



**CAPITAL  
ACCESS**  
P A R T N E R S

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## **Strategic Associations for Entrepreneurs**

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## **Agenda**

**Why learn about Strategic Associations?**

**What are Strategic Associations?**

**Benefits of a Strategic Association**

**Risks of a Strategic Association**

**Types of Strategic Associations**

**Legal Steps to a Strategic Association**

**Negotiating a Strategic Association**

## **WHY Learn About Strategic Associations**

### **A 1990s Business Necessity Because Large, Mature Companies**

- **Cannot internally generate time-to-market required in 90s**
  - due to complex bureaucracy,
  - due to lack of management focus, and
  - due to low/slow absorption of new technology
- **Have inherently higher loaded costs**
- **BUT, they have market access, manufacturing, service, money and market recognition**

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## **A 1990s Necessity Because Entrepreneurial Companies:**

- **Have inherent time-to-market advantage**
  - due to lack of bureaucracy,
  - due to focus on a specific leading edge technology, and
  - due to dedicated, leading edge technical management
- **Have inherently lower costs**
- **BUT, they need access to markets, manufacturing, service, money sponsorship and market recognition and verification**

**“Execution of a well structured Association reduces entrepreneurial risk!”**

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## **Strategic Associations are a Startup:**

- **Risky - two out of three fail**
- **Need substantial planning and rationalization**
- **Must be a Win/Win deal**
- **Need adequate financial and human resources**

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Definition of a Strategic Association

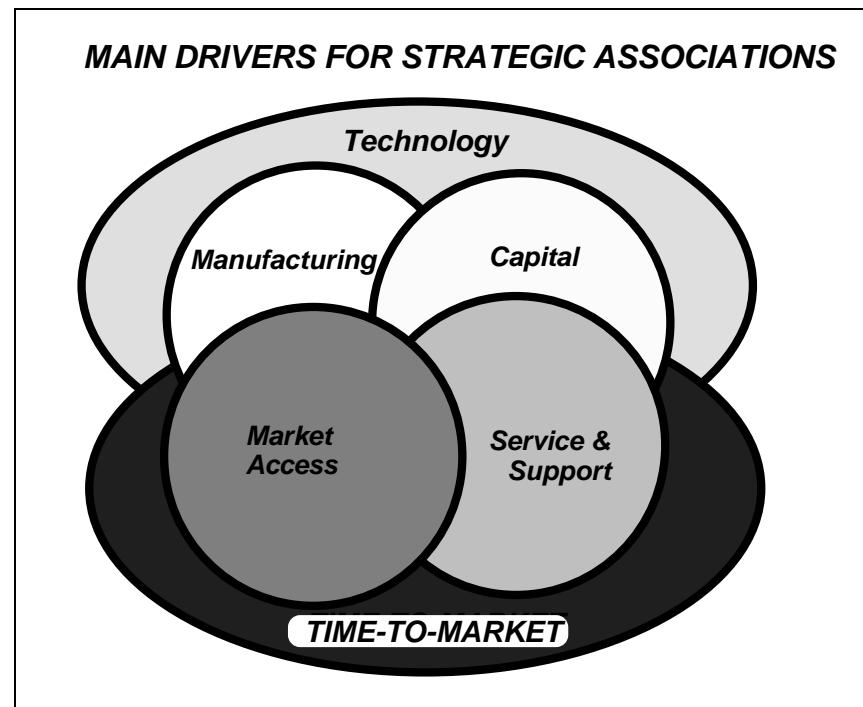
**A contract relationship between two parties**

**Whose strategic value to both parties**

**Exceeds The Contract Value**

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**Two Way Needs & Drivers**

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## **Some Characteristics of a Strategic Association**

**Good: Unequal size and power of participants**

**Bad: Equal size and power (two dominant lions and a pride of females)**

**Good: Complementary resources and needs**

**Bad: Plenty of others can satisfy the dominant member**

**Good: Each is dependent on the other (but not too dependent)**

**Bad: Neither needs the other**

**Good: The weaker partner has a uniqueness that the dominant member needs**

**Bad: The weaker partner has a capability that its competitors can provide**

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There Are Numerous Types of Strategic Associations:

Joint Venture

Supply Agreement

Product Development Agreement

OEM/VAR Agreement

Technology Development Agreement

Distribution Agreement

Shareholders Agreement

Sales representation Agreement

Stock Purchase Agreement

License Agreement

Investor's Rights Agreement

R&D Agreement

Loan Agreement

SW Development Agreement

Financing Agreement

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## An Entrepreneur's Risks

- ◆ *Loss of flexibility and future opportunity*
- ◆ *Excessive bureaucratic controls*
- ◆ *Terms of association too inclusive for quick reactions*
- ◆ *Can limit your attractiveness to customers who are competitors of Associate*
- ◆ *Deal does not realize promised benefits to your vulnerable company*
- ◆ *Deal is hard for you to get out of without serious harm to your small company*
- ◆ *Dominant, large partner could pull out and leave you catastrophically damaged*
- ◆ *PR impact on public perception that deal is unsuccessful*

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## A Large Company's Risks

- *Excessively dependent on a small, thinly capitalized company*
- *Significantly smaller company has excessive leverage due to large company's dependency on development or other reason for association*
- *Small company may well fail to perform*
- *Corporate culture of small company may make collaboration impossible*
- *Smaller company may not be internally accountable for its performance*

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## ***Structuring and Negotiating Strategic Associations***

