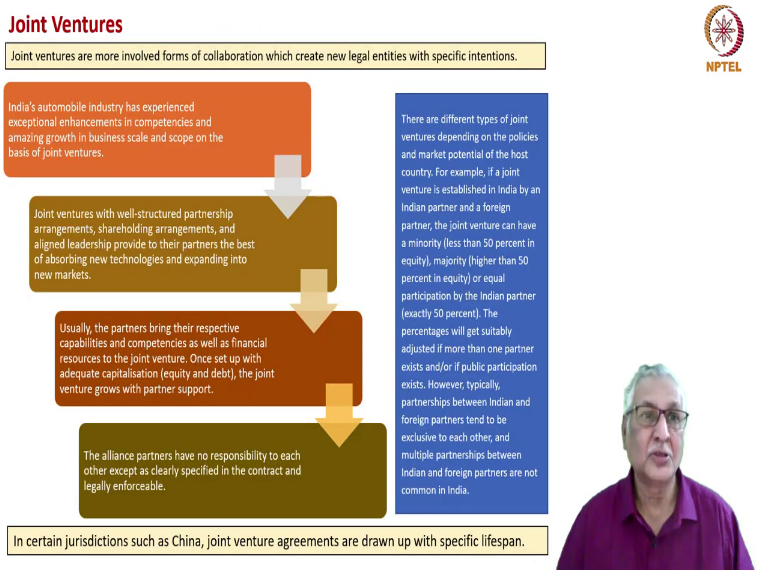
Business Development from Start to Scale

Prof. C Bhaktavatsala Rao
Department of Management Studies
Indian Institute of Technology, Madras

Week - 09
Business Development Structures
Lecture - 43
Joint Ventures

Hi friends, welcome to the NPTEL course Business Development from Start to Scale. We are in week 9 with the theme of Business Development Structures. In this lecture, the 43rd in the series, we discussed the topic of Joint Ventures.

(Refer Slide Time: 00:25)



Joint Ventures

Joint ventures are more involved forms of collaboration which create new legal entities with specific intentions.

India's automobile industry has experienced exceptional enhancements in competencies and amazing growth in business scale and scope on the basis of joint ventures.

Joint ventures with well-structured partnership arrangements, shareholding arrangements, and aligned leadership provide to their partners the best of absorbing new technologies and expanding into new markets.

Usually, the partners bring their respective capabilities and competencies as well as financial resources to the joint venture. Once set up with adequate capitalisation (equity and debt), the joint venture grows with partner support.

The alliance partners have no responsibility to each other except as clearly specified in the contract and legally enforceable.

There are different types of joint ventures depending on the policies and market potential of the host country. For example, if a joint venture is established in India by an Indian partner and a foreign partner, the joint venture can have a minority (less than 50 percent in equity), majority (higher than 50 percent in equity) or equal participation by the Indian partner (exactly 50 percent). The percentages will get suitably adjusted if more than one partner exists and/or if public participation exists. However, typically, partnerships between Indian and foreign partners tend to be exclusive to each other, and multiple partnerships between Indian and foreign partners are not common in India.

In certain jurisdictions such as China, joint venture agreements are drawn up with specific lifespan.

Joint ventures are more involved forms of collaboration. They create new legal entities with specific intentions. India's automobile industry has experienced exceptional enhancements in competencies and amazing growth in business scale and scope on the basis of joint ventures.

Joint ventures which have well-structured partnership arrangements, shareholding arrangements and aligned leadership models provide to their partners the best of absorbing new technologies and expanding into new markets. Usually, the partners to a joint venture bring their respective capabilities and competencies as well as their financial and other resources to the joint venture. Once set up with adequate capitalisation, which means equity and debt, the joint venture grows with partner support.

