learned is absorbed and used. In most cases, managers must modify their core operations and traditional organizations so that they will be open to learning from their network partners.

## **network deliverables**

Without losing their focus on the long-term strategic objectives of the business network, managers should ensure that there is a continuous stream of short-term deliverables or medium-term achievements. These do not have to be significant achievements, even small things will do. They will help to demonstrate activity and progress, build confidence in the venture, and keep enthusiasm high for the partnership at both operational and senior management levels of the companies involved.

## network termination

Generally, a business network is terminated either because the network has failed to meet its goals with regard to market position or the creation of profits, or because some or all of the members can no longer see the benefits of participating any further. A business network may also be terminated for less tangible reasons, such as a lack of trust among the members.

Regardless of the reasons for ending the network, a successful termination, if it does come, should meet basic criteria. It should cost the network participants as little as possible to terminate. The termination should also be fair and should not preclude further cooperative ventures. It should not jeopardize the member companies' relations with customers, suppliers and investors. Finally, the return of personnel, functions and responsibilities to the member companies should be completed as smoothly and equitably as possible.

## termination strategies

Before dissolving a business network completely, the members might wish to discuss other possible strategies:

Can the network be revived by replacing partners who wish to withdraw, or by bringing in new members or new ideas?

If a network project is losing money, can that activity be eliminated?

Can the network move out of commercial activities and into useful non-commercial activities such as developing a social business networking group for helping each other improve their management techniques?

## CBNC program phases

For purposes of funding and management, the Canadian Business Networks Coalition has divided network start-up activities into three distinct phases of development. Complete details are available from the CBNC.

This three-phase process is a good model to follow for any emerging alliance. The phases are summarized below.

### phase I

At the first phase, it is important for each company to go through a thorough review of its own situation, and determine its strategic needs. Once these needs have been determined, a letter of intent is signed. The letter of intent is an interim agreement whereby the parties specify the companies' objectives for the project. After the purposes of cooperation, assumptions and expectations of one another have been clarified, the companies agree on realistic goals and measurable results that must be achieved before a final agreement is signed. This establishes an official progress plan for further work.

A CBNC accredited business network advisor should be particularly helpful in achieving the outcomes of this phase. Developing mutual trust will be an important element in the success of network formation.

### **phase II**

At this stage, the companies consolidate the work from Phase I, and then develop a viable business plan for the network. The business plan should have a life of its own, and represent a corporate activity that is distinct from that of the individual network members. It can be more elaborate and extensive than the one-page document suggested in the worksheet section of this publication.

It is not necessary to establish a business network as a separate company. For example, the mutual exchange of resources (cooperation on production and technology) might be organized in a satisfactory manner through agreements and the establishment of an administration located in one of the participating companies.

If all companies agree with the business plan, a letter of agreement to form a business network is signed. The business plan should include an implementation plan, including the administrative processes necessary to achieve its objectives. A business network advisor can be helpful in working the companies through this process.

### **phase III**

At this stage, the business network increasingly develops a life of its own while implementing the business plan, all the time achieving the business objectives of the individual members. If the business objectives of the network are significant to the individual network members, then the continuing success of the network is significant to the corporate success of the individual members.


Early successes may be important to the network and should be encouraged in the development of the business plan.



# the CBNC how to network book

*a practical guide for successful strategic alliances*



  
**Canadian Business  
Networks Coalition**

**section 8**  
**worksheet series**  
SWOT analysis  
partner selection  
negotiating your alliance  
your business plan  
letter of intent issues  
creative thinking  
generating new ideas

# SWOT analysis

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## why do this exercise?

SWOT is part of the strategic analysis process that allows a company to assess its current status in terms of internal circumstances and competitive situation before entering a business network situation. These are all-important factors in the decision to commit to a business network.

## what the theory says

SWOT raises answers to a number of key questions under the four letters of the SWOT acronym: **S** What are the companies most important areas of competitiveness and how do you best employ and strengthen these? **W** Which weaknesses are the most critical for the company to deal with and how can these be improved? **O** What are the companies best external opportunities and possibilities and how can these be utilized or optimized? **T** What are the most important and emergent threats and how can these be eliminated or avoided?

## instructions

Fill in the analysis sheet with answers to the four key questions about your business and where it is going in the future. Can your company exploit the possibilities and opportunities with a strategic alliance? Would a network help overcome the threats and weaknesses the firm has?

## notes

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# SWOT analysis worksheet

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*Complete this SWOT analysis sheet with answers to the four key questions about your business and where it is going in the future (refer to the theory section on the opposite page). Can your company exploit the possibilities and opportunities with a strategic alliance? Would a business network help overcome the threats and weaknesses your firm has?*

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**strengths**

maintain

**opportunities**

utilize

**weaknesses**

improve

**threats**

eliminate/adjust

# partner selection

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## why do this exercise?

Partner selection is probably the single most important element of business network. There are no shortcuts – it takes time and resources to select and analyze partners. This checklist helps focus the issues which may be important to your alliance and will help you define your expectations in advance.

