WORK BOOK FIVE

JOINT VENTURES

LEARN THE SEVEN MAJOR INGREDIENTS

FOR A JOINT VENTURE PARTNERSHIP

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Joint Ventures

The 7 Major Ingredients For A Joint Venture And Marketing Partnership

"I'm convinced that about half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance."

– Steve Jobs, Co-founder, CEO, Chairman Apple Inc.

- Your customers must Know, Like and Trust you.
- Know how to choose your partner.
- Know your customer life-time value.
- Protect your customers goodwill.
- Ensure your customers and staff enjoy the joint venture partnership.
- Know the true value of your Customer Database.
- Know why JV's work and why you should have as many as possible.

1. Your customers must Know, Like and Trust you

Customers prefer to do business with someone they Know, Like and Trust.

For your customers to continue to choose your company you must continuously work at helping them, get to Know, Like and Trust you, a little more at every opportunity. You must work at creating an environment where he or she is less likely to get to Know, Like and Trust your competitors.

One way of achieving this is to help your customers by introducing them to very worthwhile opportunities. These introductions should not appear in any way as being self serving and your customers should feel indebted to you for the introduction thereby enhancing your relationship.

If you are happy with your Accountant, wouldn't it be helpful if he gave you a personal introduction to a Solicitor who has a reputation as being one of the best in town, provides an impeccable service is charming and personable and happens to be excellent value for money.

Joint Ventures

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2. Know How to Choose your Partner

Firstly and obviously, you must find two businesses that will fit neatly together. You want partners that are preferably non-competitive but have similar customers. In other words, the services or products offered are complimentary, e.g. Fitness Centre and Bicycle Store, Double Glazing Company and Kitchen Company.

If you do not have a personal relationship with the intended J V Partner and for maximum positioning you will probably need an Intermediary to help you get the show on the road.

You mustn't give the chosen partner the impression that you need this venture so badly that without it you will go out of business. By the same token you mustn't falsely give the impression that you are indifferent to the establishing of the venture. It is intended as a joint venture and for it to be a success; both parties will have to make a genuine effort.

Endorsement arrangements are based on trust.

For a company owner to feel good about endorsing another company, he or she has to feel confident about entering into such a close relationship.

You must have total trust that your JV partner will guarantee top quality service to your customers and that there is no danger of them having a negative experience which could inevitably rub off on your own customer relationship.

So, potential joint venture partners must be chosen carefully. It is recommended that you meet with the owner of the JV Partner and establish how they operate and how they cope when things go wrong. You must have direct access to the JV owner or manager.

Joint Ventures

The 7 Major Ingredients For A Joint Venture And Marketing Partnership/Continued

3. Know your Customer Life-time Value.

As in all marketing it is essential to have quantified your Customer Lifetime Value (CLTF).

This is very important and unless you fully understand the future value of a customer, the venture could fail. Your business model may well be to loose or break even on the 'front end'. In essence, you may be giving up immediate profit but you will make money on future sales or 'back end' and you get newfound customers. And, you get to sell to those new customers over and over without the usual acquisition costs.

For the relationship and the endorsement to be successful, it is often necessary to offer an attractive, exceptional and compelling benefit to the customer list, such as a special discount. This means the beneficiary company must be prepared to cut their margins to allow for the discount, the mailing and printing costs.

Here lies the challenge.

Because most business people do not understand the Lifetime Value of a customer they will immediately seize on the fact that they may not make much, if any profit on the initial deal.

This may be true if seen as only a one shot sale. However, you must understand about the resource that has cost so much to acquire and yet is so under utilised, your customer base.

You must understand that the real money, the big profits, are made in the residual value of these newfound customers. Most businesses spend enormous amounts of cash in customer acquisition.

Successful joint venturing offers access to an unlimited number of customer bases' at low acquisition cost and if these customers buy several times a year, year after year. Then it is easy to see how you can make a considerable profit on the 'back end'.

