

# Joint Ventures

# Topics to be Disussed

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# Joint Ventures

A joint venture is a business agreement in which parties agree to develop a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses, and assets.

Joint business ventures involve two parties contributing their own equity and resources to develop a new project. The enterprise, revenues, expenses, and assets are shared by the involved parties.

# Joint Ventures

In a joint venture business model, two or more parties agree to invest time, equity, and effort for the development of a new shared project.

Joint Venture is a business preparation in which more than two organizations or parties share the ownership, expense, return of investments, profit, governance, etc. To gain a positive synergy from their competitors, various organizations expand either by infusing more capital or by the medium of Joint Ventures with organizations.

# Joint Ventures

## Example

**Sony Ericsson is a joint venture between Swedish telecom corporation Ericsson and Japanese electronics manufacturer Sony to develop cellular devices.**

# Characteristics of a Joint Venture

## 1. Creates Synergy

A joint venture is entered between two or more parties to extract the qualities of each other. One company may possess a special characteristic which another company might lack with.

Similarly, the other company has some advantage which another company cannot achieve. These two companies can enter into a joint venture to generate synergies between them for a greater good. These companies can work on economies of large scale to give cost advantage.

# Characteristics of a Joint Venture

## 2. Risk and Rewards can be shared

In a typical joint venture agreement between two or more organizations, they may be of the same country or different countries, there are many diversifications in culture, technology, geographical advantage and disadvantage, target audience and many more factors to overcome.

So the risks and rewards pertaining to the activity for which the joint venture is agreed upon can be shared between the parties as decided and entered into the legal agreement.

# Characteristics of a Joint Venture

## 3. No Separate Laws

As for joint venture, there is no separate governing body which regulates the activities of the joint venture. Once they are into a corporate structure, then the Ministry of Corporate Affairs in association with Registrar of Companies keep a check on companies. Apart from that, there is no separate law for governing joint ventures.

# Advantages of Joint Venture

## 1. Economies of Scale

Joint Venture helps the organizations to scale up with their limited capacity. The strength of one organization can be utilized by the other. This gives the competitive advantage to both the organizations to generate economies of scalability.

## 2. Access to New Markets and Distribution Networks

When one organization enters into joint venture with another organization, it opens a vast market which has a potential to grow and develop. For example, when an organization of United States of America enters into a joint venture with another organization based at India, then the company of United States has an advantage of accessing vast Indian markets with various variants of paying capacity and diversification of choice.

# Advantages of Joint Venture

## 3. Innovation

Joint ventures give an added advantage to upgrading the products and services with respect to technology. Marketing can be done with various innovative platforms and technological up gradation helps in making good products at efficient cost. International companies can come up with new ideas and technology to reduce cost and provide better quality products.

## 4. Low Cost of Production

When two or more companies join hands together, the main motive is to provide the products at a most efficient price. And this can be done when the cost of production can be reduced or cost of services can be managed. A genuine joint venture aims at this only to provide best products and services to its consumers.

# Advantages of Joint Venture

## 5. Brand Name

A separate brand name can be created for the Joint Venture. This helps in giving a distinctive look and recognition to the brand. When two parties enter into a joint venture, then goodwill of one company which is already established in the market can be utilized by another organization for gaining a competitive advantage over other players in the market.

## 6. Access to Technology

Technology is an attractive reason for organizations to enter into a joint venture. Advanced technology with one organization to produce superior quality of products saves a lot of time, energy, and resources. Without the further investment of huge amount again to create a technology which is already in existence, the access to same technology can be done only when companies enter into joint venture and give a competitive advantage.

# Top 4 Types of Joint Venture

**Project-based joint venture** – where the joint venture is done with the motive of completing some specific task.

**Vertical joint venture** – where the joint venture takes place between the buyers and the suppliers.

# Top 4 Types of Joint Venture

**Horizontal joint venture** – where the joint venture takes place between companies having the same line of business.

**Functional-based joint venture** – where the joint venture is done with the motive of getting mutual benefit on account of synergy.

# Project-based joint venture

Cipla is a traditional pharmaceutical manufacturer and wants to enter the booming business of biotech. On the other hand, Biocon is a biotechnology firm. Cipla intends to utilize the research and development resources of Biocon to develop a particular drug for the treatment of some ailment.

Now one way to achieve this objective is to buy Biocon. Still, in that case, Cipla indirectly is buying many other areas in which Biocon cater to, in which Cipla may not be interested, and this will also result in an expensive way of gaining the research capability that it intends to gain from Biocon.

# Project-based joint venture

In order to make it a fruitful and synergize Joint Venture, the two companies, namely Biocon, which has research capabilities, and Cipla, which has in place a widespread marketing network, can come together and enter into a project-based joint venture in which the two businesses come together for this one activity and may not necessarily do anything else together in the future. By doing such a venture, both can gain from each other's resources.

# Vertical joint venture

Lincoln Corp has made investments in certain machinery and capital instruments required to produce Buyer specific products. Since the investments are made by Lincoln exclusively to meet the needs of the buyer (let say, Prawn International).

By entering into a Vertical Joint Venture with Prawn International, Lincoln Corp can avoid the uncertainty associated with contracts, which are usually for a specified time period only and can lead to discontinued business.

# Horizontal joint venture

**Base International is an Indian company specialized in the steel extrusion business and caters to various industrial units. Frank LLC is a US-based firm specializing in the molding of steel frames which has application in Industrial Units.**

**The two companies decided to enter into a Horizontal Joint Venture under which Frank LLC, the foreign partner, will offer technical collaboration and foreign exchange component**

# Horizontal joint venture

while Base International, the Indian counterpart, will make available its site, local machinery, and product parts and together with a new steel extrusion product will be offered by the two companies to its existing clients.

Thus by this type of Joint Venture, both firms were able to sell the product in multiple markets and also gain from each other expertise, thereby putting resources to better usage.

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# International Joint Ventures

As companies look to expand their reach globally to enter new markets or find savings, a common strategy is to find a local partner in another country and form an international joint venture. When done well, international joint ventures can dramatically shorten the timeline and expense in developing an international market or supplier base.

However, if not correctly executed, an international joint venture can be an expensive misadventure that can potentially damage the home company's operations and brand.

# Risks of Joint Ventures

Equity joint ventures pose both opportunities and challenges for the companies involved. First and foremost is the challenge of finding the right partner—not just in terms of business focus but also in terms of compatible cultural perspectives and management practices.

# Risks of Joint Ventures

**Second, the local partner may gain the know-how to produce its own competitive product or service to rival the multinational firm. This is what's currently happening in China.**

# Risks of Joint Ventures

To manufacture cars in China, non-Chinese companies must set up joint ventures with Chinese automakers and share technology with them. Once the contract ends, however, the local company may take the knowledge it gained from the joint venture to compete with its former partner.

# Risks of Joint Ventures

For example, Shanghai Automotive Industry (Group) Corporation, which worked with General Motors (GM) to build Chevrolets, has pursued plans to increase sales of its own vehicles tenfold to 300,000 in five years and to compete directly with its former partner.