

Strategic Alliances & Joint Venture

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Every new beginning comes from some other beginning's end.

"...companies should expand beyond their existing resources through licensing arrangements, strategic alliances, and supplier relationships."

Strategic alliances { SAs } are the most significant mechanism of modern business. Capturing warfare, SAs are highly functional constructs that allow companies to acquire products, technology & working capital, to increase production capacity, improve productivity, and entering in new companies, to access new markets, increase market penetration, sales & market share, Design contracts

SAs can be used under following types of business activities

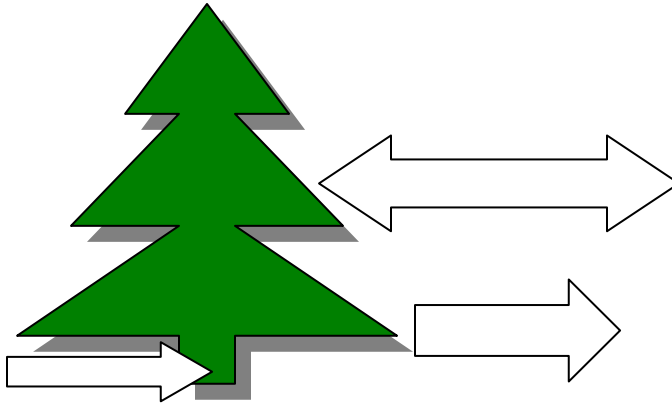
- Technology transfer agreements
- Joint product development
- Purchasing agreements
- Distribution agreements
- Marketing and promotional collaboration
- Intellectual advice

SAs provides companies to establish a de facto geographical presence, SAs have become the mechanism of choice for gaining access to host countries. thus

“ SAs is defined as A Strategic Alliance is a formal relationship formed between two or more parties that shares in joint investments, and develop linked and common processes to increase the performance of both companies & make sense when the parties involved have complementary strengths. ” If we study these features in a form of tree and its branch relationship, the new model which emerges out is BUSINESS TREE & BRANCH THEORY MODEL this tree & branch theory model has three basic relationships by which the branches are attached with the tree & sharing the energy from the trunk at different rates & for completing the challenging phases of development to acquire strength & relationships, in the same way the strategic alliance's and partners works model is as follows :-

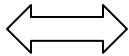
- A. BRANCH LENGTH RELATIONSHIP.
- B. LESS THAN A BRANCH LENGTH RELATIONSHIP.
- C. MAIN TRUNK RELATIONSHIP.





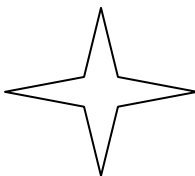
Branch length relationship

This relationship falls towards the single arrowed area this relationship includes traditional distribution & long term sourcing agreements, competitive sealed bid sales & purchased contracts it is simple unambiguous buyers – sellers structure. suppose a manufacturer provides a supplier with along term supply contract and access to the factory floor and ask him to provide all supplies in just in time method to a production line and provides sales training pays for market research related to the manufacturing of product, and also allow the distributor extended terms of sale this is known as Branch length relationship



Less than a branch length relationship

This branch of tree is nearer to the main trunk of the tree this relationship includes joint product development, shared knowledge sharing agreements ,standards setting consortia, research consortia , licensing agreements, includes equity agreement and joint ventures this type of relationship in strategic alliance involves merging of complementary interests and use the sharing of privileged information and intimate collaboration and cooperation to achieve individuals mutual goal objective.



Main trunk relationship.

Main trunk relationship occurs where one of the companies in the relationship has majority ownership or control of the other company, where both companies are controlled or majority owned by the same company, this ownership or control may be through ownership of a majority of the others company's stock or because one company has control of the other company through some form of third party agreement because two parties are having the same parent

Success of any business relationship depends on some basic fundamental

1. Determine what it is you need but don't have: customers, capital, special expertise, products, production capacity, or distribution channels,
2. Determine who has what you need,
3. Ask them for it, but, first make sure you have something they want or need. (this last point is the most important)" and to Every relationship there is certain advantages and disadvantages :-

Strategic alliances often bring partners the following benefits:

1. Access to their partner's distribution channel and different geographical presence .
2. Access to their partner's products, technology & technical resources, intellectual property , professional skills .
3. Access to partner's capital & financial relations.
4. New markets for their products and services or new products for their customers
5. Increased brand awareness through partner's channels & media presence.
6. Foster the growth of R& D department reduced product development time
7. Reduced risks at every level
8. Establish technological standards for the industry and early products that meet the standards
11. Diversified Management skills

Disadvantages

1. Institutional incongruity.
2. Personal incongruity..
3. Cultural incongruity.
4. selection of incompetent partner.

Joint Ventures, Alliances, and other Corporate Partnering are fueling the growth of the world's most successful companies. The demand to deliver more new products, more quickly, and at lower prices has never been greater. Joint Ventures and other collaborative business arrangements are revolutionizing how winning companies compete. They permit companies to enter new markets and field new products that they otherwise couldn't do on their own. They are the quickest way to grow your company, particularly in times of change."

