Strategic Partnerships: The Real Deal?

A large proportion of strategic partnerships fail, so what does it take to ensure success?

Stay ahead.
The stakes have never been higher.

Capital is scarce, management is under pressure and high quality talent is in short supply. Difficult economic conditions compels those involved to ‘close the deal’ as quickly as they can.

Whatever people say, experience of partnerships is often mixed. How often do partnerships take longer to negotiate and become more difficult to implement than expected? Why do they look great on paper but rarely deliver in practice? Why are strategic objectives forgotten in the heat of ‘battle’?

Time for a rethink.

A fresh perspective on the structuring of strategic partnerships.
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Definition and focus of this paper

A strategic partnership involves some shape of formal agreement between two (a bilateral partnership) or more (a network partnership) parties that have agreed to share finance, skills, information and/or other resources in the pursuit of common goals. They come in various forms, as the illustration below demonstrates.

This paper focuses on a broad definition of a partnership. It does not include supplier relationships or Mergers and Acquisitions, although we recognise that there may be some common issues between these agreements.
CEOs view partnerships as critical to their business

According to our 12th Annual Global CEO Survey, over 75% of CEOs rated partnerships as ‘important’ or ‘critical’ to their business in the TMT sector.

In the TMT sector, strategic partnerships typically focus on two areas:

1. Revenue growth through access to Intellectual Property (e.g. technology, content, brands, reputation, payment systems) and customers (e.g. entry into new demographics or geographic markets); and/or
2. Sharing costs and/or risks – e.g. to reduce costs (e.g. print production, network sharing) or launch new, often risky platforms (e.g. mobile and IP distribution of TV).

Potential partners can be found in an increasingly diverse set of industries as technology, economic and demographic change facilitates, if not compels, greater collaboration. Media companies, for example, work increasingly closely with financial services providers as new forms of monetisation of content become both a survival activity and the business model of the future; retail brands offer access to new demographics for media companies seeking new audiences; technology companies provide the infrastructure that may facilitate the increasingly targeted nature of advertising.

Large incumbent players are facing a new world in which their power is in decline; how will this change the way they fund, structure and implement partnerships?

Drivers for a fresh perspective on partnership structuring

<table>
<thead>
<tr>
<th>Driver</th>
<th>Outcome</th>
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<tr>
<td>• New revenue growth</td>
<td>Increased need for partnerships</td>
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<td>• More risk-averse strategies</td>
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<td>• Financing constraints</td>
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<td>• Convergence</td>
<td>New ways of structuring partnerships, re-evaluating perspectives and roles</td>
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<td>• Shift in power of incumbents</td>
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<td>• Talent increasingly moving across industries</td>
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<td>• Failures of previous partnerships</td>
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Source: PwC Global CEO Survey, 2009
Allow our experience to navigate you through the common issues and pitfalls along the partnering roadmap

Unsuccessful partnerships waste time and damage relationships which can lose money, reputation and people. Below we set out common issues and pitfalls we have seen in our experience.

**Strategy and preparation**
- Lack of clarity as to why a partnership was selected as the appropriate vehicle – inadequate assessment of strategic options
- Wrong partners selected – insufficient time spent on partner identification and selection
- The proposed terms of the deal bear no relation to the fundamental value of the assets involved – they are often based on historical terms or benchmarks
- KPIs not specified with sufficient clarity – drive to reach a decision takes over
- Roles, objectives and reward of individuals in partnership unclear
- “One state of the world” view as a result of a dominant individual and/or skillset – there is little account of different events, probabilities, or emerging business strategies
- Potential benefits from tax, financing or accounting structuring are not factored into the initial proposition

**Structuring**
- There is excessive attention to one detail whereas the resolution of other issues could generate more value and bring the deal closer to the table
- The partnership team lacks definition; unclear who owns the partnership within the organisation, causing confusion, delays and inefficiency
- Key regulatory, tax, legal or accounting issues neglected which result in missed cost saving opportunities or implementation risk at a later stage e.g. failure to fully consider the implications of the financial terms on partnership agreements

**Negotiation**
- Development of terms stray away from wider events or factors that could have a bearing on the deal
- The negotiations take too much management time, to the detriment of other priorities
- The negotiation process lacks structure – the momentum of the deal takes over
- Decision points and authority levels unclear and/or overly complex
- Considerable effort is expended in building models from scratch to support negotiations on deal terms
- A regulatory issue – merger control, tax, legal or accounting – delays or blocks the deal at the last minute

