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Draught Resolution

Better profitability. Increased efficiency. Improved market share. Three Utah collaborators saw them — and so can you.

by Steve Gooch

Is it any wonder that a collaborative venture between two of Utah's most successful breweries began over beers? Though the amber ambrosia isn't the drink of choice for a large portion of the state's denizens, many a deal has been brokered over the downing of a pint, and in this case, for a local brewing concern, the deal was the beer.

In 2000, Schirf Brewing Company teamed with Salt Lake Brewing Company — better known by the brands Wasatch Beers and Squatters Beers, respectively — to form Utah Brewers Cooperative, an arrangement that brings the production of each company's brews under one roof. But why would two companies competing for increased share of an admittedly tiny

niche market want to team up with the competition?

"We were sitting around bullshitting one day and the subject came up of combining our resources, and we thought, 'Why not look at it?'" says Peter Cole, founding partner of Salt Lake Brewing. Jeff Polychronis, Salt Lake Brewing's other founding partner continues, "We realized jointly that if you could put those two companies together, the economies of scale were such that the result was a more lucrative company that was much healthier than either of the two as a standalone."

The initial aim was to form a third-party cooperative that would benefit from economies of scale in production costs — hops, grains, bottling necessities — and shared space, but the two brands would remain competitive, says Greg Schirf, owner of Schirf Brewing. But flaws became apparent when both sides considered the arrangement, specifically relating to who would use the facility at what times. Schirf proposed moving both companies in together and suggested that each company perform a feasibility study on the idea. After crunching the numbers and seeing the huge increases in profitability for both companies, joining forces was a no-brainer, says Schirf. "We both looked at each other in the meeting and went, 'Holy mackerel!' That was the nexus for making it happen. Then came, how would it happen?"

Let's get together

Collaboration, at its essence, is two entities working together toward a common goal or outcome. It's as simple as that. The reason competitors can make such great collaborative partners is that they're doing the same work as you — that's why they're competitors. The problem is how to make the deal work.

"Make sure you pick the right partner," advises Schirf. His Wasatch brand had been competing against Polychronis and Cole's Squatters label for years, but the three men had a prior relationship stemming from time spent together in the real estate industry. "We had competed honorably and openly with each other and not denigrated the other or become so competitive that we sacrificed our relationship," says Schirf. "If we'd been at each other's throats, it would have been harder to have a meeting of the minds." Instead of animosity, the triumvirate found themselves working from a position of respect and trust.

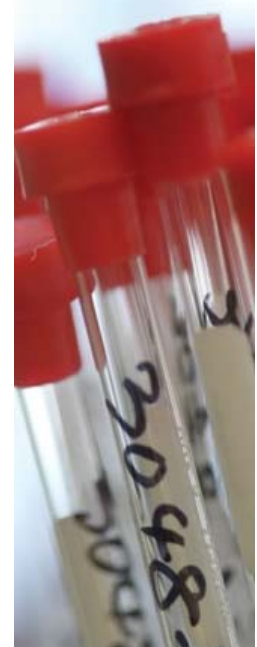
According to Evan Rosen, author of *The Culture of Collaboration*, that's an important place to start. "Trust is absolutely essential in any collaboration, because we need to trust one another before we feel comfortable sharing. Building trust is hard enough within companies and among business partners, but it's obviously an even bigger challenge with competitors. Nevertheless ... it's necessary to build trust with the notion that collaborating will benefit each competitor."

"In our culture, everyone is focused on what's in it for me. I always advise companies to focus on what's in it for them. Lead with that, then open the door and explore how they can add reciprocal value," says Whitney Keyes, a marketing and business consultant and principal of Whitney Keyes Productions. But don't enter a collaborative relationship only focused on the other party; remember that you're partnering to advance your business, not theirs. "The most important thing is to focus on your business goal," says Keyes. "Then you can see if this strategy makes good sense for you. Otherwise, it might be an interesting experiment, but it doesn't pay off in the end."

The benefit achieved by each company needn't necessarily mesh perfectly, according to Rosen. Whereas Wasatch and Squatters' needs were roughly equivalent — cheaper materials, shared staffing — some agreements may give one company one benefit, while the other requires something altogether different. "The benefits need not be identical, because the value each company derives from collaborating may be asymmetrical," says Rosen. "That said, the arrangement should make good business sense to each company and there should be no reality or perception that one company is winning bigger than the other. The guiding principle should be that each collaborating competitor wins."

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So how do you do that? How do you make sure each side gets what they want?

Vox hunt

Communication is the keystone to a competitive collaboration, just as in a traditional partnership or in internal affairs. You need to make sure everyone is on the same page of the contract. But when you're separate companies housed in different locations, probably just across town, but possibly across the nation or even an ocean — that makes it tough to foster quality communication.