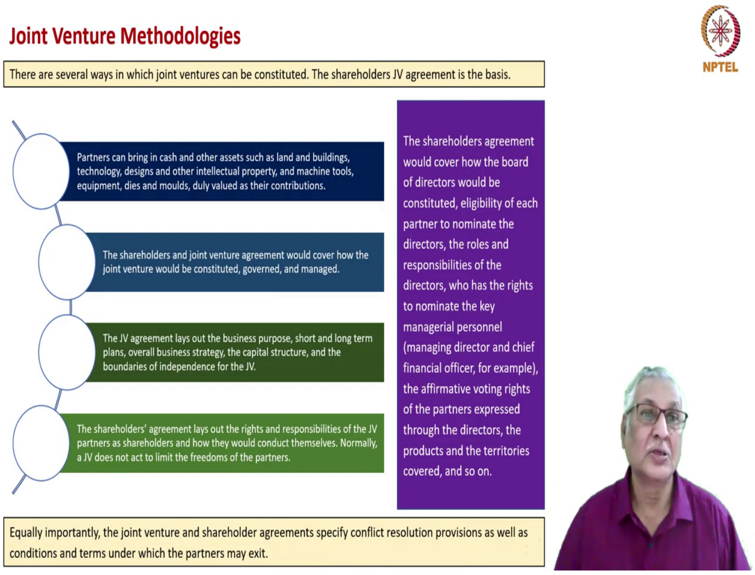
The alliance partners have no responsibility to each other except as clearly specified in the joint venture contract and shareholding agreement which are legally enforcement. There are different kinds of joint ventures depending upon the policies and market potential of the host country.

For example, if a joint venture is established in India by an Indian partner and a foreign partner, the joint venture can have a minority less than 50 percent in equity, majority higher than 50 percent in equity or equal participation by the Indian partner, exactly 50 percent each.

The percentages will get suitably adjusted if more than one partner exists and or if public participation exists. However, typically partnerships between Indian and foreign partners tend to be exclusive to each other and multiple partnerships between Indian and foreign partners are not common in India.

This is a very specific feature of India's joint venture practice. And also, it happens to be the manner in which the foreign collaborators and foreign joint venture partners look at Indian companies in terms of joint venture formations. In certain jurisdictions such as China, however, joint venture agreements are drawn up with multiple partners and also with specific lifespan.

(Refer Slide Time: 02:44)



Joint Venture Methodologies

There are several ways in which joint ventures can be constituted. The shareholders JV agreement is the basis.

Partners can bring in cash and other assets such as land and buildings, technology, designs and other intellectual property, and machine tools, equipment, dies and moulds, duly valued as their contributions.

The shareholders and joint venture agreement would cover how the joint venture would be constituted, governed, and managed.

The JV agreement lays out the business purpose, short and long term plans, overall business strategy, the capital structure, and the boundaries of independence for the JV.

The shareholders' agreement lays out the rights and responsibilities of the JV partners as shareholders and how they would conduct themselves. Normally, a JV does not act to limit the freedoms of the partners.

The shareholders agreement would cover how the board of directors would be constituted, eligibility of each partner to nominate the directors, the roles and responsibilities of the directors, who has the rights to nominate the key managerial personnel (managing director and chief financial officer, for example), the affirmative voting rights of the partners expressed through the directors, the products and the territories covered, and so on.

Equally importantly, the joint venture and shareholder agreements specify conflict resolution provisions as well as conditions and terms under which the partners may exit.

What are the joint venture methodologies? There are several ways in which joint venture can be constituted. The shareholders joint venture agreement is of course, the foundation. Partners can bring in cash and other assets such as land and buildings, technology, designs and other intellectual property and machine tools and equipment, dies and moulds, duly valued as their contributions. It is not necessary that everything must be supplied only in cash by the partners.

