

## 8.7: Joint Ventures

### Learning Objectives

After reading this section, students should be able to ...

1. define joint ventures
2. explain the advantages and disadvantages of 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 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.

When two or more persons come together to form a partnership for the purpose of carrying out a project, this is called a joint venture. In this scenario, both parties are equally invested in the project in terms of money, time and effort to build on the original concept. While joint ventures are generally small projects, major corporations use this method to diversify. A joint venture can ensure the success of smaller projects for those that are just starting in the business world or for established corporations. Since the cost of starting new projects is generally high, a joint venture allows both parties to share the burden of the project as well as the resulting profits. Since money is involved in a joint venture, it is necessary to have a strategic plan in place. In short, both parties must be committed to focusing on the future of the partnership rather than just the immediate returns. Ultimately, short term and long term successes are both important. To achieve this success, honesty, integrity and communication within the joint venture are necessary.

A consortium JV (also known as a cooperative agreement) is formed when one party seeks technological expertise, franchise and brand-use agreements, management contracts, and rental agreements for one-time contracts. The JV is dissolved when that goal is reached. Some major joint ventures include Dow Corning, Miller Coors, Sony Ericsson, Penske Truck Leasing, Norampac, and Owens-Corning.

An equity joint venture is a contractual, strategic partnership between two or more separate business entities to pursue a business opportunity together. The partners in an equity joint venture each contribute capital and resources in exchange for an equity stake and share in any resulting profits. (In a nonentity joint venture, there is no contribution of capital to form a new entity.)

To see how an equity joint venture works, let's return to the example of Egyptian company, Vitrac. Mounir Fakhry Abdel Nour founded his jam company to take advantage of Egypt's surplus fruit products. Abdel Nour initially approached the French jam company, Vitrac, to enter into a joint venture with his newly founded company, VitracEgypt. Abdel Nour supplied the fruit and the markets, while his French partner supplied the technology and know-how for producing jams.

In addition to exporting to Australia, the United States, and the Middle East, Vitrac began exporting to Japan. Sales results from Japan indicated a high demand for blueberry jam. To meet this demand—in an interesting twist, given Vitrac's origin—Vitrac had to import blueberries from Canada. Vitrac thus was importing blueberries from Canada, manufacturing the jam in Egypt, and exporting it to Japan.<sup>1</sup>

Using French Vitrac's manufacturing know-how, Abdel Nour had found a new supply and the opportunity to enter new markets with it, thus expanding his partner's reach. The partnership fit was good. The two companies' joint venture continued for three years, until the French company sold its shares to Abdel Nour, making Vitrac a 100 percent owned and operated Egyptian company. Abdel Nour's company reached \$22 million in sales and was the Egyptian jam-market leader before being bought by a larger Swiss company, Hero.

### 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.

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. 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. 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.<sup>2</sup>

### ? Did You Know: Joint Ventures in China

In the past, joint ventures were the only relationship foreign companies could form with Chinese companies. In fact, prior to 1986, foreign companies could not wholly own a local subsidiary. The Chinese government began to allow equity joint ventures in 1979, which marked the beginning of the Open Door Policy, an economic liberalization initiative. The Chinese government strongly encouraged equity joint ventures as a way to gain access to the technology, capital, equipment, and know-how of foreign companies. The risk to the foreign company was that if the venture soured, the Chinese company could end up keeping all of these assets. Often, Chinese companies only contributed things like land or tax concessions that foreign companies couldn't keep if the venture ended. As of 2010, equity joint ventures between a Chinese company and a foreign partner require a minimum equity investment by the foreign partner of at least 33 to 70 percent of the equity, but there's no minimum investment set for the Chinese partner.

### ? KEY TAKEAWAYS

- 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.
- Since money is involved in a joint venture, it is necessary to have a strategic plan in place.
- As the cost of starting new projects is generally high, a joint venture allows both parties to share the burden of the project as well as the resulting profits.

#### Term

- *Joint venture*: A cooperative partnership between two individuals or businesses in which profits and risks are shared.

#### Example

- Sony Ericsson is a joint venture between Swedish telecom corporation Ericsson and Japanese electronics manufacturer Sony

## References

1. Source: Japan External Trade Organization, "Big in Japan," case study, accessed August 27, 2010, <http://www.jetro.go.jp/en/reports/>.
2. Source: Ian Rowley, "Chinese Carmakers Are Gaining at Home," BusinessWeek, June 8, 2009, 30–31.

## Source

The above content was adapted from Boundless Business. Authored by: Boundless. Provided by: Boundless. Located at: <https://www.boundless.com/business/>. License: CC BY-SA: Attribution-ShareAlike under a Creative Commons Attribution-NonCommercial-ShareAlike License and from International Business. **Authored by:** anonymous. **Provided by:** Lardbucket. **Located at:** . **License:** CC BY-NC-SA: Attribution-NonCommercial-ShareAlike

Image of Sony-Ericsson. **Authored by:** mroach. **Located at:** [http://commons.wikimedia.org/wiki/File:Ericsson\\_sign.jpg](http://commons.wikimedia.org/wiki/File:Ericsson_sign.jpg). **License:** CC BY-SA: Attribution-ShareAlike

This page titled 8.7: Joint Ventures is shared under a CC BY-NC-SA 4.0 license and was authored, remixed, and/or curated by Babu John-Mariadoss via source content that was edited to the style and standards of the LibreTexts platform.

- 7.7: Joint Ventures by Babu John-Mariadoss is licensed CC BY-NC-SA 4.0. Original source: <https://opentext.wsu.edu/cpim/>.