Harold Whitehead & Partners
St Stephen's House
Arthur Road
Berkshire SL4 1RU

Tel: +44 (0)1753 853336
Web: www.hwp.co.uk

JOINT VENTURE FORMATION & START-UP

CLIENT BACKGROUND

After reviewing various options for collaboration, two of our clients in the drinks industry decided to form a Joint Venture (JV). This involved the 'carve-out' of an operating company from one of the businesses and the implementation of a transitional services agreement across a number of key support functions.

It was critical for all parties that the JV was a success from the outset and HWP were asked to support the newly formed JV throughout the process and help to ensure a successful transition and start-up.

APPROACH & METHODOLOGY

Research by McKinsey suggests that only just over 50% of JVs are deemed successful by both partners. A number of reasons are out forward to explain this; from incorrect strategies to incompatible partners to inequitable or unrealistic deals to weak management. However, the key reason is that partners overlook the critical importance of launch planning and execution.

Most companies commit significant resources to integrating acquisitions but fail to do so for JVs. We advised our clients to focus their thinking on four principal areas; strategy, governance, economics and organisation.

Economics and organisation proved to be the most important. Access to capital and resources is a fundamental issue for all organisations but especially so for a newly formed JV. Fortunately the JV was able to rely on the comprehensive and detailed business plan that we had produced in conjunction with the parent companies.

Equally important was the Transitional Services Agreement (TSA) detailing the services to be provided to the JV by the parent companies and the associated costs. We had advised on certain elements of the TSA but our principal role lay in acting as independent arbiters in its implementation.

This ranged from the practical such as determining and agreeing the cost of the provision of logistical services to the more intangible such as the scope of HR and legal services. Inevitably tensions can arise but having highlighted their likelihood at the outset and putting in place an arbiter to resolve them, reduced their impact considerably. The ultimate aim however, was to enable the JV to be able to operate independently within three years of its formation and the TSA was structured in such a way as to facilitate that.

RESULTS

By recognising and planning for the inevitable pitfalls and obstacles in forming a JV our clients were able to ensure that they committed sufficient resources to ensure its success. The JV performed to plan and met its objective of operating independently within three years of its formation.

	Strategy	Governance	Economics	Organisation
JV Challenges	• Parent companies may hold different interests, which may affect the nature and degree of integration.	• Parents share control of the JV, which complicates decision making.	• Parents provide ongoing services, staffing and resources to the JV, which affects venture economics. Transfer pricing may become an issue.	• Parents must manage cultural differences, as well as conflicting incentives and career paths.
		• Parents have separate reporting systems, processes, and metrics.	• The JV's performance is less transparent compared with that of the parents' wholly owned business.	
Keys to Successful Launch	• Align the parents' interests around the JV's objectives up front.	• Apply loose-tight governance.	• Specify the services parents will provide and establish fair transfer pricing schemes.	• Secure commitments from key staff – especially from parent company employees.
	• Specify first-year goals for the JV.	• Create clear protocols for decision making.	• Establish good risk and performance management systems for the JV.	• Create a compelling value proposition for JV employees.

Source: HBR, February 2004

Harold Whitehead & Partners

Harold Whitehead & Partners enable our clients to achieve their strategic objectives and improve their operational effectiveness and profitability, by successfully implementing their change initiatives.

Founded in 1929, we are the longest established, independent, professional management consulting firm in the UK. The profile of clients and consulting activities has changed over time but our commitment to harnessing expertise, delivering client-focused results and applying acknowledged standards has remained constant. As Harold Whitehead himself put it in 1923, focused professionalism and the positive qualities of "service and constructive suggestion" still hold true for us today.

Another of his principles that has stood us in good stead is to never pre-judge or assume. Every organisation is unique and the decisions they face are specific to their particular situation. This precept is central to our approach and, based on it, we have delivered benefits worth many millions to our clients and provided savings many times in excess of project costs.

Harold Whitehead & Partners
St Stephen's House
Arthur Road
Windsor
Berkshire, SL4 1RU

T: 01753 853336
www.hwp.co.uk