Joint Venture Collaboration

The New Normal for Successful Small M/WBE Firms

By Vertanya Allen

In today's competitive business landscape, small businesses need to develop strategies to remain relevant and develop a competitive advantage in order to compete in the pure market. M/WBEs in particular have experienced challenges with winning bids, reducing cost of goods sold, and building capacity to compete for large corporate contracts. MMBC Continuum is constantly scanning the landscape for market trends and changes relative to how corporations are doing business. What we have discovered over the last few years is something that is not foreign to any of us……corporations and public entities are doing MORE with LESS and efficiency is a high priority. The brutal fact is that this trend has shifted the landscape for certified M/WBEs. The days of the set-aside era are over, and M/WBEs must compete on the basis of price, quality, and their ability to provide solutions and administrative efficiencies to large entities. Unfortunately, many M/WBE firms are simply too small to compete equitably. Many have limited capital to service large contracts, have limited staff to implement administrative efficiencies, and limited buying power to reduce cost of goods sold in order to price compete with large firms. There is, however, a solution to this seemingly endless conundrum…….. JOINT VENTURE COLLABORATION! That's right, it's seems like something you've probably heard before, but it merits some serious consideration. Think about it, if M/WBEs would pool their resources, expertise, and capital to team up and develop a competitive advantage, accelerated progress becomes attainable for small minority and women-owned firms!

WHY JOINT VENTURE COLLABORATION MAKES SENSE FOR M/WBEs

Corporations are looking to streamline the procurement process in a huge way! This allows them to reduce cost and expense and leverage their buying power. In some cases corporations are bundling contract requirements to increase operational efficiency. By forming joint ventures, small companies offer a major advantage to corporations that allow them to avoid trading off operational efficiency for sake of increasing M/WBE small business participation. Corporations are able to eliminate duplicative contracting tasks by performing them once rather than multiple times. Here are other advantages that JV arrangements create for the corporations:

Increase Competitive Advantage and Expand Opportunities for M/WBEs - When small business team up to purchase supplies together or compete for a contract opportunity as one entity, they are enhancing chances for obtaining lower pricing from suppliers, increasing innovation, and creating an environment that is solutions-focused.

Reduced Risk - Corporations are constantly trying to reduce contract risks such as schedule, performance, and financial risks. Also, the risk of bankruptcy—a risk corporations worry about when doing business with small businesses, however, when small businesses compete as JV partners, the risk of bankruptcy may be reduced or eliminated, since the financial risk can be spread to all partners.

Single Point of Contact - Having a single point of contact provides for better communication, coordination, and continuity of support. This also tends to improve quality because there is less chance for confusion and errors when interfacing with one contact rather than multiple contacts.

POTENTIAL BENEFITS TO M/WBEs

Just as large businesses regularly team to achieve certain benefits, small businesses can achieve the same benefits and expand procurement opportunities. Specifically, by forming JV teams, small businesses can do the following:

Fill Gaps in Performance Capability - An individual small business may have gaps in its past performance when considering whether to bid on contract. However, a small business can fill those gaps by forming a team whose members have the needed experience. Filling gaps in performance capability through a JV arrangement will help give the corporate customer the confidence that the team can perform the work.

Maximize Complementary Skills, Resources, and Capabilities – An MWBE JV has the potential to bring together complementary skills, resources, and capabilities that can exceed those of any single contractor. By jointly developing clear goals and approaches, a JV team can be both flexible and responsive to corporate needs.

Eliminate Barriers - An RFP solicitation that calls for regional or nationwide performance may be a barrier for a single small business. However, an M/WBE JV team has the potential to overcome this barrier.

Increase Competitiveness - Like most firms, M/WBEs must spend non-reimbursable time and expense preparing bids and proposals to compete for business. The nature of the requirements, its estimated dollar size and complexity, and other factors all contribute to how much time and expense each contractor will decide is enough to produce a winning proposal. Spreading this cost over multiple firms can result in a more competitive proposal. Also, as noted above, the potential to bring together complementary skills, resources, and capabilities and to fill in gaps in past performance contributes to increased competitiveness.

Minimize Risks - Small businesses can minimize their risks by competing as a team rather than a single business. Not only can the team resolve potential problems before they occur, they can pool their capital to reduce other risks associated with competing on contracts.

HOW TO FORM A SUCCESSFUL JOINT VENTURE

By Definition, a Joint Venture is formed when two or more firms pool their expertise and resources to achieve a particular goal. The rewards and risks of the enterprise are also shared. Use the Joint Venture Checklist below when considering forming a Joint Venture:

Is your business prepared?

