Notes on Partnering in the Construction Industry

What benefits would a company get from partnering with another company?

Construction companies have always used **joint ventures**. The simple reason is being able to bid for and deliver a project that would be too big for one company at that specific moment. Partnering allows you to become larger than you are and to get work that would otherwise be out of your reach. It also lets you spread the risk among the members in a demanding project.

Joint ventures can be a way to grow. You partner can open access to new clients or new markets, in other countries, for example. This can also be helpful if your local market is in a downturn. There's always an upswing in economic activity somewhere, as an investor would say.

Another potential benefit is **increased productivity**. Companies are always looking for ways to increase their productivity. However, it is becoming more and more difficult to make significant productivity improvements within a company. An average company pays 55 percent of its revenues for goods and services. In construction that percentage is well over 70.

You need to have ways to save on purchases. You can either squeeze your suppliers or you can select a handful of suppliers and build durable relationships with them. There is a lot of evidence that partnering performs better in the long run.

By removing traditional company boundaries between the buyer and the vendor you can become really **efficient and competitive**. When a supplier can engage directly in the parent company's processes and share process information transparently, both parties win. Toyota in the auto industry is a good example.

A third area of benefit is to do with **innovation**. Partnering is a great way to bring something completely new to the market. Suppose you identify an urgent customer need that no one has been able to satisfy because of the traditional ways companies do business. Companies could wait until some intermediary realizes the business potential, creates a concept and asks for bids from suppliers. Alternately, a group of companies could develop the concept together and offer the service through a partnership.

Some other potential benefits from partnering include **shorter times to market** and **reduced inventory**.

What are the different types of partnerships?

Depending on the goals and commitment of the partners there are three levels of partnership: **operational**, **tactical** and **strategic**.

An **operational partnership** is about rationalization and streamlining. An operational partnership saves costs and frees up resources.

Your partner provides services or products that they can produce more efficiently than you. The partnership allows you to improve your competitiveness in terms of price or time. You can focus on your strengths in the partnership, which can boost the quality of your offering. Lean construction, for example, would be a benefit of an operational partnership.

The driver for **tactical partnerships** is the desire to integrate the processes of the partnering companies in order to become more than the sum of the parts. Tactical partners are, in a way, a **virtual or extended company**.

In construction, tactical partnerships can be formed, for example, between a contractor, an architect, an engineering firm, and a quantity surveyor. Together they can offer, for example, design-build projects.

The most demanding and possibly most rewarding forms of partnerships are **strategic**. They are based on a shared strategy between companies.

Strategic partnership can create a remarkable competitive edge through innovations in products or the business model. The partnering companies are able to create something unique that without the tight relationship would not be realizable.

What are the potential problems in partnerships?

I have seen both successful and unsuccessful partnerships. Based on my experience I would say that the most crucial mistakes are the following:

1) **You choose the wrong partner**. Friendship, for example, does not guarantee that your companies would make great partners.
2) You start partnering **without any previous experience** of how your ways of working and cultures match in practice.
3) You don't have **a clear picture** of what it requires to make cooperation successful. As a result, you don't invest enough in making the partnership really work.
4) The partnering company's **principals are not 100 percent committed** to the partnership because they don't see the business benefits of the relationship.
5) The employees who have to work together in the companies are **not motivated** to collaborate.

What's needed for a successful partnership?

Trust is the bedrock of any partnership. Trust must be earned, so prior collaboration between the partners would be the best starting point.

In addition to the self-evident trust, there are three common elements that are required for a successful partnership.

The first is a compelling but **realistic vision of what you can and want to achieve together**. This, of course, requires that the partnering companies' senior management teams are involved in defining and committing to the vision.

The second cornerstone is **impact or a win-win relationship**. Both or all the partners must gain business benefits. If a partnership becomes a zero-sum game, it will fail. The effects of the partnership must become visible on the bottom line. Define the business case for the partnership.

The third success factor is **open sharing of information, or intimacy**. This can be a big change to the way companies work. Before the partnership, you could pretend that something

was in order, but now you'll actually have to "come as you are." Technically you may have to integrate your information systems for real-time data exchange.

Being in close contact with another company soon shows if the values and cultures of the partners match. I'm not saying that they'll have to be exactly similar, but if one of the partners is "green" and the other is dumping waste into a nature reserve, it won't work. Both must build the brand together.

Some examples of partnerships

Partnerships can be great from the supplier's point of view, but many clients seem less enthusiastic. They want to keep control of the suppliers, mainly to keep prices down. That leads to the situation where there may be 50 to 80 subcontractors on a construction site at any given time, without any mutual agreements. So, it is not self-evident that partnerships are greeted with unreserved joy. Joint ventures are an exception, if the client agrees on the benefits.

I was involved in the 1990s in creating a European network of architectural firms. Our idea was to offer global enterprises local service in several countries. Another goal was to utilize the expertise of the members globally. For instance, if a firm in Spain was an expert in retail design they could join us in a project in Helsinki. The network had headquarters in Stockholm and members initially from Finland, Sweden, Germany, France, Spain, the UK and Switzerland. Later on it expanded to Asia.

As a consultant I've had the pleasure of helping companies to create unconventional partnerships. For example, a quantity surveyor, software developer and residential developer created a business concept to provide customizable apartments. They developed an online service that lets a homebuyer configure a home from pre-designed elements. The system is able to create visualizations and instantly generate a quote for the new home. They wanted to make buying an apartment as easy as buying a car.

Another example is a joint service concept developed by a professional services firm, an HVAC engineering company, a maintenance firm and an owner. They are able to offer large organizations with lots of offices a service that allows the client to improve the quality of their working environments while at the same time reducing facilities-related costs.

I've also helped a team of consultants create an offering for lean industrial design projects.

What I find most interesting are the projects where different disciplines, even from outside the industry, partner up to create something new.

Contact me

To contact me, please send email to aarni (at) aec-business.com or visit http://aec-business.com.