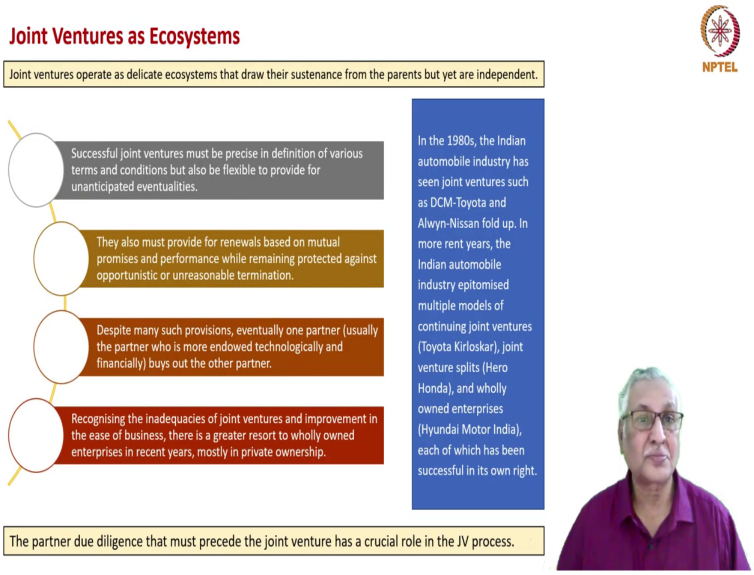
The shareholders and joint venture agreement would cover how the joint venture would be constituted, governed and managed. The JV agreement lays out the business purpose, short and long term plans, overall business strategy, the capital structure, and the boundaries of independence for the JV.

It also specifies through the shareholder's agreement the rights and responsibilities of the JV partners as shareholders and how they would conduct themselves. Normally, a JV does not act to limit the freedoms of the partners, except it specifies clearly items where a positive association or a positive vote by the partner would be required.

The shareholders agreement would cover how the board of directors would be constituted, eligibility of each of the partners to dominate the directors, the roles and responsibilities of the directors, who has the rights to nominate the key managerial person, managing director and chief financial officer for example. The affirmative voting rights of the partners expressed through the directors, the products and the territories covered and so on.

In joint ventures usually, the CEO will be of one partner and the CFO will be of another partner. Another type of arrangement could be that the chairman would be belonging to one partner and the managing director that is the executive officer would be belonging to the other partner. Equally importantly, the joint venture and shareholder agreement specify conflict resolution provisions as well as conditions and terms under which the partners may renew or exit.

(Refer Slide Time: 04:57)



Joint Ventures as Ecosystems

Joint ventures operate as delicate ecosystems that draw their sustenance from the parents but yet are independent.

Successful joint ventures must be precise in definition of various terms and conditions but also be flexible to provide for unanticipated eventualities.

They also must provide for renewals based on mutual promises and performance while remaining protected against opportunistic or unreasonable termination.

Despite many such provisions, eventually one partner (usually the partner who is more endowed technologically and financially) buys out the other partner.

Recognising the inadequacies of joint ventures and improvement in the ease of business, there is a greater resort to wholly owned enterprises in recent years, mostly in private ownership.

In the 1980s, the Indian automobile industry has seen joint ventures such as DCM-Toyota and Alwyn-Nissan fold up. In more rent years, the Indian automobile industry epitomised multiple models of continuing joint ventures (Toyota Kirloskar), joint venture splits (Hero Honda), and wholly owned enterprises (Hyundai Motor India), each of which has been successful in its own right.

The partner due diligence that must precede the joint venture has a crucial role in the JV process.

Joint ventures are not just platforms of cooperation, they are in fact, new ecosystems that are being created by the partners. They are delicate ecosystems because they draw their sustenance from the parents, but yet are expected to be independent. Successful joint ventures must be precise in definition of various terms and conditions, would also be flexible to provide for unanticipated eventualities.

That is, the market conditions that have been anticipated at the time of formation of joint venture may not hold good after several years. But there must be a provision in the joint venture agreement as to how the partners should respond to a situation where there are traumatic changes in the market environment.

