



## Forming strategic partnerships: comprehensive evaluation of potential partner companies

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Many of the companies with which we have worked have started to think about finding a partner at some stage in their development, for example, to outsource some business functions, to diversify, to grow sales or to vertically integrate their main line of business.

Regardless of the partnership's goals, the process of finding the most attractive companies for negotiations is as follows:

- compile a long list of companies;
- determine the goals and parameters for evaluating partner companies;
- narrow the potential partners down to a short list;
- establish relations with the companies and conduct negotiations to work out the details of an agreement.











The partnership's results directly depend on the speed and quality with which each of these stages is implemented (did all relevant companies make the long list, were they evaluated objectively, were the negotiations successful and were the original goals of the partnership achieved).

To determine the goals and evaluation parameters for partner companies, our consultants prepared in advance and coordinated with the client company a set of characteristics that helped to evaluate: a) the level of corporate governance of companies on the list; b) whether their expertise and skills were complementary for the customer.

After the evaluation characteristics were approved, our consultants described the target vision of the partner company. Figure 1 shows an example of a description of such a company.

Figure 1.

For a comprehensive evaluation of potential partner companies, metrics in 5 areas need to be analyzed

		Minimum score				Maximum score
Comparison area	Comparison metric					
<b>Business size</b> 	<b>Market reputation</b>	No	Regional level	Federal level	Federal level	Federal level
	<b>Market share</b>	<3%	3-5%	6-10%	11-15%	>15%
	<b>Opportunities for significant production growth</b>	None	None	<20% of current productivity	<20% of current productivity	>20% of current productivity
<b>Management and owners</b> 	<b>Available information about shareholders and investors</b>	None	No information about investors	Available on website	Available with annual reports on website	Widely covered in media
	<b>Ownership structure</b>	Complex	Complex	Transparent	Transparent	Transparent
	<b>Information in SPARK</b>	None	Incomplete	Comprehensive	Comprehensive	Comprehensive
<b>Growth strategy</b> 	<b>Mission and growth strategy</b>	None or unknown	None or unknown	Available in open sources	Available in open sources	Available in open sources
	<b>Business growth and expansion</b>	Not observed	Not observed	Unstable growth in non-contiguous areas	Stable growth in primary and contiguous areas	Corresponds to declared strategy
	<b>Market share</b>	Falling	Stable	Stable	Stable or growing	Stable or growing
<b>Integration</b> 	<b>Has units to reprocess into higher-margin products</b>	None	None	Construction planned or existing	Construction planned or existing	Well-known own brand
	<b>Has business in contiguous areas</b>	No	No	No	Yes	Yes
	<b>In-house facility for production of livestock feeds, animal slaughtering</b>	None	Meets less than 30% of company's needs	Fully meets company's needs	Fully meets company's needs	Fully meets company's needs
	<b>Primary production technology</b>	Outdated	Outdated	Modern	Modern	Modern
<b>Access to financing</b> 	<b>Stable cash flow</b>	None	Available	Available	Available	Available
	<b>Access to borrowed funds</b>	Limited	Limited	Wide	Wide	Better than market competitors
	<b>Has a stable investor</b>	No	Yes	Yes		Yes
	<b>Level of indebtedness</b>		Significantly higher or lower than industry average	Significantly higher or lower than industry average	In line with industry average	In line with industry average

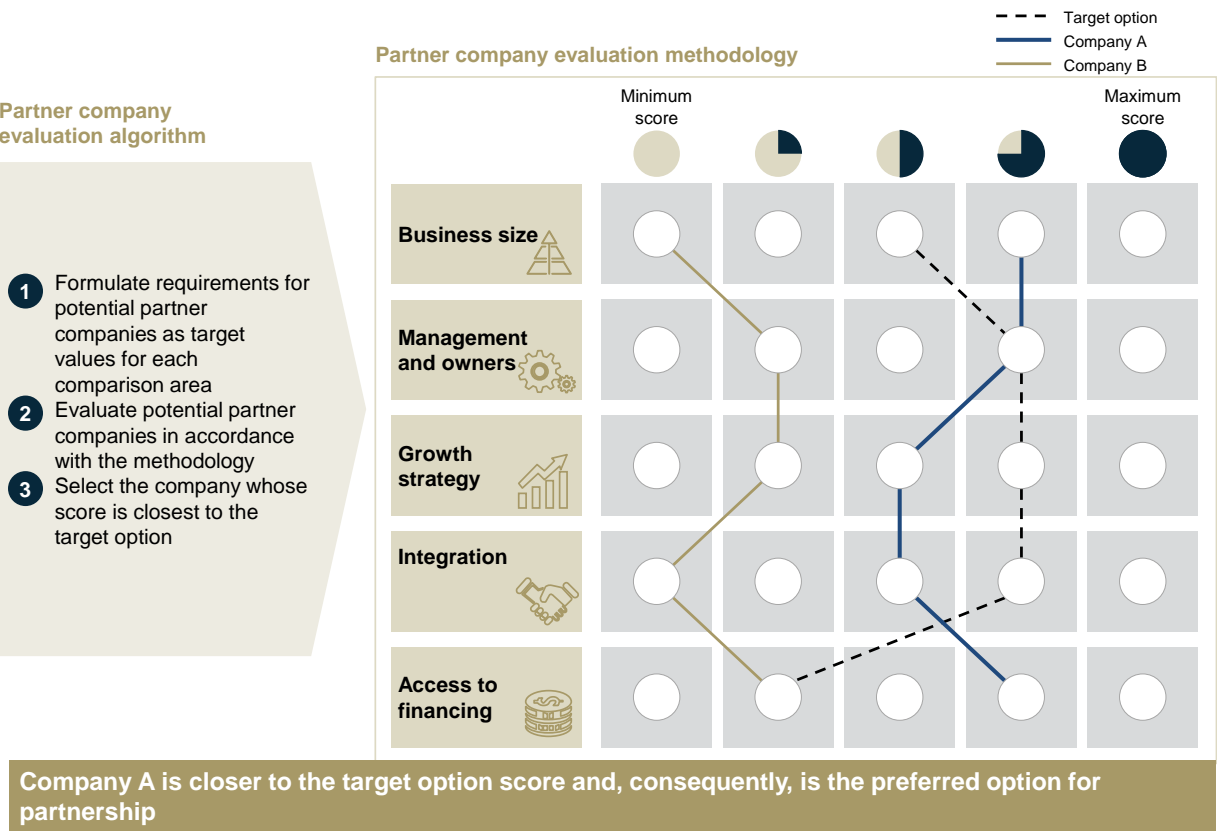
First, three parameters were formed to act as indicators of the level of corporate governance: business size, management quality, and strategic growth priorities.

Second, our consultants developed two other parameters that were unique to this project, based on the expertise and skills that each side could bring to the partnership. In our example, the customer was prepared to provide access to financing and was seeking exponential revenue growth via vertical integration of its main line of business. Consequently, the customer was seeking either companies that did business in adjacent stages of the value chain, or vertically integrated companies in need of additional financing.

Figure 2 shows the comparison approach for the long list of companies. In our example, the target partnership option envisaged small business size, high transparency and manageability, limited financing opportunities and a high degree of vertical integration.

MCG's consultants placed all the companies from the long list on a comparison map to justify the selection of short list partner candidates for further analysis.

Figure 2.  
Comparison of potential partner companies



We recommend using this tool to identify unique partnership parameters, visualize the target option of a partner company, and form a short list of potential partners.

About the authors



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About Moscow Consulting Group

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