Joint Ventures

The 7 Major Ingredients For A Joint Venture And Marketing Partnership/Continued

4. Protect your customers goodwill

For you to make a recommendation you must be confident that the introduction doesn't damage your own relationship. So you have no choice but to check him out and when you provide the reference you can qualify it by saying something like "I know him, I Trust him and I Like him". I have been around his business, I use him myself, I have recommended a number of my clients to him and they all sing his praises, he doesn't work for free, but I know that many of my clients have in turn recommended him. Your business is very important to me and I wouldn't recommend him if I wasn't convinced that he would be good for you. What I can do is arrange a free consultation and let you be the best judge of whether you like him or not.

A Joint Venture (JV) in this context is basically where each party helps to promote the other party's products or services. If each party has fifty clients you can each at a stroke double your client base and of course you can operate numerous Joint Ventures simultaneously. Joint Venturing is in its purest form, the process of working with another business for the mutual Benefit of the JV Partners and their valued clients.

If you recommend another company to one of your clients you must do it because you are absolutely convinced that the introduction is in the best interest of your client and not just because there is something in it for you.

Examples of Joint Venture Partnerships

- Beautician / Tanning Studio / Hairdresser / Fashion Boutique
- Bridal ware Store / Photographer / Limousine Service /Florist/Venue...
- Plumber / Builder / Electrician/Painter.
- Solicitor / Financial Adviser / Accountant / Management Consultant/Estate Agent.

Joint Ventures

The 7 Major Ingredients For A Joint Venture And Marketing Partnership/Continued

5. Ensure your customers and staff enjoy the JV

One other thing to bear in mind is this. The endorsement must be packaged and made to appear unique, a one off, something special to them as customers.

A discount and/or bonus item should be offered.

This discount will need to come off at the point of sale, with the beneficiary normally absorbing the cost. Remember that the customers must feel that they are getting something very special and that the 'host' is looking after their best interests.

Endorsements need to stand out and appeal to customers.

There are companies out there, and I don't mean competitors, who place a huge value and possibly even more than you do, on your client base. They would pay you big sums and love to be introduced to your clients and that includes your current, past and even your unhappy customers.

JV's produce fast, massive results, and increased customer loyalty which protects your customer asset. Your customer relationship will be enhanced as you continue to give them on-going privileges and special recognition.

Loyal customers are happy customers and happy customers buy more and readily supply more referrals.

Joint Ventures

The 7 Major Ingredients For A Joint Venture And Marketing Partnership/Continued

6. Know the true value of your customer base

The cost of client acquisition is increasing all the time.

To enter into a joint venture with the correct attitude and with the maximum level of enthusiasm, you will need to be fully aware of your current client acquisition costs. You may well have different levels and perhaps a band, but you must know what they are.

In simple terms, if you were asked today what were you prepared to pay to acquire a new client? And whilst all of your clients have a different value, (to a great degree this is something you have achieved), but to get a new client to walk in the door, what is that worth to you? You need to be clear on this.

If you were to run an advertisement in the local paper at a cost of £500, do you need one client, five clients or a hundred; to say as many as possible is just not good enough.

A successful JV is a win-win situation because everybody gains and nobody loses.

JV’s cut through the top heavy expense of finding large amounts of customers from scratch. You don't need to do any market research. You don’t need to buy a lot of expensive advertising. You don't have to weed out unqualified clients, you don’t have the response level uncertainties to deal with.

JV’s drive right to the customer in one swoop. With a JV, you make someone else’s already captured customers your clients or customers. You capitalise instantly on the other’s guy’s resources, and he’s glad to let you do it because he will capitalise on yours.

Joint Ventures

The 7 Major Ingredients For A Joint Venture And Marketing Partnership/Continued

7. **Know why JV's work and why you should have as many as possible**

When you see a commercial for McDonald's you almost always see a pitch for Coca-Cola. Ford cars have had a sixty plus year relationship with Firestone Tyres. In each case, both benefit from a relationship with one another. Just check the insert with your next credit card statement to see who your bank has their current JV with.

Company A writes a letter to its customers telling them how great Company B is. Such an endorsement is much more effective than Company B approaching the same group of customer's cold. That's because Company A already has developed a relationship of trust and familiarity with its customers. When they endorse Company B, Company B gets instant credibility. It automatically absorbs the long standing relationship of the endorsing entity.