## what the theory says

No matter how simple the strategic alliance being contemplated, you should pay particular attention to evaluating potential partners' capabilities and suitability for the arrangement. Sometimes partners meet the requirement of the project objective – sometimes they have to be found! In many business networks, partners either know each other already, or have had previous business dealings and now want to formalize that relationship. However, in many situations, you have to actually go out and search for your partners in much the same way you would recruit new employees to a firm. It is important to develop search criteria for your new partner search and define your company's expectations of networking in advance.

## instructions

The page opposite lists some of the more important criteria for good partner selection. Check off or prioritize the ones you feel are most important in your partner selection and search strategy. Keep it handy and build it into your ranking of existing or potential partner candidates.

## notes

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# checklist for partner selection

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*Check off or prioritize the criteria you feel are most important in your partner selection and search strategy. Keep it handy and build it into your ranking of potential candidates.*

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- Know clearly what you need from a strategic alliance and whether your partners really have it.
- Take time to understand your partner's real strengths and weaknesses. Don't be fooled by superficial appearances.
- Make an effort to understand why your partners want to do the deal.
- Understand your potential partner's organizational and management structures, decision-making process, financial capabilities, employment policies, profit and growth orientations, as well as their financial and accounting practices in terms of compatibility with yours.
- Assess your company and the proposed relationship from the perspective of your partners. Is it a good deal for all of you?
- Pay close attention to the differences and similarities between your corporate culture and that of your partners. What about the business culture of a potential foreign partner?
- Know where your partners are situated in their industry. Are they leaders or followers?
- Understand the competitive aspects of the partnership – are you strengthening your company or creating a new competitor?
- Look at the track records of your partners. Have they lived up to previous partnership commitments? Have they litigated against former partners? Is there a history of patent and trademark infringements, health and safety violations or labour unrest?
- Know how close the alliance is to the core business or product of the partners.
- Be aware of your partner's other alliances and understand the importance of the proposed venture within the partner's corporate portfolio.
- Make sure there is policy and operating level commitment in all companies.
- Seek to identify champions in the alliance. Understand the influence of the parent companies on any of the partners in your alliance.

# negotiating your alliance

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## why do this exercise?

Negotiating a partnership is quite unlike most business deals where companies use a position-maximizing, almost adversarial strategy to get the best contract or terms of a sale. New techniques and processes have to be learned and practiced if cooperative strategic alliances are to be successful.

## what the theory says

With a business partnership, negotiation is largely a process of defining mutual interest, establishing trust, and developing a problem-solving attitude while at the same time establishing a business plan for the proposed strategic alliance. Therefore the negotiations should be used to get a better perspective on the potential partner's personality, capabilities and weaknesses, to clarify mutual goals and to establish the business and operational framework for the venture.

## instructions

Review the checklist opposite and identify areas where it differs from your normal negotiation strategy with conventional business deals. Come to the negotiations with a new understanding of the new engagement rules.

## notes

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# negotiating your alliance checklist

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*Review this checklist and identify areas where it differs from your normal negotiation strategy with conventional business deals. Come to the networking negotiations with a new understanding of the new engagement rules.*

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- ✓ Be clear about your strategic agenda before you begin the process.
- ✓ Know your bargaining strengths.
- ✓ Know what you are prepared to trade off and what you are not – know what constitutes a deal-breaker for you.
- ✓ Involve both senior management and those who are going to manage the alliance in the negotiations.
- ✓ Negotiate as equals – don't be intimidated by organizations larger than your own.
- ✓ For international alliances, have someone on your team who speaks the appropriate languages.
- ✓ Explore and define your mutual interests and benefits together.
- ✓ Don't rush to the deal – take a hard look at each stage in the process.
- ✓ Use the negotiation process to build understanding and commitment.
- ✓ Avoid coercive tactics and be prepared to give as well as take.
- ✓ Ensure there are appropriate measures in place for patents and confidentiality agreements, and to protect any proprietary information disclosed.
- ✓ Balance the unveiling of your capabilities and information with those your partners unveil.
- ✓ Use a non-binding letter of intent to work toward a clear understanding of objectives, rights, responsibilities and implementation.
- ✓ Work toward a clear picture of what the short and medium-term look like.
- ✓ Ensure there is a clear understanding of areas of competition and cooperation.
- ✓ Ensure the legal agreement supports the business concept of the alliance.
- ✓ Leave room in your agreement for growth and change.
- ✓ Before inking the deal, make sure you have had an objective look at it. Don't be afraid to walk away if it doesn't feel right.

# letter of intent issues

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## why do this exercise?

To get to the point where a non-binding letter or statement of intent can be drafted, a number of key issues need to be negotiated by all key members of the business network. This checklist helps identify the important issues that you feel need to be discussed before you draft the letter of intent.