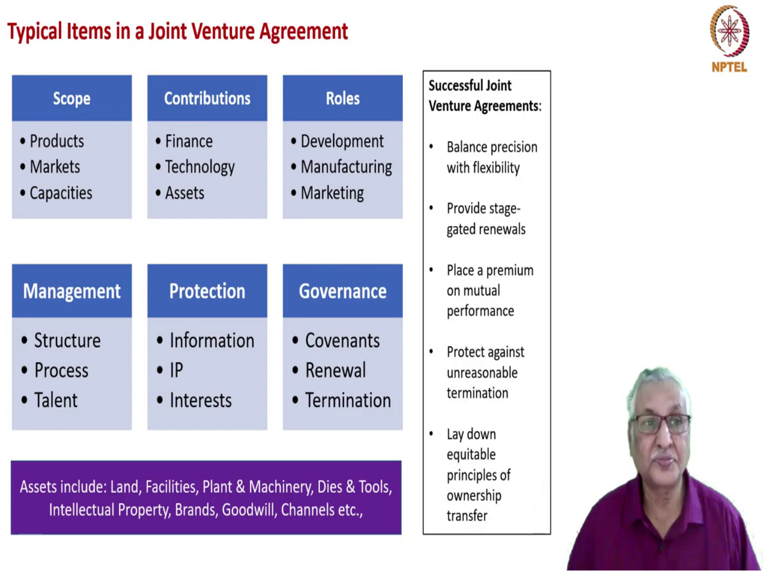
Generally, in joint venture agreements, who will market in what region would be specified apriori. However, after a particular period of time, one of the partners may have strengths in that region which is excluded for the partner. In such a case, there must be some kind of dynamic calibration to reset the marketing objectives of the joint venture.

The joint ventures must also provide for renewals based on mutual promises and performance while remaining protected against opportunistic or whimsical termination. Despite many such provisions, eventually one partner, usually the partner who is more endowed technologically and financially, either dictates the other partner during the course of the joint venture or buys out the other partner in the event of any conflict.

Recognizing the inadequacies of joint ventures and improvement in the ease of business, there is a greater resort now to wholly owned enterprise concepts in recent years, mostly in private ownership. In the 1980s, the Indian automobile industry has seen joint ventures such as DCM-Toyota and Alwyn-Nissan. But these joint ventures which were set up with lot of expectations eventually folded up.

In more recent years, the Indian automobile industry epitomized multiple models of continuing joint ventures Toyota Kirloskar, joint ventures splits, Hero and Honda, and wholly owned enterprises Hyundai Motor India. Each of these has been successful in its own right. The partner due diligence that must precede the joint venture has a crucial role in the joint venture process.

(Refer Slide Time: 07:29)



Typical Items in a Joint Venture Agreement

Scope	Contributions	Roles
• Products • Markets • Capacities	• Finance • Technology • Assets	• Development • Manufacturing • Marketing

Management	Protection	Governance
• Structure • Process • Talent	• Information • IP • Interests	• Covenants • Renewal • Termination

Assets include: Land, Facilities, Plant & Machinery, Dies & Tools, Intellectual Property, Brands, Goodwill, Channels etc.,

Successful Joint Venture Agreements:

- Balance precision with flexibility
- Provide stage-gated renewals
- Place a premium on mutual performance
- Protect against unreasonable termination
- Lay down equitable principles of ownership transfer

What are the typical items one can find in a joint venture agreement? I can list at least 6 major categories which are very important for a structured joint venture agreement. The first is the scope, the products, the markets and the capacities that are expected from the joint venture.

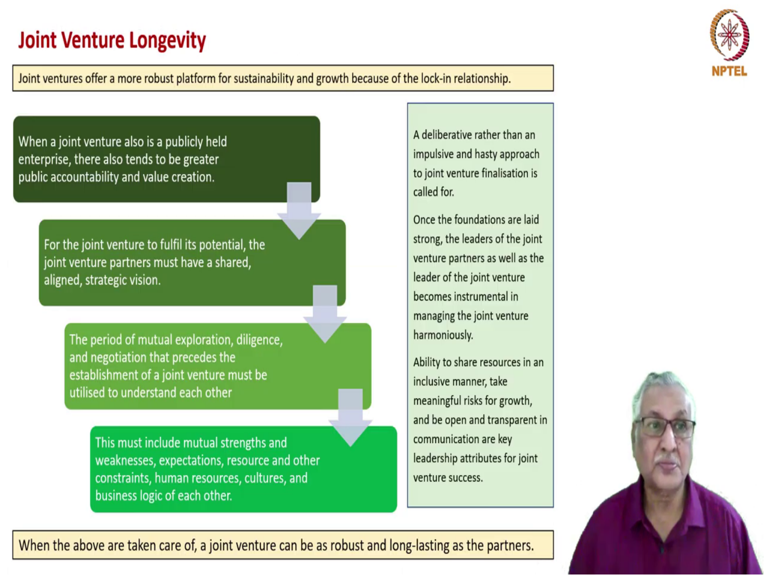
The second is the level of contribution that is expected of the partners and also the independent movement that is expected of the joint venture. And these could relate to finance, technology and assets. The roles of the joint venture partners in terms of development, manufacturing, marketing as well as any other key functions; how would the management be set up for the joint venture agreement is the fourth area. The structure, process and talent in the organization.

