Leveraging Your Capabilities

New levels of success can be achieved through partnering, but contractors must pay attention to the details. **BY PATRICIA W. ATALLAH**

How can you take advantage of new business opportunities if you are a small company with limited capabilities and resources?

You can expand your horizons without stretching your organization to the breaking point by teaming up with established companies that possess the management capabilities, market presence and financial strength that you do not currently have.

One way to do this is to enter into a joint venture, a legal partnership between two or more companies that is formed for the sole purpose of carrying out one or more specific projects. An example would be to join forces with a partner who has the bonding capacity to do the work while you bring to the table specific expertise or a strong customer relationship. Another example would be to partner with a design firm to provide a complete design/build package for your customer.

There are some serious prerequisites to success to consider; however, before you enter into any joint venture.

- The joint venture partners must get along
- All possible issues should be identified and resolved before a deal is made
- Each participant's scope of work, role and responsibilities must be defined
- Participation, profit and expense splits must be well negotiated and understood
- Avenues for resolving disagreements and dissolving the joint venture must be clearly delineated

Before you go down this path, please take the time to get to know your potential partner well (do your "due diligence") and seek the assistance of a competent lawyer to help draft, review and negotiate the joint venture agreement.

A less constricting alternative is to establish a relationship or association with a larger company in which you play a limited role on a project as subcontractor or sub-consultant. The benefit is that you limit your risk while gaining valuable experience that would otherwise be out of bounds for you. If you deliver your end of the bargain and build a good relationship with your partner, chances are you will be invited to participate on other projects as well. This could be great for building a track record and for strengthening your cash flow.

If you deliver your end of the bargain and build a good relationship with your partner, chances are you will be invited to participate on other projects as well. This could be great for building a track record and for strengthening your cash flow.

You can also shore up your capabilities by forging mutually beneficial strategic alliances with your vendors and suppliers whereby they provide favorable terms and special products or services to you in return for your business.

Case Study: Surviving the Perfect Storm: GG Inc., a small public works contractor, decided to bid on a $15 million five-year federal project that required teaming up with an architectural firm to provide design/build services. GG chose a design firm they knew nothing about except that it had done work for the particular government agency and had an office nearby.

Upon contract award, and anxious to get started, GG prepared a joint venture agreement using a template out of a book and opened a joint bank account without consulting an attorney. The agreement called for a 50/50 split between the two companies with no clear-cut lines of authority and no delineation of roles and responsibilities.

They were to manage together several projects spread over five regions. Managing the southern most projects closest to the project owner,

Patricia Atallah is a management consultant providing strategic an operations advisory services to construction industry participants. She is author of Building a Successful Construction Company and former president of SoundBuild, Inc., a construction consulting firm based in New York.

the design firm insisted on handling the finances of the joint venture and dealing with the project owner on the joint venture's behalf.

In the meantime, GG hired a new director of construction who was too overwhelmed with his new job to mind the store properly.

Little did they know that the design firm was in financial trouble because of bad investments in unrelated business ventures and it had been dipping into the JV account to ease its own cash flow problems.

To make matters worse, the project owner suddenly terminated the contract because of poor design work. GG was left hanging with unpaid receivables, missing cash and $12 million in lost revenue.

Do not try to cut corners or save money by excluding a competent lawyer and accountant from the negotiation process.

Lessons Learned:

A) Never "get in bed" with a firm you know next to nothing about. Do your due diligence with regard to credentials, integrity, intentions and financial stability;

B) Do not try to cut corners or save money by excluding a competent lawyer and accountant from the joint venture set-up and negotiation process;

C) Make sure you are involved with every aspect of the work and plugged in with the project owner. ▲