## what the theory says

A letter of intent is an interim agreement spelling out the goals, actions, and measurable results to be achieved by the business network before a formal agreement is signed. The negotiation process begins with meetings among the parties to identify mutual interests and to build consensus about the basic strategy of the alliance. This moves the negotiation beyond the initial conceptual stages to an operational stage where the alliance starts to have a clear description of where it is headed. Key issues to be negotiated generally fall into three categories: technology, marketing, and the structure of the alliance. There should be no pressure to conclude a deal. The signing of a letter of intent could lead later to the drafting of a more formal and binding legal agreement.

## instructions

Review the list of key issues to be negotiated among the parties of the business network. Flag the ones you feel are extremely important to your company or involve the disclosure of proprietary data or possibly compromise your competitive advantage. Add to the list other issues of importance. Have the list handy when your alliance negotiations begin and you start drafting your letter of intent.

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# letter of intent issues checklist

*Review the list of key issues to be negotiated by the network partners for the letter of intent. Flag issues you feel are extremely important to your company or involve the disclosure of proprietary data or possibly compromise your competitive advantage. Add to the list other issues of importance. Have this list handy when your alliance negotiations begin.*

## key technology issues

### partners need to resolve:

- Questions of ownership of technologies developed by the alliance.
- The rights to use and market:
  - technologies to be developed
  - technologies from outside sources
  - core technologies.
- Division of royalties if a partner markets technology or products based on technology developed by the alliance.
- Ownership and rights to use improvements in the technology.
- Decision-making procedures concerning products based on new technology.
- Legal rights involved if a third party infringes on technology developed by the partnership.

### others

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- Who is responsible for warranty obligations?
- Who is responsible if a customer is injured?
- What happens if the product infringes on the intellectual property rights of someone else?
- What happens to marketing rights if the partnership ends?

### others

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## structuring the alliance

### some issues to consider:

- How will the management and board of directors of the partnership be chosen?
- Will the business alliance rely on its own staff or on service contracts from the partners for financial, management or technical services?
- What happens if the business network needs additional capital?
- How will the venture decide whether to expand into new businesses?
- What will happen if one of the partners wants to sell its interest in the business venture?
- How will a decision to liquidate the business alliance be made?
- How will ownership of the business network's technology and other assets be divided if the venture is liquidated?

### others

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## important marketing issues

### key issues to address are:

- Who decides what the product will be?
- Who designs the product?
- Who chooses the product name?
- Will you share advertising or marketing campaigns?
- Who decides on improvements or new additions to the product line?

# your business plan

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## why do this exercise?

Everyone has a business plan – it may be in their head or on the pages of a lengthy and voluminous document in the bottom of the desk drawer. The trick is to draft a plan of action that's on a single page – something that allows you and others to focus on the most important issues and goals, define direction in addition to quantifying the main products, services, markets, core competencies and technology. It also helps the partners determine the critical success factors and projects to achieve your business network goals.

## what the theory says

In general, companies should strive to come to a general agreement on goals and overall project direction. The business plan is the blueprint for your networking idea and the final stage in a company's strategic analysis. It uses this information to set the overall direction for the strategic alliance. Simple, well-defined goals make it easier to determine if the partnership is achieving its intended purpose. Getting it all on one page is the first step in that all-important process.

## instructions

Fill out the one-page business plan in all categories. It may take you several tries to complete it to your satisfaction because many of the topics are interrelated.

## notes

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# the one-page business plan

*Complete this one-page business plan in all category areas. Use point form statements. It may take you several tries to complete it to your satisfaction because many topics are interrelated.*

<b>business plan</b>	company		date	
business idea			main goal	
products	markets	buying criteria	competence	technology
critical success factors		development projects		financial projection

# creative thinking

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## why do this exercise?

Creative approaches at all stages of the networking process have beneficial results, particularly when interacting with your potential partners, even if they do not consider themselves as creative people. By identifying the perceptual, cultural and emotional blocks hampering the creative thinking process, your strategic alliance can indeed become quite creative.

## what the theory says

Creative thinkers are made, not born. There are many common blocks to creativity – perceptual blocks such as seeing only what you want to see, cultural blocks like wanting to conform, and emotional blocks like fear of making a mistake. Work to create an atmosphere in your alliance or business network where creative thinking and new ways of looking at old problems are valued and encouraged.

## instructions

Identify the perceptual, cultural and emotional blocks that hamper your creative thinking process. Think of new and creative ways in which you might change these roadblocks. Practice creative thinking at every opportunity.

