Joint Venture Advisory Practice

ISSUE 7 | September 2016

Formation maps: a simple tool for successfully designing Partnerships

A JV formation map will help identify your rationale for entering a partnership, and that of your partner's. It's a simple design that helps parties identify what the primary focus areas should be – ensuring that your partnerships stay relevant and valuable.

Partnering is not a replacement of corporate strategy or competitive strategy; it is instead a tool to achieve these. Partnerships in the form of joint ventures (JV), alliances and consortiums can be an effective tool to realise corporate strategic plans, both for long-term or short-term initiatives. They are growing in popularity. In fact, the 2016 KPMG CEO Survey found that they out ranked M&A as the most likely form of significant transaction in the next three years.

However, a common, if odd characteristic of partnerships is that once objectives are met, a partner may no longer see the value in continuing the relationship. So, whether you intend to have a long or short partnership, you need to keep it relevant and valuable. Our JV formation map not only helps you highlight the rationale for entering a partnership but also to identify the primary areas of focus to help you achieve your goals.

Drivers of JV formation

The choice of using a JV or alliance is not only dictated by the company's competitive position in the market, industry requirements, profitability and regulatory requirements but also by local requirements, capital requirements, geopolitical requirements such as resource nationalism and the desired 'comfort factor' of a trusted local or technical partner.

With the presence of so many variables and often, varied stakeholder opinions of what the partnership should focus on, it can be easy to lose sight of the strategic rationale underpinning the decision to form a partnership. Instead, the 'objective' takes over the thinking, leaving certain types of partnerships to be overlooked, particularly ones that are desired by the 'other side'. The result is that two companies form,

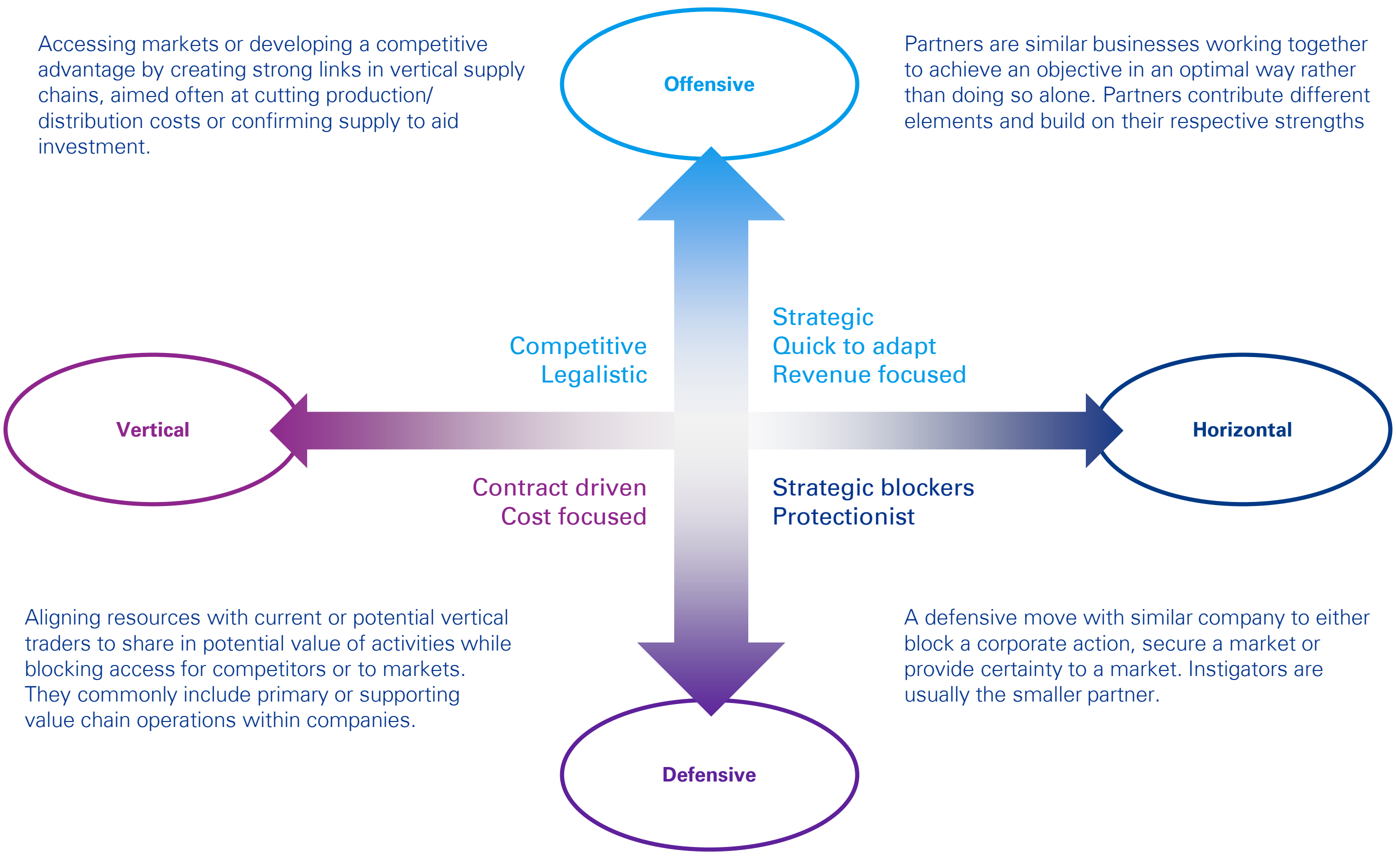
or set out to form, two very different types of partnerships and before too long, compatibility begins to wane.