A joint venture agreement not only provides freedom for operation, but also requires that the joint venture protect the information, intellectual property and interest of not only the joint venture, but also of the partners. And finally, there would be a whole set of requirements related to governance of the joint venture by the partners. The covenants, the renewal conditions, the termination conditions are all well specified.

When we talk about assets, these will include land facilities, plant and machinery, dies and tools, intellectual property, brands, goodwill, channels, etcetera. Again, these are illustrative and not comprehensive.

Given the complexity successful joint venture agreements have to take care of the following to be operationally viable. Balance precision with flexibility. Provides stage gated renewals. Place a premium on mutual performance. Protect against unreasonable termination. Lay down equitable principles of ownership transfer.

(Refer Slide Time: 09:30)



Joint Venture Longevity

Joint ventures offer a more robust platform for sustainability and growth because of the lock-in relationship.

When a joint venture also is a publicly held enterprise, there also tends to be greater public accountability and value creation.

For the joint venture to fulfil its potential, the joint venture partners must have a shared, aligned, strategic vision.

The period of mutual exploration, diligence, and negotiation that precedes the establishment of a joint venture must be utilised to understand each other

This must include mutual strengths and weaknesses, expectations, resource and other constraints, human resources, cultures, and business logic of each other.

A deliberative rather than an impulsive and hasty approach to joint venture finalisation is called for.

Once the foundations are laid strong, the leaders of the joint venture partners as well as the leader of the joint venture becomes instrumental in managing the joint venture harmoniously.

Ability to share resources in an inclusive manner, take meaningful risks for growth, and be open and transparent in communication are key leadership attributes for joint venture success.

When the above are taken care of, a joint venture can be as robust and long-lasting as the partners.

A joint venture is expected to be having perpetuity. Joint ventures offer a more robust platform for sustainability and growth because of the lock in relationship. And as opposed to either alliance model or collaboration model, a joint venture model expects the joint venture to remain in perpetuity as an independent institution.

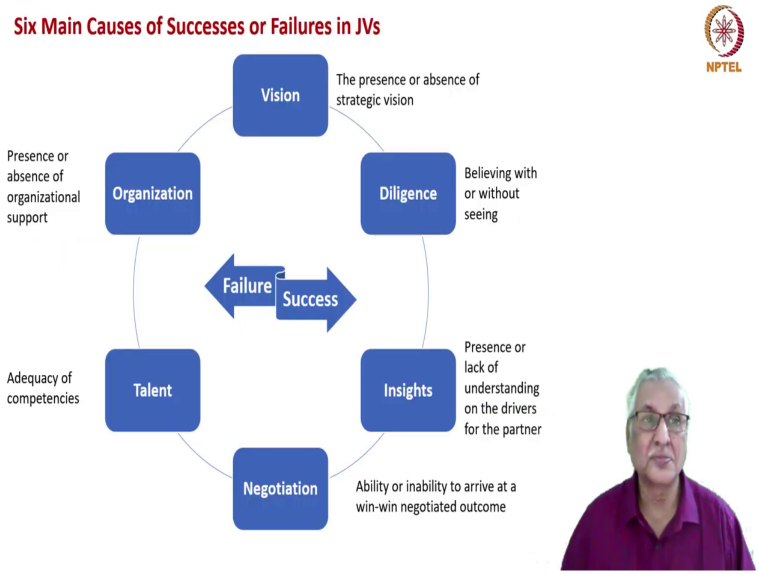
When a joint venture is also a publicly held enterprise, there also tends to be a greater level of public accountability and value creation. For the joint venture to fulfill its potential, the joint venture partners must have a shared aligned strategic vision. The period of mutual exploration, diligence and negotiation that precedes the establishment of a joint venture must be utilised to understand each other.