## notes

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# blocks to creative thinking

*Identify and circle the perceptual, cultural and emotional blocks that hamper your creative thinking process, and prevent you from creative problem solving and opportunity identification. Think of new and creative ways in which you might change these roadblocks. Practice creative thinking at every opportunity.*

## perceptual blocks

- difficulty in isolating the problem
- not paying enough attention to the environment in which the problem exists
- not investigating the obvious
- putting emphasis on past experience when examining present problems
- failing to distinguish between cause and effect
- seeing what you want to see, or expect to see, instead of what you could see
- being limited by perceived constraints

## cultural blocks

- wanting to conform to an accepted pattern
- putting economy and practicality above all other considerations
- believing it's wrong to doubt everything or to be too inquisitive
- placing too much faith in statistics
- having too much or too little knowledge about the field you're working in
- believing fantasizing is a waste of time
- believing fun can't accomplish anything
- being too dependent on tradition and the way we've always done it
- believing how hard and how long you work will directly affect how well something turns out

## emotional blocks

- being afraid of making a mistake
- being afraid of making a fool of yourself
- finding it hard to reject workable solutions in order to look for a better one
- wanting to succeed quickly
- having a strong need for security (fear of innovation and risk)
- distrust of colleagues and subordinates
- lack of drive to follow a solution through completion
- lack of commitment to put a possible solution to the test
- inability to let an idea incubate
- refusal to take a detour in order to reach a goal

# generating new ideas

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## why do this exercise?

Coming up with new ideas is never easy – it's hard work and challenging as well. This exercise helps to identify the avenues that create new ideas – all important if your strategic alliance or business network is to be successful and able to tackle new challenges.

## what the theory says

There are established techniques and rules to help people generate new ideas and become creative thinkers. Some are as simple as relaxing and having fun – others have to do with becoming a good communicator and listener to what other people have to say. As the previous topic remarked – creative thinkers are made, not born.

## instructions

On the page opposite, identify and circle the rules you break most often when trying to generate new ideas – then set a plan in action to change your ways at the next meeting with your business network associates. See what a difference a few changes can make!

## notes

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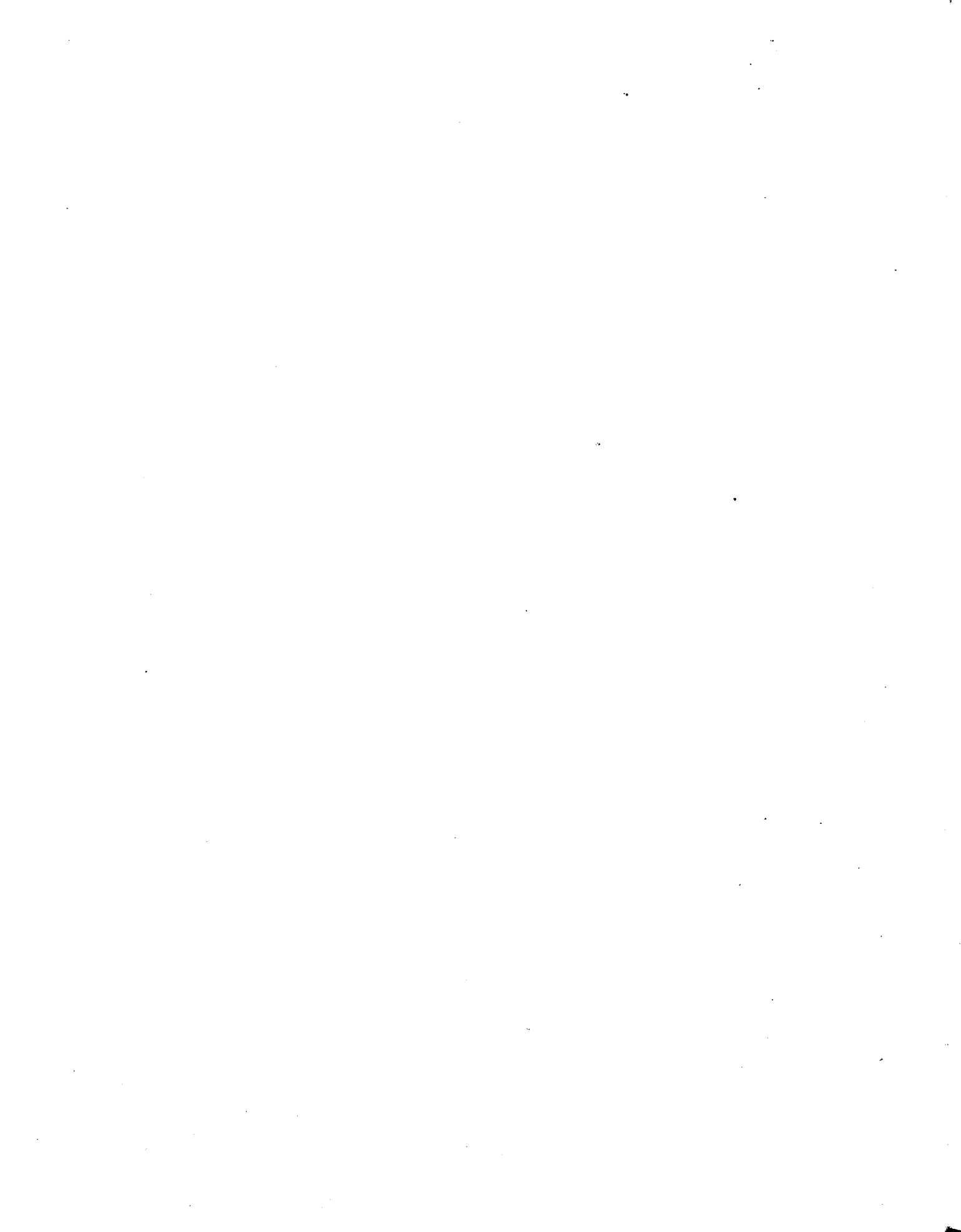
# thirteen rules for generating new ideas