As we have already established; to make an endorsement relationship work best, the customers of the endorser must have similar needs as that of the endorsing company (the same Universe), although this is not always strictly necessary. It just needs to make sense or be complimentary.

Some endorsement situations jump out as making more sense than others. For example, a travel agent can endorse a car rental company. There has to be a certain connection or affinity...

For example, the Hairdresser may style hair and sell hair products to their customers, but those same loyal customers also buy fashion accessories, jewellery, beauty products, etc, etc. Here's the point, because of the intimacy and trust of the relationship, the Hairdresser has a wonderful opportunity to make recommendations and endorsements to other ethical and professional suppliers and receive a reciprocal arrangement. The customer has just spent some two hours in a salon and a great deal of money and trusts the hairdresser to enhance her beauty.

Wouldn't it make all the sense in the world for that same hairdresser to recommend, a Beautician for Facial, Eyes or Nails. Surely this particular hairdresser is in a powerful position to recommend the most appropriate dress shop, jewellery or hat shop to suit the needs of this customer.

What Is A Joint Venture And How Do They Work?

The following article is an exclusive excerpt from the Book Happy About Joint Venturing by Valerie Orsoni-Vauthey.

If you are a business owner who wants to significantly increase market reach, break down barriers to entry in your market, or simply generate skyrocketing revenues in a shorter amount of time, these old adages are becoming more and more relevant.

According to the Commonwealth Alliance Program (CAP), businesses anticipate strategic alliances to account for 25% of all revenues in 2005, a total of 40 trillion dollars. This figure has been steadily growing over the past few years as more solopreneurs and Work At Home Parents (WAHPs) decide to unite to augment their odds of survival in a highly competitive global environment.

What is a joint venture?

A joint venture is a strategic alliance where two or more parties, usually businesses, form a partnership to share markets, intellectual property, assets, knowledge, and, of course, profits.

A joint venture differs from a merger in the sense that there is no transfer of ownership in the deal.

This partnership can happen between goliaths in an industry. Cingular, for instance, is a strategic alliance between SBS and Bellsouth. It can also occur between two small businesses that believe partnering will help them successfully fight their bigger competitors.

Companies with identical products and services can also join forces to penetrate markets they wouldn't or couldn't consider without investing tremendous resources. Furthermore, due to local regulations, some markets can only be penetrated via joint venturing with a local business.

In some cases, a large company can decide to form a joint venture with a smaller business in order to quickly acquire critical intellectual property, technology, or resources otherwise hard to obtain, even with plenty of cash at their disposal.

What Is A Joint Venture And How Do They Work?/Continued

How does a joint venture work?

The process of partnering is a well-known, time-tested principle.

The critical aspect of a joint venture does not lie in the process itself but in its execution. We all know what needs to be done: specifically, it is necessary to join forces.

However, it is easy to overlook the "hows" and "whats" in the excitement of the moment.

We will look at the "hows" in our review of the Eight Critical Factors of Success.

For the moment, let's keep in mind that all mergers, large or small, need to be planned in detail and executed following a strict plan in order to keep all the chances of success on your side.

The "whats" should be covered in a legal agreement that will carefully list which party brings which assets (tangible and intangible) to the joint venture, as well as the objective of this strategic alliance.

Although joint venture legal agreement templates can readily be found on the Internet, I suggest you seek the appropriate legal advice when entering into such a business relationship

Should I Start A Joint Venture?

There is no straight answer to this question. The decision involves addressing various elements. Consider copying the following questions on a word processing document, so that you can constantly address and answer those important elements before and as you move forward.

Important questions to consider:

1. What do I sell, and how do I reach my target market?

2. Who are my competitors? If they are better at generating revenues and reaching the marketplace than me, what do they have that I don't?

3. Are there geographical areas that will remain beyond reach without local partners, or acquisition costs that are simply too high?