"What's critical is that many of these relationships have to be formed over the phone or over e-mail," says marketing professor Edwin Stafford at Utah State University's Huntsman School of Business. "You have to have constant contact with one another." While that prospect may have been daunting or nearly impossible as few as 15 years ago, we're living in a golden age of communication. Smart phones, such as RIM's BlackBerry or Apple's iPhone, have made phone, e-mail and Internet access ubiquitous, while software like Citrix's GoToMeeting and Cisco's WebEx have made teleconferencing easier than ever.

Planned co-parenthood

A collaboration is "not unlike a marriage," says Schirf. "You better know the extended family and the background. Before you jump into bed with anybody, you better know as much as you can." Aside from the basic strategy of looking at your prospective partner's balance sheet, organizational structure and other relevant due-diligence basics, you also should check out their past behavior and philosophy to make sure it aligns with yours. You need to make sure, first and foremost, that the arrangement is good for your company and goals.

"If you're not getting your back scratched by the other company, if they're doing something that's unethical or isn't in line with your brand or your business, I wouldn't recommend partnering with a competitor in that case," says Keyes. She makes a valid point — not only are you partnering with a business, but you're also aligning yourself with others' perceptions of that business. If your organization can't afford a tarnished image, then you'd best know about any dirty laundry your partner may have so you can make an informed decision about whether to hook up.

Leggo your ego

This one is a biggie, and it may be tough for you. Whether you started the business and built it from scratch or assumed control from the last CEO and increased the company's market share and profitability, you have pride in the work that you've done. And you should. But now is not the time.

"The trick is to set your business ego aside and think about what's best for your customers," says Keyes. Ego can get in the way of even the best relationships, so imagine what it can do when you're partnering with a competitor. Instead of upping the competitive ante with chest-beating and company measuring contests, you need to focus on the task at hand: Making this venture a success.

Schirf says he had to make ego concessions when consummating the deal that created Utah Brewers Cooperative. "Sure I have an ego, but it's firmly attached to the bottom line, not to a particular label. You have to put your ego aside, particularly when you're the founder of the company, and realize that your baby is going to have new co-parents. If you're going to be successful in a merger, you have to be objective as you can."

Raise your glasses

Ultimately, if you stay on target and — let's face it — get a little lucky, the result of your hard work will be a happy, productive collaboration, and one that meets the goals of each partner and offers benefits to customers. It did for Schirf, Cole and Polychronis. Says Schirf, "The benefits were even more profound than we envisioned. Now, we're operating one brewery instead of two, and we have amortized our fixed costs essentially in half. Additionally, we realized other economies by having greater buying power in both raw materials and packaging materials."

Now, two former competitors and rivals for the affection of Utah's beer drinkers have a successful partnership that has lasted for nearly a decade. Judging from the enthusiasm the three men have for the collaboration and the awards garnered by Utah Brewers Cooperative's products, it's a partnership that will last for many beers to come.

Why collaborate?

Both sides of the collaborative coin get improvements to process and profits. Here are a few things you can expect for your company.

- **Increased efficiencies.** You do 'x' well. They do 'y' well. If you mesh your operations to benefit from both 'x' and 'y,' you can each do things with better quality and faster output.
- **Better profitability.** When you can share resources, there's less waste and better price points on raw materials. If you do enough work in a similar way, you may be able to share staff instead of hiring new.
- **Shrink the market.** One more company on your team is one less competitor. Translation: more sales for you and yours; less sales for everyone else.
- **Strategy.** If another company is considering entering your market for a similar product, think about collaborating with them. That way, they get what they want while you don't have to worry about another competitor.

Case Study: Media Relations

In late January, Provo's Daily Herald newspaper joined forces with MediaOne of Utah. [Disclosure: MediaOne is the parent company and publisher of Utah CEO magazine.] It's a move that was nearly unheard-of even just a few years ago — media doesn't play nice with media — but will likely become more commonplace in the coming years. But in an industry so fraught with competition, why join forces?

Economics

Printing presses aren't cheap; neither are the paper, ink and unionized labor required to print the news. Considering the Daily Herald's 30,000-40,000-copy print run, that's a lot of money. "The biggest gain is that the facility and press are very expensive," says MediaOne CEO Brent Low. "Provo eliminates a capital-intensive part of their business and are able to avoid a high fixed cost. For us, it enables us to leverage our capital-intensive part of the business and our high fixed cost."

Efficiency

Employees will be paid whether they're crazy-busy or just easing work through. In this case, the Daily Herald was able to reduce its workforce by around 50 workers, while MediaOne had extra production time and labor capacity to assume the workload with no extra staffing requirements.

Cash

Because of the partnership, both companies will be in a better financial position — MediaOne will have more cash, the Daily Herald will spend less of it. The tightening of both production and efficiency led the way to improved cash flow and better profitability.

As costs rise and the economy continues its wild fluctuations, look for more uncommon arrangements like these to crop up, and consider one yourself.

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