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*Identify and circle the rules you break most often when trying to generate new ideas – then set a plan in action to change your ways at the next meeting with your business network associates.*

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- 1 Believe you are creative, and don't be afraid of being wrong.
- 2 Really listen to what other people have to say.
- 3 Listen to, accept, and think about the criticism you receive from others.
- 4 Break with routine. Force yourself into something new to gain a new perspective.
- 5 Role play. Pretend you are someone or something other than who you are.
- 6 Relax. Have fun. Kid around. Humour and fun allow the mind to venture down new, previously untravelled pathways.
- 7 Practice coming up with ideas for every problem and challenge you see, hear about, or come up against.
- 8 Daydream. Let your mind wander, and see where it ends up.
- 9 Look at two things totally unrelated. Try to link them together in a new, innovative way.
- 10 Ask lots of questions – but then listen to the answers.
- 11 Ask new and different questions – ones that are unexpected, perhaps illogical, perhaps a little crazy, perhaps ones to make you think.
- 12 Try to come at a problem from an entirely new perspective.
- 13 Write all your ideas down. Don't let them get away.





# the CBNC how to network book

*a practical guide for successful strategic alliances*



## section 9

### appendix

six golden rules of successful business networks  
items in the CBNC self-help tool kit  
some answers to your questions  
networking definitions  
more networking definitions  
selected reading  
CBNC staff members  
advisory board members  
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index

**Canadian Business  
Networks Coalition**



# six golden rules for successful business networks

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- 1 Business networks should have an important shared objective.
- 2 Business networks are to be built on trust and ethical behaviour.
- 3 Business network members should be willing to invest time and money.
- 4 Business network members should be willing to share the profits and the risks.
- 5 Business networks need good project management. Business networks advisors can be of great help in this respect.
- 6 Networks should only be based on the win-win principle, where everybody succeeds and all network members share in the profits and the risks.

# items in the CBNC self-help tool kit

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## self evaluation workbook

The Self-Evaluation Workbook is designed to provide small and medium-sized business owners and senior managers with a sneak preview of the sort of questions, issues and concerns they will have to ask themselves and about their companies as they prepare to form a business network. A booklet with a series of worksheet spreads, this publication can be used by potential networkers as a kind of readiness guide. Derived from the business network advisor training program, custom designed by the CBNC in association with Confederation College of Applied Arts and Technology. Available in separate English and French editions.

## how to network book

A comprehensive and user-friendly reference book on the networking process, how to get started, seeking partners, forming the alliance and actually negotiating and implementing the arrangement. Organized into nine sections with an extensive worksheet section and appendix, the How To Network Book includes an extensive bibliography of other materials and references on the subject. The text is derived from the business network advisor training program custom designed by the CBNC in association with Confederation College of Applied Arts and Technology, incorporating the best features of seminars across Canada and internationally. Ideal for entrepreneurs who want to build and strengthen their own strategic alliances and partnerships without the active involvement of the CBNC. Available in both English and French editions.

## networking video

A two-part motivational presentation about the networking process and how it can help businesses improve the bottom line. Part A – Strength in Numbers – is a 5-minute introduction to the subject, and shows how a new business network group of three firms interacts with each other. Part B – Together As One – is a slightly longer 7-minute session portraying the same group in operation with a business network advisor. The video takes viewers through the negotiation stages to get the business network launched and implemented. Available in English and French.

## other materials

**Strength in Numbers** – an 8-page brochure on the CBNC.

**Selection Criteria for CBNC Funding** – a 20-page description of the three phase funding program, eligible expenses and application form.

**Network Newsletter** – a quarterly publication of events and activities.

**CBNC Selected Reading List** of networking books, articles and other references.

# some answers to your questions

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## **what are business networks (BNs)?**

A business network is made up of three or more companies which join forces to establish a cohesive working relationship for securing and undertaking both short and long-term projects. Business networks allow each member corporation to remain independent while pursuing common projects and gaining access to resources normally available only to large firms. A business network can be seen as a virtual company.

## **why network?**

Benefiting from enhanced interfirm productivity and new expertise, business networks sharpen competitiveness, gain access to markets once beyond their reach, and improve the bottom line. They also allow individual corporations to do what they do best – to specialize without sacrificing their competitive edge.

BNs are think tanks for innovation. They lower costs, enhance sustainability, result in new opportunities that firms could not exploit on their own, give clients and customers a single point of contact for information, contract negotiation and ordering, and strengthen sectoral and regional economies.

## **what are the areas of cooperation and collaboration?**

Areas of collaboration and cooperation include: purchasing, training, product development, export development and marketing, R&D, industrial design, accessing equity and capital formation, to name a few.