**Implementation**
- Lack of trust – often as a result of multiple misunderstandings and frustrations, raising questions about why you selected the partner in the first place
- Stalemate – there is a need to share information and views to move forward but concerns that this may result in the other partner taking advantage within the partnership or in other competing areas
- Delay – as a result of inadequate handover between partnership negotiators and implementation team
- Uncertainty – poorly defined decision-making roles and processes, for example, low level management making board level decisions as they have not fully understood the consequences of certain operational decisions
- Out of control – no monitoring controls in place of the partnership and the organisations involved
- Inefficiency – duplication of structures and governance with other partnerships
- Redundancy – no exit after objectives achieved
- Disappointment – performance does not match forecasts

“Some 60-70% of [corporate alliances] fail.”
Source: Harvard Business Review

“Alliances are often said to be like marriages. The partners have to understand each other’s expectations, be sensitive to each other’s changes of mood and not be too surprised if their partnership ends in divorce.”
Source: The Economist
Through decades of structuring partnerships, we have developed a tried and tested approach to structuring partnerships. Using this approach will help you to avoid the pitfalls that cause the majority of partnerships to fail.

### Strategy and preparation advice

- Corporate strategy development, including assessments of the role of partnership vehicles in achieving strategy
- Quantification of the value proposition from the development of a partnership in aggregate and to the partners
- Partner assessment and selection using a range of criteria (such as financial, operational, or culture fit)
- Partnership business plan and financial model development
- Decision support, including presentations

### Structuring advice

- Partner approaches – advice on legal structure and basis of negotiations (e.g. heads of terms) communications and stakeholder management
- Thorough review of legal agreements by specialists accountants working with your legal teams
- Specialist advice that shape the corporate and/or contractual structure, location, financial flows, reporting, financing, rights and exit strategy. Examples include:
  - financing (capital requirements, security issues, sources, structures, dividend policy)
  - currency exposure, valuation, tax optimisation
  - corporate governance, merger control and competition issues
  - legal (e.g. legal structure of the venture, asset contributions and valuations, management structure, IP ownership and licensing, warranties, indemnities and liabilities)
  - transfer pricing and accounting issues (including audit provisions)

### Negotiation advice

- Further assessment of the value proposition to the partner(s), anticipating the questions and issues raised during the negotiation (e.g. through financial modelling and scenarios analysis)
- Development of negotiation approach, including timetable and roles
- Financial, commercial, operational and legal due diligence of partners
- Governance on information disclosure (subject to competition law) and decision-making process – who decides, when and on what basis?
- Rehearsals and framing negotiations
- Communication to stakeholders within and outside the partnership during negotiations, and on ongoing basis (if negotiations successful)

### Implementation advice

- Advice on management structures, roles, culture and reporting lines
- Establishment of delivery model – e.g. IT, property, HR – including interfaces with parent organisations
- Relationship management within owners and third party stakeholders
- Delivery & monitoring, including financial and risk reporting
- Financial payment scheduling
- Establishment of regular reviews to assess progress and make changes as required
- Structuring of dispute resolution processes

A successful partnership opens new doors, generating higher levels of profit with less pain.

"Our research on co-innovation shows that partner companies can have a winning strategic fit, and yet fail to make the collaboration work.”

Source: The Financial Times
We know what to look out for – we can anticipate all the obstacles along the way, and therefore help you to:

- Close the deal more quickly
- Unlock cost savings and/or revenue opportunities
- Avoid regulatory blockages and unexpected or unnecessary disputes
- Deliver value in the longer term

Our independent perspective can help break through barriers in a partner’s organisation or within a partnership.

As a result, you are more likely to reap the following benefits of successful partnerships:

**Enhanced profitability...**
By tapping into new revenue streams and anticipating the operational model of delivering the proposition (which may reduce the costs of delivery); it may also capture benefits from tax or accounting treatments that deliver cost savings

**Increased agility...**
Through the use of a vehicle that increases the speed to market of the services, reducing the cost of management and improving the ability of management to respond to challenges in the future

**Reduced costs...**
By optimising internal staff time and external advisor support through efficient use of resources; this will free up staff time to work on other, more productive activities

**Higher employee engagement...**
By enhanced team-working, motivation and enjoyment of the partnership teams responsible for successfully executing the deal will result in improved employee satisfaction

**Improved cash flow management...**
By explicitly setting out appropriate payment terms from relevant suppliers/partners in the agreement

**Enhanced governance...**
Through the discipline required to successfully enter into (and exit) strategic partnerships will boost governance and management over a critical business process

**Increased sponsorship and credibility...**
For the individuals and teams who are credited with increased quality of analysis and negotiations to support the delivery of new services
Where the application of our expertise has made the difference

Partnerships often cross industry, country and regional boundaries, and require specialist input on local issues that arise. Whilst partnerships may face common issues, the solutions and paths to success are all very specific to the organisations involved and the overall context.