- **Know the full range of opportunities**
- **Consider corporate and personal culture differences**
- **Avoid undue reliance on the other party**
- **Be prepared to structure the association as a separate company**
- **Establish trust**
- **Be prepared to do business differently from your standard**
- **Be prepared to lead or be led**
- **Manage the time and cost of completing an association**
- **Worry a lot about association structure; get it right before entering it**
- **Look for multi-level, multi-disciplinary positive attitudes**
- **Look for compatible objectives**
- **Determine how to resolve disputes and unwind**

# **C Win/Win Negotiation Style and Technique**

- ◆ **Know and communicate your “Legitimate Objectives”**
- ◆ **Understand the other party’s Legitimate Objectives**
- ◆ **Accomplish your and the other party’s Legitimate Objectives**
- ◆ **Then, you Win and your Strategic Associate both Win**

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## Win/Lose Negotiation Style and Technique

- ◇ *Lie to your Strategic Associate about your “Interests,”*
- ◇ *Pay no attention to the other Party’s “Legitimate Interests,”*
- ◇ *Push hard for your advantage,*
- ◇ *Believe that you “Won,”*
- ◇ *Pray to God that the other party does not know it lost, and*
- ◇ *Enjoy your short victory*

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## **Chronology of a Strategic Association**

- 1. Identify the strategic partner candidate and your objectives**
- 2. Enter a Mutual Nondisclosure Agreement - limited to this deal**
- 3. Then, freeze the basic deal before full contract negotiations, with a:**

**TERM SHEET**

**or**

**MEMORANDUM OF UNDERSTANDING**

- 4. Only then enter final contract negotiations and closure**

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## CAP Mission & Objectives

### Capital Access Partners Mission & Objectives

Secure capital financing for early stage technology companies

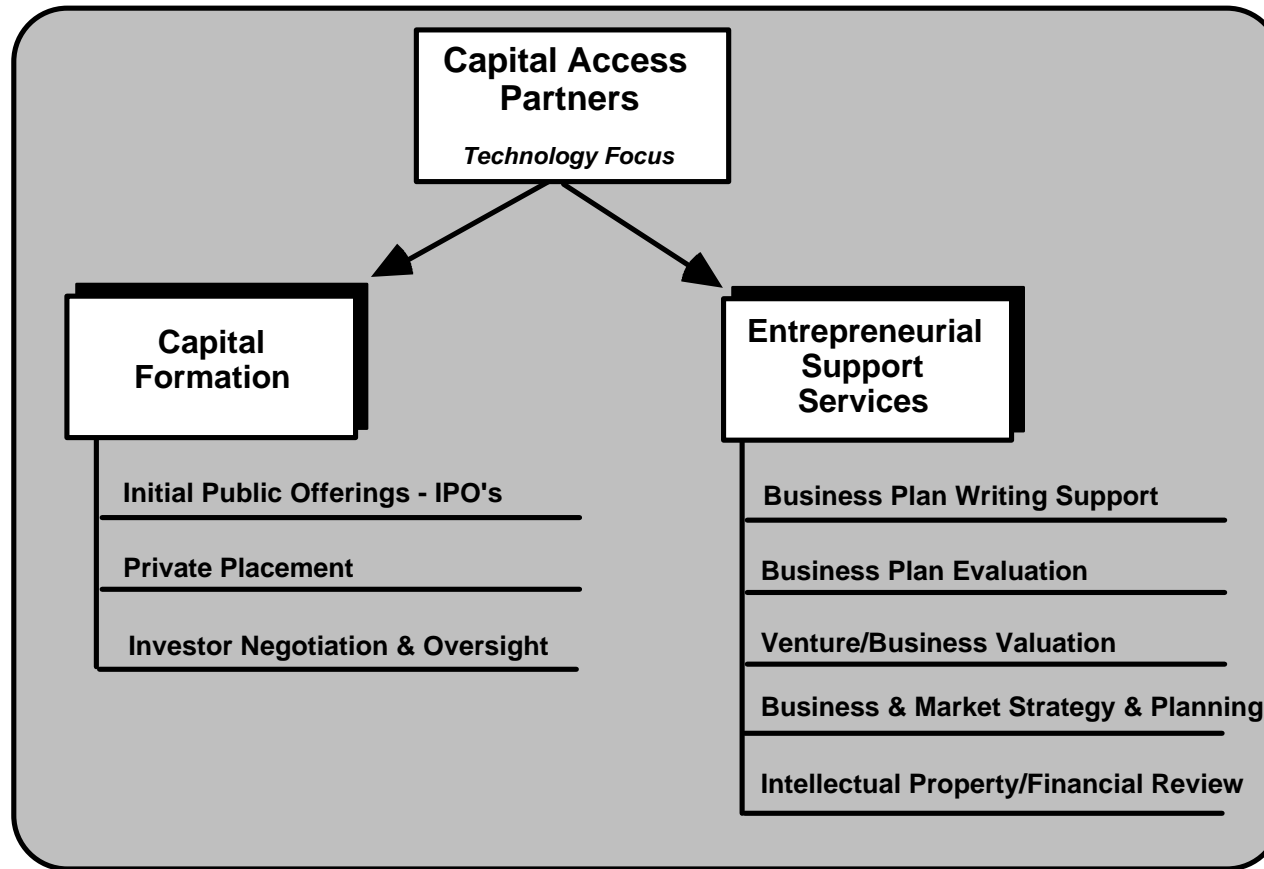
Provide entrepreneurial services to early stage companies

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## Capital Access Partner Offerings



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