## **who should establish a business network?**

Formalized BNs can be established at any level, and by companies of any size. Common features of all networks are: (1) each member is a highly successful, independent enterprise, (2) members meet to seek areas of common interest and collaboration, (3) members participate in setting network goals and share risks and profits, (4) networks usually work with a neutral third party or business network broker or advisor who helps to develop and implement a business plan for the network.

## what are business network advisors (BNA) ?

The BNA or network advisor has a critical role – working independently to build confidence and trust within a network, ensuring the needs and concerns of each partner are addressed. BNAs help companies assess their suitability and readiness for a network strategy, assess market opportunities and identify potential strategic alliances. BNAs help in navigating through the network formation process, from feasibility study, through business plan, to implementation.

## where to get help or more information

The CBNC is a group of private sector associations and agencies striving to help small and medium-sized Canadian businesses grow nationally and internationally. To learn more about business networks, get in touch with your industry association, or contact the CBNC at the following address:

### **Canadian Business Networks Coalition**

55 Metcalfe Street, Suite 1160

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E-mail: [cbncinfo@cbnc.ca](mailto:cbncinfo@cbnc.ca)

# networking definitions

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We're sure you'll agree most organizations are loaded with acronyms, special terminology, abbreviations, and just plain old jargon. It's confusing and tough slugging at times. Well, the Canadian Business Networks Coalition is no exception, so here are a few definitions to help you through this workbook.

## **BNAs**

Short form for Business Network Advisors – a group of professionally-trained business consultants who play a critical brokering role in the development of new strategic alliances by bringing parties together. They also assist in the preparation and implementation of business plans, advise on legal and financial matters, and ensure everyone remains involved to the project. The CBNC has trained more than 50 business consultants across Canada to ensure alliances have access to local advice and guidance.

## **business network**

A business network is a group of three or more small and medium-sized business enterprises that decide to cooperate as a group in order to undertake special projects. The objective is to improve the competitiveness and capabilities of the individual members by using the strengths of the team. The network may be organized in a variety of forms with regard to function, structure, and organization. Strategic alliance is another term for business network.

## **business plan**

The business plan sets the company's strategic direction and is usually the result of a strategic analysis exercise. The plan answers questions about the business objectives, the corporate goal, the priorities, success factors and other details to map out a plan of action. The business networking process starts with the development of a business plan.

## **CBNC**

The Canadian Business Networks Coalition is a two-year demonstration project – a private/public sector initiative that gives expert advice, technical support and matching funds for the development of strategic alliances among small and medium-sized businesses in Canada. First conceived by the Canadian Chamber of Commerce, CBNC is made up of more than 60 organizations such as sector associations, local economic development groups and small business associations, which have come together to support the partnering process. CBNC's mandate is to develop a number of successful strategic alliances across the country over the next two years. It receives substantial funding from Industry Canada.

## **CCC**

An acronym for the Canadian Chamber of Commerce, the nation's largest business association. Founded in 1925 and headquartered in Ottawa, the CCC is a network of over 500 community chambers of commerce and boards of trade across Canada, representing 170,000 business members.

## **corporate values**

Corporate values are the beliefs, attitudes and actions a company practices about different aspects of its business. How it treats employees or customers for example. Determining corporate values is part of the strategic analysis process of evaluating your situation in order to decide whether business networking is a good strategy and the kind of partners you need.

## **collaborations**

A collaboration is another term for business networking or strategic alliance – working jointly with others as a team to achieve a common goal.

## **joint venture**

A joint venture is usually a goal-oriented cooperation among two or more businesses, involving the creation of a separate organization owned and controlled jointly by the parties. The joint venture usually has its own management, employees, production systems, and so on. Cooperation is limited to defined areas.

## **letter of intent**

A letter of intent is an interim agreement spelling out the realistic goals, actions, and measurable results to be achieved before a formal agreement is signed. Once the members sign it, there is an active commitment to a business networking process and to a work plan. This letter allows the network to begin functioning while the drafting of a more formal and legal agreement proceeds.

# more networking definitions

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## **partners and partnerships**

Partners are the most important element in a strategic alliance. The personal capabilities and corporate strengths they bring to the table determines the success of the business network. The partnership must have the technical skills and resources, the mutual need, the financial capability, as well as trust and commitment to make it a success.

## **roundtables**

A roundtable is basically an informational session organized by a coalition partner or business association that is a member of the CBNC. Each roundtable has its own unique theme and format, but all are designed to promote and strengthen successful business networks and help establish regional public and private champions and experts.

## **self evaluation workbook**

The Self Evaluation Workbook is designed to provide small and medium-sized business owners and senior managers with a guide to the sort of questions, issues and concerns to be dealt with as they think about forming a business network or strategic alliance. A practical workbook with checklists and tables to complete. A network readiness tool.

## **self-help tool kit**

A group of products produced by the Canadian Business Networks Coalition to help businesses measure the value of alliances in achieving their business objectives. Comprising two books, video and other materials, the tool kit is particularly useful for companies wishing to consider forming business networks.



