

PARTNERSHIP STRATEGIES

GLOSSARY OF TERMS

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This glossary is a work in progress. Please let us know any important terms that have been left out and also any comments or corrections to the definitions. Thank you.

Acquisition	The purchase of one company or a part of one company by another. The purchased assets will usually be integrated into the operations of the acquirer, but some assets may be sold off.
Alliance	Inter-firm relationship between two or more separate firms that is short of <i>acquisition</i> and deeper <i>than arm's length contract</i> . It is characterized by a governance structure to manage the " <i>incomplete</i> " (or open-ended) elements of the agreement. There are many structural forms of alliances, including <i>joint venture</i> , <i>licensing</i> , <i>joint R&D</i> , some <i>supplier</i> relationships, and so on. May be <i>equity</i> or <i>non-equity relationship</i> .
Arm's Length Contract	An inter-firm relationship lacking preferential terms, i.e. in which the firms offer each other "standard" or "market" terms and prices.
Co-branding	Agreement between two or more separate firms to promote their brands jointly in the marketplace.
Constellation	A set of firms tied together through <i>alliances</i> and that competes in a particular industrial or geographic domain against other constellations or against single firms.
Divestiture	The sale of a part of a company to another company. The assets sold will usually be de-integrated from the divesting company's operations, although a gradual transition of management is possible.
Equity Relationships	Any inter-firm relationship involving one firm owning part of the equity in another firm. Common forms are <i>joint ventures</i> or <i>minority equity investments</i> . Equity relationships are usually <i>alliances</i> .

Exit Provisions	The agreements between companies in an <i>alliance</i> that govern the way they would divide assets and rights in the event of a dissolution of the alliance, and related provisions regarding who or what may trigger a dissolution.
Franchising	A system of business organization whereby a central firm (franchisor) grants territorial rights to the use of its trademarks and technologies to local owners (franchisees).
IPO	Initial Public Offering. A new company's first offering of shares to the public. After the IPO, the company's shares will usually be listed on a stock exchange.
Incomplete Contract	An agreement (written and unwritten) between two firms that leaves open important terms of exchange, usually because of contingencies that cannot be accurately foreseen at the time of the agreement. In order to govern such an agreement, the firms may use a "relational" or "evolving" contract; such contracts are the essence of an <i>alliance</i> .
Joint Marketing	An <i>alliance</i> in the area of marketing, for example involving one company promoting the products of the other, or two companies combining sales efforts.
Joint R&D	An <i>alliance</i> in the area of R&D, for example involving each company developing a part of a product or exchanging information in the joint development of a product.
Joint Venture	An <i>alliance</i> consisting of two or more companies owning parts of the equity in a separate corporation. The new corporation may be run more or less autonomously from the parent firms. Joint ventures are often classified (from one partner's perspective) as minority, 50/50, or majority, depending on the share of ownership of one partner.
Licensing	An inter-firm agreement whereby one company grants the right to another company to use its patents in defined domains. Cross-licensing agreements involve the companies simultaneously granting reciprocal rights to each other's patents or to whole patent portfolios.

Merger	The unification of two or more companies or of their assets. This term is often used when two more-or-less equally-sized companies join, because it is often not clear in such cases that one company "acquired" the other; alternatively, the term is used when companies want to signal that both will have a balanced influence on the management and organization of the new entity, even if one is larger than the other. From strictly structural point of view, <i>acquisitions</i> or mergers tend to lead to the same result.
Minority Equity Investment	An investment of one company in another that represents less than 50% of the equity of the second firm. Can be a share of a <i>joint venture</i> or of another stand-alone firm.
Network Organization	Loose term used to denote business organizations characterized by formal and informal networks of relationships.
Non-equity Relationships	Inter-firm relationships that do not involve one company owning equity in another entity or firm. Examples are <i>licensing, franchising, joint R&D programs</i> , and so on.
OEM	Original Equipment Manufacturer. A <i>supplier</i> relationship whereby the OEM provides a full product to a buyer, which then brands the product and sells it in its channels.
Option	A provision that grants the owner of the option the right to buy more shares of a company at a certain price or to exercise other rights in the future, should conditions warrant it.
Outsourcing	The delegation of certain functions to an external company. Can be through an <i>alliance</i> or through an <i>arm's length contract</i> .
Partnership	Two definitions: (1) A loose term often used to denote some sort of <i>alliance</i> ; or (2) a strict legal terms describing a jointly-owned enterprise that is not a corporation and that follows different tax and management rules than would a standard <i>joint venture</i> .
Pooling of Assets	An accounting treatment for <i>acquisitions</i> and <i>mergers</i> that may reduce the tax liabilities for the combined entity, but that must fulfill certain eligibility criteria.

Spin-off	The <i>divestiture</i> of a part of a business, either by selling it to another firm, or by creating a new separate entity, perhaps through an <i>IPO</i> .
Supplier	A company that supplies a product or service to another. Suppliers may be selected on an <i>arm's length</i> basis or on a preferential basis; in the latter case, the supplier-buyer relationship takes on the features of an <i>alliance</i> .
Vendor	<i>Supplier</i> . See that definition.
Virtual Corporation	Loose term akin to <i>Network Organization</i> . See that definition.