



SHORTCUTS DON'T WORK⁴

One frequently cited example of a partnership where detailed partner due diligence was neglected is the alliance between Joseph E. Seagram and Sons and Kirin Brewery Co. for the manufacture and distribution of spirits in Japan. On the surface, this seemed to be a perfect match. Seagram, one of the world's great distillers, wanted to enter the promising Japanese market. Kirin wanted to link up with a reputable and well-known foreign company with complementary products. Both partners made a broad assessment of the strategic match and decided there was sufficient complementarity to warrant the venture. Unfortunately, it became apparent shortly after the venture was established that they should have paid more attention to a detailed analysis of the market and the development of a business plan during the formation stage. Problems quickly arose including sales well below forecasted levels. The major reason for this was that spirits proved to be difficult to market through Kirin's existing distribution network for beers. Sales improved only after a separate distribution plan was developed. Today the venture is highly profitable, but a bit more of a detailed analysis of partner capabilities might have saved both parties substantial time and money.

to try to develop an insight into the real reason why the partner wants to do the deal. Collaboration can be just another competitive tactic.

Therefore, understand what benefits the partner seeks to derive from the partnership. Will these be at your expense, i.e., are you going to create a competitor or strengthen a competitor?

For example, there are numerous examples of small companies signing away marketing rights to corporations that just sat on their innovative product. Eventually, the small company realized that the

partner had obtained exclusive rights to mothball products it saw as competition for its current business line.

Large firms also, on occasion, enter into partnerships as insurance or as a means of hedging their bets, and may not be interested or fully committed to having them succeed quickly. Other partnerships have been entered into for preemptive reasons, i.e., to immobilize or temporarily prevent a partner from entering into a partnership with another firm. A little homework can frequently prevent unhappy outcomes.

⁴ LORANGE, Peter and Johan ROOS. *Strategic Alliances: Formation, Implementation and Evolution*, Blackwell Publishers, Cambridge, 1992, p. 51.