Entering Supplier Joint Ventures With Eyes Wide Open

Joint Ventures offer remarkable opportunity for two or more companies to leverage their strengths and minimize weaknesses. In doing so, new value is created.

A joint venture is a relationship in which two or more business enterprises pursue mutually agreed upon goals by forming an association in which each independent business agrees to share control and subsequent risk, profits and losses. It can take a couple of forms, either as a contractual arrangement or as a whole new independent enterprise, but the original companies continue to operate independently at the same time. That is the formal definition of a joint venture, but the implications of this kind of business arrangement are that the alliance is formed because both businesses believe that each has something significant to gain by working together that would not be possible alone. Normally, the joint venture represents increased access, innovation, opportunity and growth because it is an alliance that enhances business strengths and lessens weaknesses. In a struggling globalized economy, joint ventures represent a sensible response that enables businesses to manage uncertainty from a position of strength.

Joint ventures are often formed for very specific purposes, such as landing a corporate contract or developing new products. A company may need the alliance to fill a gap in its services. For example, a firm may need to form a joint venture with an IT company to create technology capacity requirements. In another example, a joint venture may be formed because one company has access to a global market, making it possible for the joined companies to serve new customers. Joint ventures are particularly useful for competing globally because they can shorten the time it takes to enter a new market. They can also reduce risk. However, all of this is dependent on developing joint ventures that are strategically sound.

Meshing Differences to Produce New Value

From this perspective, a joint venture is not a single purpose event, but rather a means of improving long-term competitiveness. Companies that choose to develop joint ventures must treat the alliance as a collaborative effort in which mutual goals are established, and then the companies leverage their differences to meet those goals. The differences may include specific competencies, market access, technical abilities, current customers, facilities and so on. The joint venture should mesh the differences in a way that creates value for both companies.

One of the reasons some joint ventures have not succeeded is the two companies did not blend their capabilities or goals, but rather tried to continue operating as two entirely separate companies with different goals. A classic example of an unsuccessful joint venture is the 1984 attempt by General Motors (GM), USA and South Korean Daewoo to produce a compact car for South Korea using the GM Opel model. GM hoped to leverage low South Korean labor costs, and Daewoo wanted to access GM's technical expertise. It seemed like the ideal joint venture. Daewoo acquired a 50 percent stake in Saehan Motors as part of the deal, and each company invested $100 million to produce the subcompact automobile the Pontiac LeMans.

What really happened was not so ideal. There were eight years of losses, followed by Daewoo buying out GM's stake in the joint venture. GM claimed Daewoo produced low quality cars, even as South

Korea's labor costs began to rapidly increase after the country became a democracy in 1987. Daewoo claimed GM impeded their ability to expand their market in Eastern Europe or the United States by preventing Daewoo from completing deals. Obviously, the two companies were running their end of the project with separate goals in mind. Daewoo wanted to expand production in new markets. GM was protecting existing markets for its Opel.
The lack of a joint vision led to the collapse of the joint venture. A joint venture is not something to be entered lightly because improper management of the joint effort can lead to financial disaster. There must be mutual respect and trust and a clear understanding of each other's weaknesses and strengths. However, the most important lesson is that the two companies obviously did not establish a mutual mission and mutual goals despite forming a legally-independent business. The strategic partners then failed to jointly reassess their positions and end goals when the market changed.

Picture Perfect Progress

Just as we can learn from the joint venture failures, there are just as important lessons to be learned from the successes. In 2006, Johnson Control created a joint venture with a Hispanic-owned business enterprise, SAT Auto Technologies, Ltd., that was named Avanzar Interior Technologies, Ltd. Berto Guerra was named the CEO of Avanzar. The new enterprise Avanzar was formed to manufacture automotive seat systems and parts for the Toyota Tundra pickup. Interestingly, Toyota said that one of the reasons that global market leader Johnson Controls was chosen was due to its ability to develop successful joint ventures with world class minority owned firms. Today, Avanzar is one of Toyota's largest on-site suppliers in their San Antonia plant. This joint venture worked because each partner brought something specific to the operation to achieve results that could not be accomplished alone. Johnson Controls provides program management and engineering. SAT Auto Technologies provides on-site manufacturing, sales and quality support.

Joint ventures can have a profound impact on the ability of minority and women owned businesses to succeed. With increasing globalization, businesses need strategic alliances that give them economically feasible access to foreign markets. This is especially true with the sluggish recovery from the Great Recession limiting growth opportunities in domestic-only markets and the continuing lack of capital access. Under these circumstances, the joint venture aids both parties. The (usually smaller) MWBE gains access to new markets, capital and technology, and the larger corporation gains access to the new concepts and cutting edge innovation that smaller firms offer.

A picture-perfect example of how the partnering process can evolve is found in Diversa. In 2004, Randstad, a global staffing firm, began working with minority owned Integrated Human Capital (IHC), a domestic MWBE staffing firm. The initial business relationship was formed through Randstad's affiliate vendor program with Randstad mentoring IHC to help it expand. During the initial alliance, both companies created expanded service and product portfolios to better serve each other's customers. In this case, the IHC CEO, Rosa Santana, approached Randstad about taking the relationship to the next level. The next level was the coupling of workplace diversity and global recruitment with supplier diversity. Diversa was formed as a result, to respond to the needs of global companies for high quality diversity workers and to fulfill their desire to link supplier diversity to economic development and markets on a global basis.

In the press release, Ms. Santana said, "Both Randstad and IHC will benefit from the Diversa joint venture by introducing a new, innovative solution to meet our clients' requests for better managing

their contingent workforce spend in an increasingly diverse global marketplace." Diversa brings joint value and joint community benefits through support of charitable organizations.

Creating a Valued Whole

Joint ventures have taken on new importance in the unsettled business climate as businesses continue to adapt to both cost cutting and globalization. The strategy employed must have certain qualities to be successful.The joint venture must create a synergy based on a mutual vision and mutual expectations and that takes advantage of each company's core competencies, leading to a well-defined value proposition. When each company capitalizes on its strengths, the whole is much greater than its parts.