## **SMEs**

An abbreviation for the term small and medium-sized enterprises or businesses, generally recognized as being the engine of the Canadian economy. According to Statistics Canada data, SMEs employ 36 percent of the labour force, account for roughly 40 percent of our gross national product, and are responsible for 85 percent of new job creation in Canada.

## **strategic alliance**

A strategic alliance is a goal-oriented cooperation among two or more businesses, based on formal agreements and a business plan. It usually does not involve the establishment of a separate new organization.

## **strategic analysis**

A strategic analysis is an assessment of a company's internal and external situation in order to get a good picture of its position and its competitiveness in the marketplace. It may also involve an assessment of global, national and regional economic conditions, trends and cycles affecting the business now and into the future.

# selected reading

## recommended reference materials

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*Note: These references have been recommended to the CBNC by our various members and advisors. Please consult your own library or local bookstore for availability and pricing. A complete reading list is available from the CBNC.*

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### books and brochures

**Joseph L. Badaracco Jr.** 1991: *The Knowledge Link: How Firms Compete Through Strategic Alliances*, Boston, Harvard Business School Press.

**M. H. Best** 1990: *The new competition-institutions of industrial restructuring*. Cambridge: Harvard University Press.

**Joel Bleeke and David Ernst** 1993: *Collaborating to Compete: Using Strategic Alliances and Acquisitions in the Global Marketplace*, New York, John Wiley and Sons Inc.

**James W. Botkin and Jana B. Matthews** 1992: *Winning Combinations: The Coming Wave of Entrepreneurial Partnerships Between Large and Small Companies*, New York, John Wiley and Sons, Inc.

**Timothy M. Collins and Thomas L. Doorley** 1991: *Teaming Up for the 90s: A Guide to International Joint Ventures and Strategic Alliances*, Business Homewood, Illinois, One Irwin.

**Richard P. Cosma and John E. McDermott** 1991: *International Joint Ventures: The Legal and Tax Issues*, London, The Eurostudy Publishing Company.

**J. E. Denis** 1986: *Networking for effective export performance by small & medium-size firms: a Canadian perspective*. Ottawa: Université d'Ottawa, faculté d'administration, #86-9.

**P. Dommergues** 1988: *La société de partenariat économique, territoire et revitalisation régionale aux États-Unis et en France*. Paris: AFNOR-Anthropos.

**R. de Gagné** 1994: *Les réseaux de PME au Québec*. Québec: Conseil de la science et de la technologie.

**B. Garette** 1995: *Les stratégies d'alliances*. Paris: Éditions d'organisation.

**B. M. Gilroy** 1993: *Networking in multinational enterprises. The importance of strategic alliances*. Columbia, S.C.: University of South Carolina.

**M. Hart; S.J. Garone** 1994: *Making international strategic alliances work*. Ottawa: Conference Board.

**Donald W. Hendon and Rebecca Angeles Hendon** 1990: *World Class Negotiating: Deal Making in the Global Marketplace*, New York, John Wiley and Sons, Inc.

**R. M. Knight** 1989: *Strategic partnership alliances for entrepreneurial firms*. London, Ont.: University of Western Ontario, #NC-89-11.

**Jordan Lewis** 1990: *Partnerships for Profit, Structuring Alliances*, New York Free Press.

**A. Noël** 1990: *Growing through alliances, who goes for it and who doesn't*. Montréal, HEC-CETAI, #90-12.

**A. Noël, G. Fernandez** 1993: *L'alliance stratégique : une réponse des PME à la mondialisation*. Montréal: HEC-CETAI, #93-19.

**A. Noël, A. Policier** 1994: *Les alliances: une stratégie de développement pour les nouvelles PME technologiques*. Montréal: HEC-CETAI, #94-12.

**Robert Porter Lynch** 1989: *The Practical Guide to Joint Ventures and Strategic Alliances*, New York, John Wiley and Sons, Inc.

**Peter Lorange and Johan Roos** 1992: *Strategic Alliances: Formation, Implementation and Evolution*, Cambridge, Blackwell Publishers.

## articles

**Joel Bleeke and David Ernst** 1991: "The Way to Win in Cross Border Alliances", *Harvard Business Review*, November-December, 127-135.

**Christopher Bronder and Rudolf Pritzi** 1992: "Developing Strategic Alliances: A Conceptual Framework for Successful Cooperation", *European Management Review*, December, 412-421 .

**Yves Doz** 1987-88: "Technology Partnerships Between Larger and Smaller Firms: Some Critical Issues", *International Studies of Management and Organization*, Winter, 31-57.

**Benjamin Gomes – Casseres** 1989: "Joint Ventures in the Face of Global Competition", *Sloan Management Review*, Spring, 17-26.

**Peter Lorange and Johan Roos** 1991: " Why Some Strategic Alliances Succeed and Others Fail ", *Journal of Business Strategy*, 25-30.