To determine whether your firm is ready for a joint venture, you should:

- Research the activities of other businesses in this area and determine which M/WBEs are open to collaboration by using the BRG Partnership tool.
- Perform a SWOT (strengths, weaknesses, opportunities and threats) analysis of your business
- Compare your business model and standards align with those of potential partners

Choosing the right partner

When choosing a joint venture partner, you should consider:

- Existing suppliers, customers, and competitors and professional associates
- Does the culture of a proposed partner fits in with that of your firm
- Are the finances of the proposed partner organization sound

Finance

The following documents will be important to align expectations of each partner and/or if external financing is required for the joint venture:

- Business plan specific to the JV relationship and related activities
- Marketing plan
- Cash flow projection
- Each partner should agree who is investing what, and in what form – e.g. cash or other assets

If external funding is needed, the partners should agree:

- Sources of funding and who will borrow the funds
- How the borrowing will be collateralized

Profit and loss arrangements should be agreed upon:

- How profits or losses will be divided
- How capital gains or losses will be divided
- Whether one partner will be paid for providing services, other than through a share of profits

Implementation of the joint venture

When you are ready to implement a joint venture, you should obtain a professional legal advice to develop a written joint venture agreement including:

- Clear business objectives
- Communication arrangements between organizations/teams
- Financial structure
- Protection of your interests (trade secrets, customer lists)
- Daily/strategic decision making responsibilities
- Dispute resolution procedures
- Legal structure for your joint venture (contractual co-operation for a defined project, partnership or unlimited partnership, limited liability company)
  Bank account arrangements will depend on the legal model chosen, although a new account can be set up for a single project.

Sourcing business for the JV

Agree in advance which organization has responsibility for:

- Single point of contact for client communication
- Sales and marketing activities
- New business generation (if applicable)

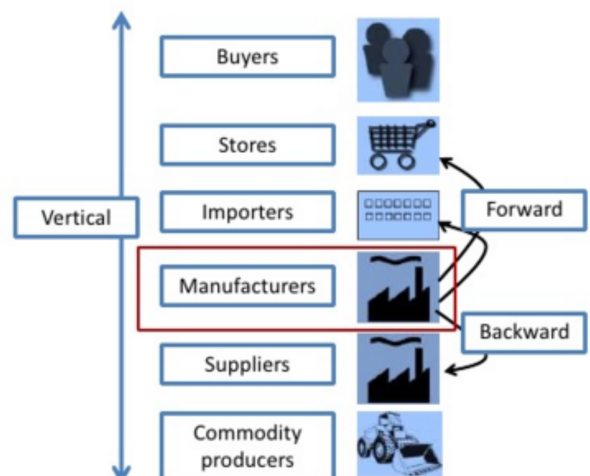
Terminating the joint venture

The agreement needs to make provision for terminating the agreement, covering:

- Termination procedures
- Ownership of assets in the joint venture
- Allocation of any liabilities resulting from the joint venture

<u>TYPES OF JV's: Vertical vs. Horizontal JV Collaboration</u>

Vertical JV's are a result of the collaboration of two businesses that are at different stages of production—for example, a construction company and a drywall manufacturer. Vertical collaboration strategies happen when a company collaborates with firms that are at different points of the same production path. Businesses are downstream or upstream of each other depending on whether they are nearer to or further away from the final consumer. The benefits of vertical integration come from the greater capacity it gives



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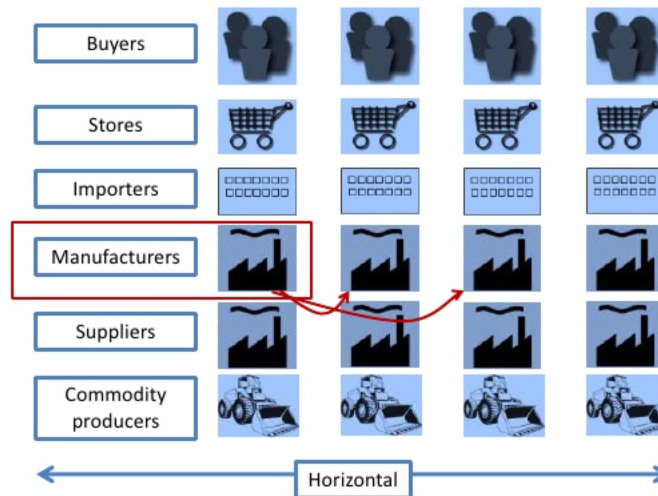
organizations to control access to inputs (and to control the cost, quality and delivery times of those inputs). One of the best known examples of vertical integration has been in the oil industry. In the 1970s and 1980s, many companies that were primarily engaged in exploration and the extraction of crude petroleum decided to Joint Venture (or acquire) downstream refineries and distribution networks. Companies such as Shell and BP came to control every step involved in bringing a drop of oil from its North Sea or Alaskan origins to a vehicle's fuel tank. (McKinsey & Company)

Horizontal JV's result from the collaboration of businesses that are at the same stage of production, such as two engineering firms or two trucking companies. These firms typically produce or trade the same products. They work together to leverage each others' strengths to gain a mutual benefit. This type of arrangement requires careful inter-firm coordination.



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