We reflect this in the way we bring together people from a range of technical, industry and country perspectives, using a framework we have assembled from our experience of structuring partnerships. Making partnerships successful often requires expertise and stimulus from both within and outside the TMT sector.

We also work with other advisors, such as banks, lawyers, private equity and other involved parties in structuring partnerships. We apply the same rigour in our approach to ensure that clients receive a seamless service. For example, we provide clarity around the respective roles, contributions and working arrangements between all the advisors involved.

Some recent examples of our work and client feedback:

- **Mobile TV venture**
  Idea to implementation (business plan, financial modelling, negotiation support, tax advice)

- **Entertainment strategy review**
  Partnerships and strategy review for multiplatform entertainment across portal, mobile, TV and broadband services

- **Video on demand joint venture**
  Transfer pricing, business plan review, competition advice

- **B2B telecoms strategic review**
  Assessment of partnerships outside of footprint areas, and review of consolidation approaches to improve profitability

- **Satellite venture**
  Business plan, including supply chain analysis, content partner negotiations

- **High Definition TV venture**
  Contract assessment, negotiation support

- **Mobile company joint venture with music major**
  Commercial, accounting and tax review of contract prior to final negotiations

- **Online advertising partnerships**
  Strategic review of options to grow online advertising revenue (partnerships, acquisitions, organic)

“If you want a team to deliver a comprehensive, well argued, evidence-based assessment of an issue to a tight timetable, it’s difficult to see what other media team would be better placed to do that for you.”

Strategy Director, Major Media Company (Mobile TV JV)

“PwC provided a real focus on the issues, a no-nonsense approach and an ability to leverage their global experience on any given issue. In addition, they have great people on the ground.”

Strategy Director, Major TV company (Online Partnerships)

“The team showed a hungry appetite to do a great job faced with a challenging set of requirements – not least managing potential tensions between the two ‘clients’ on the project. They pulled out all the stops to deliver within an aggressive timeframe and provided an analysis and model that we have been able to use to inform our decision making. We were very pleased with the independent view they took on the options, whilst being very sympathetic to the strategic objectives we needed to achieve.”

Head of New Media and Technology Strategy, Major Media Company (Satellite TV JV)
The Real Deal – 10 questions to help make your strategic partnership successful

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<tr>
<th>Question</th>
<th>Suggested answer</th>
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<td>How does the partnership fit into the bigger strategic picture?</td>
<td>The partnership is important in itself but should be seen in the context of other partnerships and other strategic activities. Are there under-exploited synergies or conflicting objectives?</td>
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<td>Have you won the hearts and minds of your partner(s)?</td>
<td>Cultural fit is often as important as financial fit and is often over looked. Be sensitive to cultural differences – whether between organisations, industries or countries. The “softer issues” are often the most difficult to tackle, but the most lucrative when you get them right.</td>
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<td>Are you operating in your comfort zone?</td>
<td>Identify the most difficult relationship or aspect of the partnership structure and prioritise effort in that direction. Don’t just stay in the comfort zone.</td>
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<td>How well do you really know your partner?</td>
<td>Anticipate and evaluate your partner’s value proposition - get inside their head. It will help avoid surprises and enable a solution that works for both parties.</td>
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<td>How well have you defined and monitored KPIs for the partnership?</td>
<td>All businesses react to performance metrics, and so it’s important that both parties agree on both “what” to measure but also “how” to measure it.</td>
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<td>How much analysis and evaluation are you doing?</td>
<td>Analysis and evaluation makes you more confident, agile and sensitive to differences in culture and approach, avoiding misunderstandings. Remember, however, not to enter into an analysis/paralysis mode, as momentum is critical.</td>
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<td>How constructive are you being in your negotiations?</td>
<td>Framing the proposition in a positive, constructive manner makes a huge difference – ‘take-it-or-leave-it’ deals may appeal, but risk alienation and relationship breakdowns.</td>
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<td>How many unanswered questions do you have?</td>
<td>Always raise questions or issues that have come from the analysis and preparation you have conducted – the path untrodden may have been paved with gold, or at least been an easier journey for all parties.</td>
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<td>Are you prepared for disagreements?</td>
<td>Establish review and dispute steps in the negotiation and implementation process early on – it avoids the potential for litigation and opens up new possibilities for challenge and improvement.</td>
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<td>How much sponsorship do you have from all stakeholders?</td>
<td>Communicating benefits along the way helps to keep up momentum and increase sponsorship within the parent companies – it also keeps spirits up when times get tough (which they will, at some point!).</td>
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