**Michel Robert** "The Do's and Don'ts of Strategic Alliances", *The Journal of Business Strategy*, 50-53.

**Kenichi Ohmae** 1989: "The Global Logic of Strategic Alliances", *Harvard Business Review*, March-April, 143-154.

## videos

**Building Successful Strategic Alliances** with Michael J. Kelley, Department of Foreign Affairs and International Trade, Government of Canada. 24-minute English or French video with accompanying 27-page booklet. Available for purchase from Chromavision International Inc. Call toll free 1-800-461-7116.

**Forging the International Partnership.** The marriage between Corning's Technology and Samsung's manufacturing. Includes learner's guide. A Harvard Business School video #7005, 20 minutes.

**Partnering to Reinvent an Industry.** Calyx & Corolla, a cataloger, markets fresh flower arrangements. Mount Eden Growers supplies the flowers, Federal Express delivers. All three partners win. Includes learner's guide. A Harvard Business School video #7013, 20 minutes.

**Partnering to Enter New Markets.** IVI Publishing offered the Mayo Clinic a new way to meet the growing demand for quality, accurate information – CD-ROMS. How two corporate cultures can learn and profit from diversity. Includes learner's guide. A Harvard Business School video #7021, 20 minutes.

# canadian business networks coalition staff members

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## head office – ottawa

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**Christian Laverdure**, Director, Finance & Administration  
**Nancy Kelly**, Executive Secretary

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# canadian business networks coalition advisory board members

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**Phil O'Brien**, Co-Chair, CBNC  
Chairman, Devencore Inc.

**Debra Ward**, Co-Chair, CBNC  
President, Tourism Industry Association of Canada

**Peter Boag**, Director, Operations  
Aerospace Industries Association of Canada

**Pierre Franche**, President  
Association of Consulting Engineers of Canada

**Michael Green**, Regional Director – Ontario  
Canadian Bankers' Association

**Tim Page**, Senior Vice President, International  
Canadian Chamber of Commerce

**Mark Drake**, President  
Canadian Exporters' Association

**Rick Evans**, President  
Economic Developers' Association of Canada

**Peter Sagar**, Director General  
Entrepreneurship and Small Business Office  
Industry Canada

# canadian business networks coalition member list

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*As of May 29, 1996*

*\* Founding Member*

## **national organizations**

- \* Aerospace Industries Association of Canada
- \* Association of Consulting Engineers of Canada
- \* Association of Provincial Research Organizations
- Canada China Business Council
- Canada-Czech Republic Chamber of Commerce
- \* Canadian Association for Home-Based Business
- Canadian Association of Mining Equipment & Services for Export
- Canadian Association of Petroleum Producers
- \* Canadian Chamber of Commerce
- \* Canadian Bankers' Association
- Canadian Co-operative Association
- \* Canadian Environment Industry Association
- \* Canadian Exporters' Association
- Canadian Federation of Independent Business
- \* Canadian Importers' Association
- Canadian Institute for Native Training and Development
- Canadian Institute of Biotechnology
- \* Canadian Institute of Marketing
- Centre canadien d'étude et de coopération internationale
- \* Certified General Accountants of Canada
- Credit Union Central of Canada
- \* Economic Developers' Association of Canada
- EDI Council of Canada
- \* Geomatics Industry Association of Canada
- Hi-Tech Entrepreneurs Association
- Information Technology Association of Canada
- \* Institute of Certified Management Consultants of Canada
- Les Aliments Leika Inc.
- Samson Belair/Deloitte & Touche
- \* Tourism Industry Association of Canada

## regional organizations

Association des femmes d'affaires du Québec  
 Atlantic Provinces Chamber of Commerce  
 Canadian Exporters' Association of Ontario  
 Cape Breton Centre for Multimedia  
 Centre de promotion du logiciel québécois  
 Commission industrielle du Restigouche  
 Corporation de développement économique communautaire centre-nord  
 County of Lanark Department of Economic Development  
 Durham Region Business Alliance Network  
 Economic Developers' Association of Nova Scotia  
 \*Economic Developers' Council of Ontario  
 New Brunswick Chamber of Commerce  
 Northern Ontario Roundtable of Excellence Conference  
 Prairie Implement Manufacturers' Association  
 Pro Réseau Hautes Études Commerciales  
 Regroupement pour la Relance  
 Source-Quebec  
 Sous-traitance industrielle Québec  
 The Society of Management Accountants of Ontario  
 Western Wood Truss Association (B.C.)

## local organizations

\*Barnard & Associates  
 Business Centurions Centres Inc.  
 Carleton University  
 Centre for Women in Business  
 City of Mississauga  
 City of Vaughan  
 Confederation College of Applied Art and Technology  
 \*Devencore Inc.  
 Greater Nanaimo Chamber of Commerce  
 Intercan Development Co. Ltd.  
 Mississauga Board of Trade  
 Niagara Economic and Tourism Corporation  
 Ottawa/Carleton Economic Development Corporation  
 The Calgary Convention & Visitors Bureau  
 The Chamber of Commerce of Kitchener & Waterloo  
 Winnipeg Chamber of Commerce  
 Yarmouth Chamber of Commerce

*Total membership to date: 67*

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