This must include mutual strengths and weaknesses, expectations, resource and other constraints, human resources, cultures and business logic of each other. It is important for the joint venture partners to have a deliberative approach rather than an impulsive and history approach to joint venture finalisation. Because once a joint venture is established and the partners are long-term, it is very difficult to modify it except with a detailed discourse, a detailed debate and at times, a high level of conflict.

Therefore, it is important that all the nuances of a joint venture are fully understood and an appropriate structure and methodology established as part of the joint venture creation. Once the foundations are laid strong, the leaders of the joint venture partners as well as the leader of the joint venture become instrumental in managing the joint venture harmoniously.

Ability to share resources in an inclusive manner, take meaningful risks for growth and be open and transparent in communication or key leadership attributes for joint venture success. When the above are taken care of, a joint venture can be as robust and as long-lasting as the partners are and would be.

(Refer Slide Time: 11:47)



Six Main Causes of Successes or Failures in JVs

Vision: The presence or absence of strategic vision

Diligence: Believing with or without seeing

Insights: Presence or lack of understanding on the drivers for the partner

Negotiation: Ability or inability to arrive at a win-win negotiated outcome

Talent: Adequacy of competencies

Organization: Presence or absence of organizational support

While the joint venture model is highly important and is also a proven successful model, there have also been several causes of successes and equal number of failures in the JVs. First, the vision: The presence or absence of strategy vision leads to success or failure of a joint venture.

A joint venture is not established for either the short term or the median term. A joint venture is established to do something which the partners individually will be unable to do or would not like to do. A case an example, could be somebody who is having a strong position in the two-wheeler segment and another company which has a strong position in the 3-wheeler segment.

They might feel that a power pack is a common element for both these, but they would not like to have their own power packs and keep competing with each other and keep having duplicated resources. So, these two partners may suggest to themselves that it would be a better option to set up an independent power pack company which can supply not only to these two companies, but also to a whole range of other people or other institutions which require these kinds of power packs. So, that is the positive vision. On the other hand, if decisions on joint venture constitution are taken based on today's requirements, they may fail in the tomorrow's landscape.

The second is the diligence. Believing based on the name and the fame and getting into a joint venture could be a visual recipe for failure. That is without seeing, without reviewing, you cannot decide on anything particularly when two different institutions and two different cultures are going to get locked in, one creating a new venture where they have some partnership interest. So, so, it is important that due diligence which means understanding what is claimed in reality is very important.

Then insights: One should understand the motivations and the aspirations that are driving the partners to participate in the joint venture agreement. That is beyond the spoken word, beyond the written word, beyond what has been understood in traditional due diligence, the leadership of both the partners should be able to develop insights on the other partner and understand what really are driving the partner towards a joint venture.

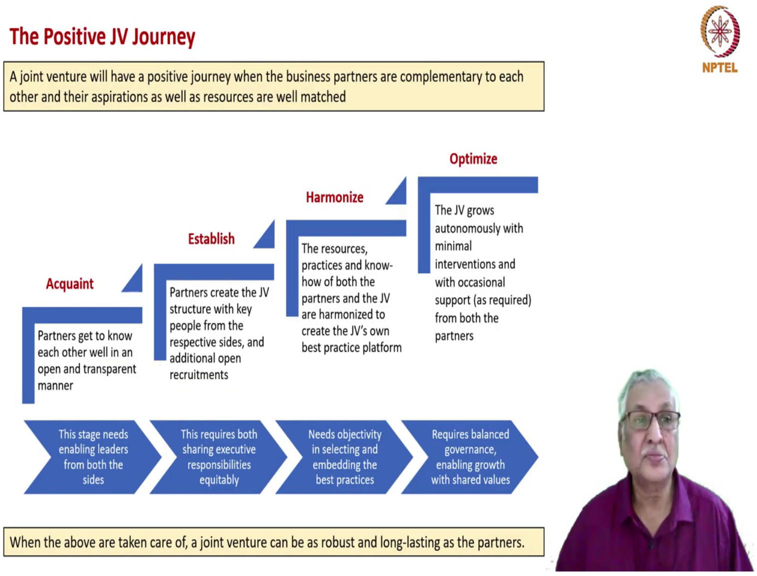
Negotiation is another important aspect of success of failure. The success of a joint venture lies in a win-win negotiated outcome in the creation process. If any of the partners is unable or dis-inclined to arrive at a win-win negotiated outcome, the joint venture will not have successful run to perpetuity.

