Joint Ventures & Strategic Alliances

Joint Ventures

- A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task or economic activity togther.

  JV Agreement
- Regardless of the legal structure used for the JV, the most important document will be the JV agreement that sets out all of the partners' rights and obligations.
- The objectives of the JV, the initial contributions of the partners, the day-to-day operations and the right to the profits (and responsibility for losses) of the JV are all set out in this document. It is important to draft it with care, to avoid litigation down the road.

Difference Between Mergers and Joint Ventures

- When two firms merge, they cease to exist as independent firms. A new and separate legal entity controlling the assets of both firms

  i.e " A" Ltd & " B" Ltd merge together as "AB" Ltd. After, " A" Ltd or " B" Ltd no longer to be exist.

- in a joint venture, a new separate firm is formed, but the original companies continue to exist on their own.

- " A" Ltd & "B" Ltd formed separate entity called AB JV.

Famous JV

- Microsoft and GE Joint Venture, Caradigm

  2011, Microsoft Corporation and General Electric formed a joint venture which is a health IT company of its own kind.

- The Hisun-Pfizer Joint Venture

  The world's largest drug company, Pfizer, and a Chinese pharmaceutical company, Zhejiang Hisun, formed a joint company in the Chinese city of Hang Zhou

- Chery Jaguar Land Rover Automotive Company.

  The British luxury car manufacturers entered into a joint venture with the Chinese company Chery Automobiles. The joint venture company is known as Chery Jaguar Land Rover Automotive Company.

- Characteristics of joint ventures
  - Limited scope and duration
  - Generally involve only two firms
  - Involve only small fraction of participants' total activities
  - Each participant offers something of value
  - Joint production of single products
  - No sharing of assets/information beyond venture
  - Joint property interest in subject matter of venture
  - Right of mutual control or management of enterprise
  - Right to share in cash flows of the enterprise
  - Limited risk

Goals/objectives of joint ventures

- Risk sharing
  - Each participant diversifies risk
  - Reduces investment cost of entering risky new area
  - Realizes benefits of economies of scale, critical mass, learning curve effects sooner

- Knowledge acquisition — learning experience for both partners
  - Shared technology
  - Shared managerial skills in organization, planning, and control
  - Successive integration — joint venturing as a way to learn about prospective merger partners

- Entry into new, expanded, foreign markets
  - Augments financial or technical capabilities
  - Reduces risk
  - Foreign country may require joint venture with local partner

- Financing — to raise capital
  - Share investment expense
  - Small company has product idea but no cash
  - Joint venture with large company that has cash to develop product

- Distribution/marketing
  - To obtain distribution channels
  - To obtain raw materials supply

Advantages of forming a Joint Venture?

- Provide companies with the opportunity to gain new capacity and expertise
- Allow companies to enter related businesses or new geographic markets or gain new technological knowledge
- access to greater resources, including specialized staff and technology
- sharing of risks with a venture partner
- Joint ventures can be flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business' exposure.

The Disadvantages of Joint Ventures

- It takes time and effort to build the right relationship and partnering with another business can be challenging. Problems are likely to arise if:
- The objectives of the venture are not 100 per cent clear and communicated to everyone involved.
- There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
- Different cultures and management styles result in poor integration and co-operation.
- The partners don't provide enough leadership and support in the early stages.
- Success in a joint venture depends on thorough research and analysis of the objectives.

How Sri Lanka has used JV partnerships for technology transfer and business growth ??

MAS?
Brandix?

Building Successful Joint Ventures

- "Joint Ventures and Alliances can deliver more shareholder value than M&A can, but getting them off the ground can trip you up in unpredictable ways"

  Harvard Business Review

History of Joint Ventures

- A study published in Harvard Business Review in 2002 reveled that a whopping 47% of joint ventures fail!!
  - Reason cited are:
  - Wrong Strategies
  - Incompatible Partners
  - Weak Management
  - Unrealistic or inequitable Deals

Critical Success Factors in a Joint Venture

- Good communication & cooperation and coordination among partners
- Common goals and shared vision among partners
- Dedication towards the success and long term sustainability of the JV
- Proper sharing of profits and benefits among partners
- JV should work towards the benefit of all the partners
- Proper planning and research prior to the incorporation of the JV