It is usually the case that the underlying business rationale is sound and there is market demand for what is being proposed. But due to the nature of traditional business deals, success is often viewed from a commercial perspective. Partnerships are more layered and complicated than a profit or loss equation.

For example, a multinational may be looking for a local manufacturer and distributer of its products to grow its top line. Or, a local company may be looking to defend its market position from its local competitors through an exclusive tie up. In such instances, one party has an offensive objective and the other a defensive one. These are two very different deals, and although still achievable, knowledge of the contradiction should drive how the deal is done, how it is set up, and how it is governed in order to succeed once it starts operating.

In many instances, the Joint Venture Formation Map (below) can be a simple tool to help align people to the rationale. It is a linear scale between offensive to defensive, and vertical to horizontal strategies.

Joint Venture Formation Map



Performance is not related to where a partnership sits in the featured diagram, since each joint venture is established to achieve a particular strategic intent. However, partnership success is related to where it sits in the featured diagram, as partnership design cannot be a one size fits all. As the earlier example illustrated, governing what was thought to be a strategic model with a defensive partner confuses the deal design and makes for an unstable business platform.

Use in negotiations and operations

When designing a JV or alliance, it's natural to pay more attention to the reason you're entering the partnership, and less attention to why your partner is doing so. While this may appear to be a minor issue, misalignment of strategy or intent is a major contributing factor to future underperformance. The Joint Venture Formation Map can be used to map your partner's strategy along with yours. If you find yourself in a different quadrant to your partner, it's an indication that creating the right form of partnership and getting the governance right needs more attention. Ultimately, agility and readiness to change arrangements should the situation change for one of the partners or strategies become misaligned – will define long-term success.

The KPMG Joint Venture Advisory Practice can help you assess your current and future needs, and restructure your business to minimise risk and maximise commercial performance, irrespective as to whether you have many partnerships already, or are considering embarking on more in the future.

Contact us

KPMG Indonesia
35th Floor, Wisma GKBI
28, Jl. Jend. Sudirman
Jakarta 10210, Indonesia
T: +62 (0) 21 574 0877
F: +62 (0) 21 574 0313

David East
Head of Transaction Services, Deal Advisory
David.East@kpmg.co.id

Brad Johnson
Director, Deal Advisory, Joint Ventures
+65 6213 3800
bradjohnson@kpmg.com.sg

Find out more about our services at **kpmg.com/id**

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