4. Do I need to develop a know-how, which has already been developed by a company or by an individual?

5. Is there a logical business partner that could help me develop a vertical or horizontal market penetration?

6. Do I have all the human resources I need in marketing, R&D, production, or operations? Is there a company I know which would have resources complementary to mine?

7. How do I feel about combining resources? Do I like to lead by myself and act as a solitary business hero, or am I fine with sharing the pie? Do I think it is better to own 20% of a $200 million company or 100% of a $1 million small business?

8. Do I have access to the right legal resources to structure the joint venture and insure all aspects are duly covered?

9. Are there local legal regulations I can bypass by partnering with a local business?

10. Do I have access to successful joint venturers who can share their experience with me?

11. Do I understand that going through the decision process entails sitting down and taking the time to write a full-fledged joint business plan?

Should I Start A Joint Venture?/Continued

12. Am I aware that in the vast majority of cases, merging activities, even when not necessarily identical, will result in an inevitable workforce reduction? How do I feel about letting go of some of my most faithful employees?

13. Am I looking at partnering because I don't see another way out of my current business problems? (Joint venturing should not be considered as a last resort action, but rather as one course of action among several others. This decision needs to be taken in a careful and methodical manner.)

14. Do I already know of a person or a company that I see has a real interest in partnering? Have I discussed this possibility with this person or with the person in charge of the targeted company? If yes, what is the general feeling? If no, then it is time to start a high-level discussion to gauge the level of interest.

15. Is my company in need of more credibility? Do I know of a potential joint venture target, which has the level of credibility I am seeking?

16. What are my strengths and weaknesses? What are the threats and opportunities in my target market?

17. Do I have all the support I need to go through this major change in my business life? If I am going through personal turbulences, does it make sense to start such a major project?

What Are My Chances Of Success?

Although there are no official statistics on the rate of success of specific strategic alliances, like joint ventures, per se, a few studies have, however, been conducted in this field. Their main findings were that most joint ventures fail about 60% of the time within five years.

Why? Experts agree that the key to success is the human factor, such as human resources integration and knowledge sharing, rather than geographical or financial factors.

Keep in mind that joint venturing in third world countries entails a higher rate of failure.

Lack of local legal knowledge, communication problems, divergence on agreed-upon objectives, differing deadline perceptions, etc., all contribute to this elevated rate.

How do we measure the performance of a joint venture? There are several formulas that can be used. It depends on the strategic alliance in the first place.

Do you wish to:

- Increase profits?
- Share R&D expenses?
- Extend or maintain market position?
- Improve distribution channels?
- Reduce overall costs and economies of scale?
- Develop new technology?
- Diversify product offerings?
- Reduce competition?
- Spread risk (mainly on large investments)?

Some of those goals are easily translated into financial figures like "percentage of increased profits," "who incurs which expenses," and "increased product offerings."

For example, if you were planning to increase your profits by 20%, you just need to compare your achievements with your previous situation, and you will know with certainty how well your joint venture performed.

What Are My Chances Of Success?/ Continued

Though some objectives are hard to quantify, like "reducing competition," for instance, methods are always available to analyse how well a joint venture's plan was executed.

One could argue that if competition is cut down, then profits should increase.

If reducing competition has the sole objective of stabilising or reversing a slowing revenue growth, it is easy to demonstrate the positive impact a strategic alliance could have on such a goal.

Remember, the key determining element responsible for joint venture failures is the human factor.

Being able to make your employees feel comfortable about a potentially disturbing strategic alliance will be crucial to your success. This implies that not only must both sides understand how much they have to gain from this joint venture, but more importantly, how much they can lose by not partnering.

Information sharing will be vital, and it is essential that as early as possible, both teams talk and exchange their knowledge. This entails meetings, steering committees, joint company events, employee "swaps" and internal promotions.

Going back to our primary question: what are my chances for success? We know that on average, only about 40% of joint ventures are successful within five years.

Since this figure includes partnerships with underdeveloped countries; which have a high rate of failure, we can reasonably state that if you join forces with a company located in a developed area and have done your homework, your probability of success should be closer to 80%.

What are the risks involved?