Factors hindering the success of a JV

- Lack of understanding between the partners
- Lack of patience and motivation among partners3.
- Entry of a wholly owned subsidiary of a partner in the same business and market (E.g.. Hero Honda)4.
- Benefits lower than the expectations5.
- Operational Difficulties due to geographical location of the partners6.
- Differences and conflicts between partners on various issues.
- Incompatibility of the culture and management styles of the partner

- Successful Joint Ventures
  - VOLVO – EICHER JV
  - TATA – DOCOMO
- Failed Joint Ventures
  - Chrysler – Diamler AG
  - Yamaha – Escorts
- JVs Leading to Takeover by one partner
  - Hero Honda (Takeover by Hero Group)
  - Virgin – TATA

Strategic Alliances

Gallo, the world's biggest maker of wine, does not grow a single grape and similarly,

Nike, the world's largest producer of athletic foot-wear, does not produce a single shoe,

Boeing, the giant aircraft company, makes little more than cockpits and wing bits. These organizations, like a number of other businesses nowadays, have created strategic alliances with their suppliers to do much of their actual production for them.

Strategic Alliances

- A strategic Alliance is an agreement for cooperation among two or more independent firms to work together toward common objectives. Unlike in a joint venture, firms in a strategic alliance do not form a new entity to further their aims but collaborate while remaining apart and distinct

- Partners may provide the strategic alliance with resources such as products, distribution channels, manufacturing capability, project funding, capital equipment, knowledge, expertise, or intellectual property.

- The alliance is a cooperation or collaboration which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts. The alliance often involves technology transfer (access to knowledge and expertise), economic specialization, shared expenses and shared risk.

World example for SA

- Spotify and Uber

  Leaping forward to a very recent piece of news, Spotify and Uber have partnered to provide stereo control to Uber customers. Not every Spotify consumer uses Uber, nor does every Uber rider have a Spotify account. The strategic alliance allows each company to pursue prospects from the other's existing customer base, all while continuing to promote both products.

  – In both cases, it gives the company a leg up over its competition. Spotify is offering something with the Premium package that other streaming services do not yet have. And likewise, Uber can provide the riders with an opportunity to listen to their own playlists as opposed to other ride-share services that cannot match them yet.

- Hewlett-Packard and Disney

This alliance formed back when Mr. Hewlett, Mr. Packard, and Mr. Disney were all still involved with their respective companies. During the creation of Fantasia, Disney purchased some audio equipment from Hewlett-Packard. The strategic alliance continued onwards, as Disney relied heavily on HP's development and IT team for it's own infrastructure.

In fact, at current-day Disney attractions, the Imagineering team is still quite married to the HP systems architecture. During the design and build phase of Disney's Mission:SPACE, HP engineers and Disney imagineers were working side by side to create the most technologically-advanced ride yet.

Some other Strategic alliances for specific reasons

- In R &D
  - CISCO Systems' agreement with China's biggest on-line commercial company Alibaba, to explore business services for SMEs.
- In Manufacturing
  - Chrysler – Fiat partnership to build compact and subcompact jeeps
  - GSK – Dr. Reddy Labs: The Indian company will manufacture nearly 100 products mainly under GSK brand name for sale in some emerging markets.
- In Marketing:
  - WIPRO – GE joint venture to distribute approximately 85% of GE's healthcare products and solutions in India.
- For Sales
  - Nestle and General Mills (US) agreement whereby the product Honeynet Cheerios was made in General Mills' US plants, shipped in bulk to Europe for packaging at a Nestle plant and then marketed in France, Spain and Portugal

- In Technology
  - **ICICI Bank and Vodafone India**: A *strategic alliance example in India* is of ICICI Bank, India's largest private sector bank and Vodafone India, one of India's largest telecom service providers, entered into a strategic alliance to launch a unique mobile money transfer and payment service called 'm-pesa'.
  - Microsoft India and TCS: Microsoft India and Tata Consultancy Services (TCS) entered into a strategic alliance to launch Microsoft-TCS virtualization Center of Excellence (CoE). It is designed to help customers experience the right approach to applying and managing virtualization across IT architectural layers
  - The HP and Microsoft global strategic alliance is amongst the longest standing alliances of this type, with well over Twenty five years of combined marketplace leadership aimed at helping customers and channel partners worldwide enhance productivity by using innovative technologies.

Motives for Strategic Alliances

- ❖ Sharing costs and risks
- ❖ Combining complementary skills
- ❖ Formulating technical standards and dominant designs
- ❖ Accessing new markets and technologies
- ❖ Preempting key competitors
- ❖ Reserving learning opportunities