Is a Joint Venture Right for Your Company?

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"If you're not growing, you're dying." Many owners of successful small and mid-sized firms have taken this business adage to heart as they seek to grow their companies. This is especially true considering the growing economic and business optimism that has taken root nationally and here in Southern California in recent months. Many CEOs realize that now is the time to launch growth initiatives that have been dormant in recent years as the economy has struggled to gain a strong foothold.

There are many ways to grow a business. In recent articles, we've discussed growing your business organically as well as growing via merger and acquisition (M&A) or an initial public offering (IPO). Another path to growth that many owners and CEOs are less familiar with is growing by partnering with another company in a mutually beneficial joint venture.

What is a Joint Venture?
In a joint venture, two business entities decide to join forces and combine their resources to achieve a common goal. This strategy can be especially valuable if you are lacking certain resources or expertise needed to enter a desired market. For example, you could partner with an organization that has the required expertise while providing them with unique resources you can bring to the relationship that they are missing.

Unlike arrangements that are more permanent — like M&As and IPOs — joint ventures are usually temporary in nature. They are formed to pursue a specific goal or project, such as developing a new product, distribution channel or market expansion. After the goal has been met or the project has been completed, the joint venture is usually dissolved and the companies go back to their individual operations.

Your company could realize many benefits by entering a joint venture with another business. These include the following:

- Increased revenue
- Shared risk with the joint venture partner
- Shared costs with the joint venture partner
- The potential to bring new products or services to market sooner and more profitably
- No long-term commitment
- The ability to maintain other current business operations not related to the joint venture

However, there are also a few potential drawbacks to joint ventures that you should weigh against the possible benefits. These include the following:

- Potential negative effects on your existing customer and supplier relationships
- Possible non-performance issues with your joint venture partner
- Difficulty in exiting the joint venture
- Complexity in getting all parties in both organizations on the same page
- Difficulty in building a relationship with the joint venture partner
- Other unanticipated issues and internal disputes

Choosing Your Joint Venture Partner

Choosing the right joint venture partner will be crucial to the success of your endeavor. You need to determine early on whether your corporate cultures are compatible and your management styles are similar enough to ensure good collaboration and cooperation with each other. It's usually beneficial to be as flexible as possible when entering a joint venture, especially during the early stages of the relationship.

Another key to success is assessing your preparedness for the joint venture by determining your corporate needs. Have you defined your specific goals and objectives for the joint venture? And does your prospective partner ascribe to these same goals and objectives? Assuming you're both on the same page here, the next step is to prepare and execute a business plan and communicate the plan to everyone who will be involved in the joint venture. This will help ensure strong integration of the project's goals between both organizations.

The joint venture can be formed via a formal contractual agreement that sets the terms and conditions, or by setting up a new corporation or Limited Liability Company (LLC) reflecting each party's investments or interests with the agreements. You should seek the advice of legal counsel as you consider the most advantageous way to define the structure, term and management of the joint venture.

The agreement should also include key elements such as confidentiality, non-disclosure and the specific duties and responsibilities of each party, among other elements. If you chose to establish a new entity that takes the form of an LLC, keep in mind that the level of control or significant influence among the partners may determine the accounting method used for reporting purposes.

Concluding Thoughts

There are many ways to grow a business, including growing organically or via M&A or an IPO. Another path to growth is partnering with another company in a mutually beneficial joint venture. Here, two business entities decide to join forces and combine their resources to achieve a common goal. This strategy can be especially valuable if you are lacking certain resources or expertise needed to enter a desired market. An outsourced CFO services provider can help you determine if a joint venture strategy is right for you, as well as help you find the right joint venture partner.

About CFO Edge

CFO Edge, LLC delivers enterprise-class financial and operational performance solutions to executives throughout Southern California. Based in Los Angeles, our formerly-seated chief financial officers engage on demand as part-time CFOs, single-project CFOs, and interim CFOs to help business leaders successfully resolve pressing challenges and realize their financial and operational goals. At CFO Edge, we are passionate about helping our clients create, grow and sustain value. For more information, visit www.cfoedge.com or call 800.276.1750 Ext 101.