3 Questions to Ask Before Choosing a Business Partner

A fruitful, lasting business partnership is kind of like a marriage: it's a relationship centered on trust, respect, dependability, and commonality. Just as you wouldn't head to the altar without first getting to know your significant other, a business must perform due diligence—such as vetting, risk management evaluation, and background checks—before risking its future and value proposition by partnering with someone new.

Where do you begin when selecting a new business partner, supplier, or strategic investor? Ask yourself the following questions:

1. What Do You Need From Them?

There are many different types of strategic partnerships one can forge—from product partnerships to supply chain relationships. So before you begin your quest for a new partner, determine what you need from the relationship.

If you're looking for a partner to bolster your supply management best practices, for example, you'll need to ask them about their quality assurance processes, return policies, and minimum/ maximum order quantities. If you're looking to form a strategic relationship to fuel your business expansion, you'll want to understand how a potential partner could help you capture new market share, redefine your existing core competencies, and improve upon your go-to-market strategies.

To answer the important questions regarding what you need from a business partner, start with the simpler ones such as:

- What kind of partnership am I looking for?
- Why will a new business relationship help me?
- What criteria am I looking for when it comes to teaming with a new company?

Once you understand the type of business relationship you're looking for, the next challenge is to select the right company.

2. What Can You Learn About Their History?

Just as some people have subpar credit scores and a history of delinquent payments, so do some businesses. Risk management best practices include properly vetting and inquiring into potential business partners' histories—with an eye toward the dual aspects of finance and reputation. By performing background checks, or teaming with a third-party database to access in-depth information about potential companies, your business can learn if the potential partner, supplier, or vendor:

- Is a "safe bet," or a company that will make good on all financial and business obligations. This information can be gleaned by accessing credit reports and previous financial histories.
- Has a solid history of engaging in lucrative, effective partnerships with other companies. Proper vetting includes asking for references, meeting with the potential partners' management, and consulting with prior customers.
- Has established standard operating procedures and efficient processes in place. How a company runs its own business will give you great insight into how it will run its partnerships.

3. How Will You Protect Yourself in the Future?

Once you've decided to enter into a relationship with another company—be it in a supply chain, investor, or strategic capacity—make sure you have risk management standards in place to protect the new venture. This includes having a clearly defined process and policy in place for dealing with late payments (to avoid a long string of delinquent payments); outlining efficient billing processes, if applicable; determining how you will assess the effectiveness of the partnership; and defining your expectations so that you can swiftly decide when something needs to be course-corrected or amended as it relates to your partnership.

When it comes to doing business with another company, the risks can be great. In addition to potentially teaming with illicit or fraudulent companies (45% of businesses in the US reported suffering some type of fraud within the past two years, according to PWC), your company could unknowingly be entering into a "bad profit" relationship.

Remember that not all business is good business and that risk management considerations will keep your company out of trouble down the line.