Similarly, it is expected that both the parties would provide the best of the talent to the joint venture. It would be not only insufficient, but also a gross injustice if a particular partner provides grade B talent when the other partner is providing grade A talent. A joint venture should not be a home for the talent which cannot be provided a career in the partner company. That is the worst way to start a joint venture.

Similarly, organization plays an important role. At least in the formative years and the growth years, the joint venture will require support from various wings of the partner companies. And if the organizations in a broader sense are not buying in the concept of the joint venture, such support would not be forthcoming easily.

Therefore, the presence or absence of organizational support would determine the success of failure in the joint ventures. Therefore, vision, diligence, insights, negotiation, talent and organization are the 6 main areas which could denote or which could influence the success or failure in joint ventures. Let us look at how a positive JV Journey could take place.

(Refer Slide Time: 16:14)



The Positive JV Journey

A joint venture will have a positive journey when the business partners are complementary to each other and their aspirations as well as resources are well matched

Acquaint

Partners get to know each other well in an open and transparent manner

Establish

Partners create the JV structure with key people from the respective sides, and additional open recruitments

Harmonize

The resources, practices and know-how of both the partners and the JV are harmonized to create the JV's own best practice platform

Optimize

The JV grows autonomously with minimal interventions and with occasional support (as required) from both the partners

This stage needs enabling leaders from both the sides

This requires both sharing executive responsibilities equitably

Needs objectivity in selecting and embedding the best practices

Requires balanced governance, enabling growth with shared values

When the above are taken care of, a joint venture can be as robust and long-lasting as the partners.

A joint venture will have a positive JV Journey when the business partners are complementary to each other and their aspirations as well as resources are well matched. That is one of the partners is excellent in its capabilities in the Indian industrial and market space. And the other partner is excellent in its understanding of the global market space.

One partner is excellent in the development capability and the other partner is excellent in the manufacturing capability. And when these kinds of combinations happen amongst the partners, the joint venture would be very much well-endow. One can envisage a positive JV Journey in terms of four important stages. The first stage is acquaint that is the partners get to know each other well in an open and transparent manner.

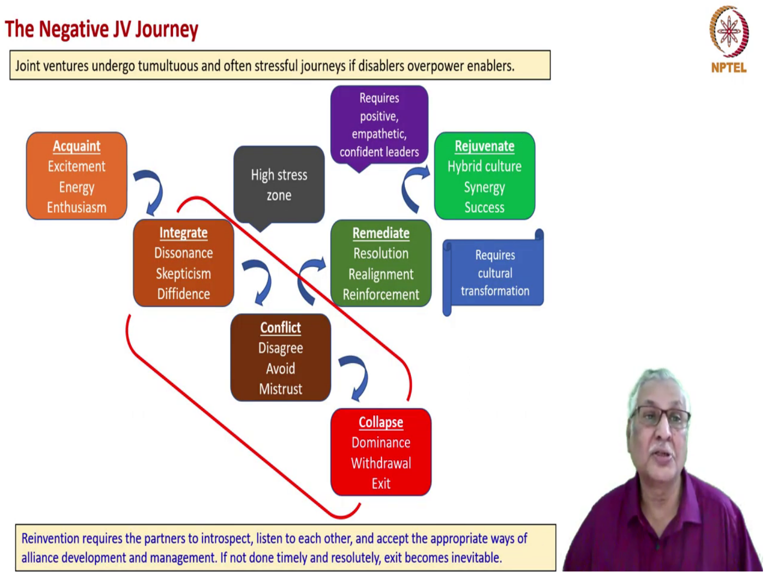
The second stage is establish: The partners create the JV structure with key people from both the sides and also undertake additional open recruitments. The third stage is harmonize. The resources, practices and know-how of both the partners and the JV are harmonized. That is they are made seamless and nicely intertwined with each other to create the JVs own best practice platform.