Because strategic alliances are built on trust and convergent goals, one of the main risks you can face may occur if the partners are from different cultures. They may not trust operating a certain "way" or have divergent goals. Even with similar strategic goals, two partners who lack trust in each other may lack the willingness to reciprocate. When joint venturing, be prepared to give and take.

This sharing principle should govern the entire process. Many potential joint ventures, including large-scale projects, have died before the ink on the contract was dry, because of divergent goals and self-serving attitudes, which are not in synch with the essence of the joint venture.

What Are My Chances Of Success?/ Continued

One example of this was the British Aerospace/Taiwan Aerospace alliance.

After tough negotiations, the two parties signed an agreement during a celebrated ceremony in Taiwan. Soon after,Taiwan announced its wish to pull out of the deal. Why? Because their goals were divergent. Taiwan wanted to acquire new technology, which the British refused to give away, and the British wanted to capture new markets in Asia, which Taiwan refused to grant.

A joint venture concept is only effective when there is a true willingness to move forward together. Not even signed contracts have value if mutual trust and acceptance of the terms are not present. It is actually better not to consider a joint venture project if motives from either side are questioned by the other side.

A graceful exit before any legal obligation takes effect will most likely prevent an inevitable failure. The risks involved are therefore simple to evaluate. You can:

- Waste your time
- Lose money
- Let go of important technology
- Gain nothing of significance in return
- Squander your credibility

Even though these and other risks in joint ventures are present, the rewards can far outweigh pitfalls.

It is important to completely evaluate your risks, and do your homework before and during the process.

What are the legal implications of a joint venture?

The geographical locations of the partners and target markets involved will dictate the degree of legal complexity when joint venturing.

If you both operate in the United States, you will need to sign at least one document: a joint venture agreement. Because of the rapid evolution of legislation, I strongly suggest you seek the proper legal advice, rather than using a pre-made template that is readily found on the Internet or in books.

If one of the partners is not located in the United States, or if both parties are foreign, additional documents will need to be signed: specifically, a New Legal Entity and a Joint Venture Agreement.

What Are My Chances Of Success?/ Continued

Also, in some countries where local market access is restricted, you will have to go through a local "Validation" of your privileges and of the status of your joint venture.

Again, there are always legal variances depending on the goals and scope of your joint venture.

I cannot stress strongly enough to go through the proper legal channels and seek comprehensive professional advice.

Owning a business can be one of the most exciting times in one's career. If done correctly, it can create the dream life you have always wanted. Depending on what you want from your business and how fast you want to get there, joining forces to create a more powerful presence in your market may be an attractive option.

Success Story and Positive Mental Attitude

Colonel Sanders

People know him because of his iconic white suit and bow tie. Colonel Sanders was the founder of Kentucky Fried Chicken (KFC).

Yet, the zany Sanders got off to a rocky start in life. In fact, it wasn't until the age of 62 that he set out with a $105 social security check in hand to pitch his chicken recipe to restaurants.

1,009 folks told him he was crazy, but he didn't give up.

Sanders worked many jobs including fireman, tyre salesman, insurance salesman, and of course, a cook. He brewed up his secret chicken recipe between 1939-1940 when he figured out how to pressure fry the chicken in a faster and more consistent product all the time. He was at the age of 50 when that happened.

However, it wasn't until 1952 that he hit the road and began trying to sell his franchise-model chicken restaurant.

The first restaurant that he landed was based out of Salt Lake City, Utah, which became the first Kentucky Fried Chicken. The restaurant tripled its sales within a year where 75% of that revenue was from the colonel's chicken.

The company grew and expanded faster than he could have ever imagined. In 1964, at the age of 74 years old, Sanders sold the company for $2 million dollars to a group of investors led by Jack C. Massey and John Y. Brown Jr.

He retained the rights to the Canadian franchises and stayed on as a salaried goodwill ambassador to the company.

This just goes to show you that it doesn't matter how old you are or just how much money you have to your name in order to accomplish something great!

DON'T FORGET TO WATCH THE "JOINT VENTURES" VIDEO.