A joint venture (JV) is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing equity , and they then share in the revenues , expenses , and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship such as the sony ericsson joint venture. This is in contrast to a strategic alliance which involves no equity stake by the participants or other members of business family, and is a much less rigid arrangement. Nokia and Siemens 50-50 joint venture the world's second-biggest mobile networks company after Swedish rival Ericsson , Helsinki, April 03: Nokia Siemens Networks' administration is confident of achieving the 1.5 billion euros (USD 2 billion) in annual savings the newly formed joint venture is targeting

Reasons for forming a joint venture

Internal reasons

Build on company's strengths :- 1 & 1 is eleven double's the strength .

Reducing & Sharing costs and risks burden :- risk & cost is shared by both parties , no burdane on one part example insurance sector Nokia and Siemens merged their networks business partly to be able to better weather periods of slow growth by sharing high fixed research and development costs and reducing overhead.

Improving access to financial resources for both partners :- financial resources increases because when to parties undertake economic activity together then they share expenses this leads to more access to each others financial sources .

Economies of scale and advantages of size of organization :- economies of scales says that an increase in the number of units produced causes a decrease in the average cost of each unit & this

concept accelerates the production process in form of joint ventures, when two manufacturing companies form a joint venture this accelerates the production process & automatically increases the size of the firm. This provides a sustainable growth & leadership, superiority in terms of product in the market.

Access to new technologies, products and customers :- Tata group company Voltas Ltd — the air-conditioner (AC) and cooling appliances major has posted a strong growth in the split air-conditioner segment over the last three months with Fedders. Voltas will get access to new technologies and designs of international class, thereby making the product price competitive to deliver value for money. "In the last three months this year, Voltas' split AC business has grown by 22.5 per cent, at a time when there has been a flat growth in the industry. In the water cooler segment, the company has registered an 18 per cent growth."

Access to innovative managerial practices :- joint venture creates a new innovative platform

Creation of new dynamics for diminutive organization .

Conduct focus groups & virtual teams in a specific department or a location

Initiate Work-Life stress controlling management program ,

Develop extrinsic & intrinsic motivational HR policies and emotionally intelligent program

Continuous training that focuses on learning, integration, cooperation, organizational leadership ,

Research on innovative work practices , development of new technology .

Competitive goals & Strengthening position

1. Influencing structural evolution of the industry :- When 2 parties come in JVs then new system emerges that requires new structural dynamics, new organizational culture which together needs restructuring of departments , relocation of human resource
2. Assessment & pre assessment of competition :- To cope up with the new competition & future assessment of competition both the parties when under one roof takes initiative to develop such product & related strategies that provide edge to crush the cut throat competition of market , this happens due to certain reasons JVs provides expertise in developing new marketing strategies & multi dimensional distribution network .
3. Creation of stronger competitive production units :- Stronger the product stronger the position ,sharing of expertise of scientists & professional with unique skills , combining of complementary R& D technologies , financial support & sharing of economic risks leads to development of innovative matchless customer oriented product which provides stronger competitive units in modern business scenario .
4. Accelerated market & new markets :- Acceleration of revenue growth & ability to increase profit margins provides company ,a sound financial position in the market and provides the joint venture a pace to increase its market share & Allow companies to enter into related businesses or new geographic markets or obtain new technological knowledge
5. Attaining new capacities of productions :- Provide companies with the opportunity to obtain new capacity and expertise now joint venture reaches to the phase two of production that is proper utilization of capital & labor resources.

Important Factors Before a Joint Venture is Formed

1. Screening & Evaluation of prospective partners



2. Joint development of a detailed business plan and short listing a set of prospective partners based on their contribution to developing a business plan
3. Credentials of partners - checking the credentials of the other party ("trust and verify" - trust the information you receive from the prospective partner, but it's good business practice to verify the facts through interviews with third parties .
4. Development of an exit strategy and terms of dissolution of the joint venture most appropriate structure .
5. Availability of appreciated or depreciated property being contributed to the joint venture; by misunderstanding the significance of appreciated property, companies can fundamentally weaken the economics of the deal for themselves and their partners.
special allocations of income, gain, loss or deduction to be made among the partners
compensation to the members that provide services .
6. legal issues :- All the joint ventures in India require governmental approvals, if a foreign partner or an NRI or PIO partner is involved. The approval can be obtained from either from RBI or FIPB. In case, a joint venture is covered under automatic route, then the approval of Reserve bank of India is required. In other special cases, not covered under the automatic route, a special approval of FIPB is required .
Holding shares , Transfer of shares ,Board of Directors ,General meeting. , CEO/MD
Management Committee , Important decisions with consent of partners ,Dividend policy
Funding ,Access. , Change of control.