The idea is not to impose either of the partner's resources, practices or know how. Rather, the idea would be to create a new harmonized hybrid and an even better ecosystem in the joint venture and through the joint venture. And the fourth phase is optimize. The JV grows autonomously with minimal interventions from the partners and with occasional support as required again from the partners.

The acquaint stage needs enabling leaders from both the sides. They must have the vision of the joint venture, share the vision and should have the ability to inspire others to share this vision and strategy. In the established phase, we require the partners to share executive responsibilities equitably because that is the phase when which the joint venture has to be provided the nurturing support from both the parties through a variety of ways of which organizational support is going to be a very important methodology.

In the harmonized phase, we require objectivity in selecting and embedding the best practices, so that the best hybrid form of development happens in the joint venture. And in the optimized phase, we require balanced governance enabling growth with shared values. When the above are taken care of, a joint venture can be as robust and long-lasting as the partners are.

(Refer Slide Time: 19:04)



The Negative JV Journey

Joint ventures undergo tumultuous and often stressful journeys if disablers overpower enablers.

Acquaint
Excitement
Energy
Enthusiasm

High stress zone

Requires positive, empathetic, confident leaders

Rejuvenate
Hybrid culture
Synergy
Success

Integrate
Dissonance
Skepticism
Diffidence

Remediate
Resolution
Realignment
Reinforcement

Requires cultural transformation

Conflict
Disagree
Avoid
Mistrust

Collapse
Dominance
Withdrawal
Exit

Reinvention requires the partners to introspect, listen to each other, and accept the appropriate ways of alliance development and management. If not done timely and resolutely, exit becomes inevitable.

But there could also be a negative JV journey. Some joint ventures do undergo tumultuous and often stressful journeys, if they are more disablers than enablers. So, what will happen in such JV journeys which are negative? The acquaint phase will be full of excitement, energy and enthusiasm as could be in the positive journey model also. But the integrate phase, when the two parties come to each other in terms of their practices, their ways of doing there could be dissonance, skepticism and diffidence.

The agendas which were not explicitly discussed earlier may emerge. And the agendas which have been discussed explicitly may disappear. And that would lead to lot of dissonance, skepticism and diffidence. And as a result of this dissonance, skepticism and diffidence, we may have a conflict phase, that is the JV members who are drawn towards both these partners who disagree, avoid the other party and have mistrust.

And this would cascade all along the hierarchical chain of the joint venture from the operating executives to the board which will have the representatives of both the partners. And if this conflict phase is not managed and the situation is not turned around, the joint venture would collapse. There could be either dominance by one partner or there could be a withdrawal by both the partners or an exit by one or both the partners.

Now, these 3 phases of integration, conflict development and collapse are high stress zones for any joint venture. It requires exceptional leadership to navigate the joint venture which has gone through this stress zone to come up winning against the odds. And these stress factors can be very simple. In an Indian company for example, it is very common to have several suffixes and prefixes to the titles.

You have let us say assistant manager, a deputy manager, you have a manager, you have a senior manager, you have a divisional manager. Thus, a person called manager would have 6 layers and these are being provided in India to provide faster career development as a perception. But in multinational companies that level of layering in any role is not prevalent.

So, the HR expert from the global organization comes to the joint venture and says that why should we have so many managers. I will simply remove all the prefixes and suffixes because a manager is a manager, and the role of a manager is the same regardless of he being an assistant or he being a divisional manager.

And if the person is a bigger subject matter expert and he is having better role and responsibility, he should be rewarded better as long as he is a manager. If he has to be something different, the entire role and responsibility must be enduringly different, that would be the thing. So, when you do this kind of termination of prefixes and suffixes, the Indian organization would have turbulence.

And therefore, the Indian partner who is representing the Indian partner company would have difficulties in managing the joint venture, particularly if the HR manager is from the Indian partner company. So, these are the kinds of things which could happen in joint ventures which unless treated become deal breakers for the organization.

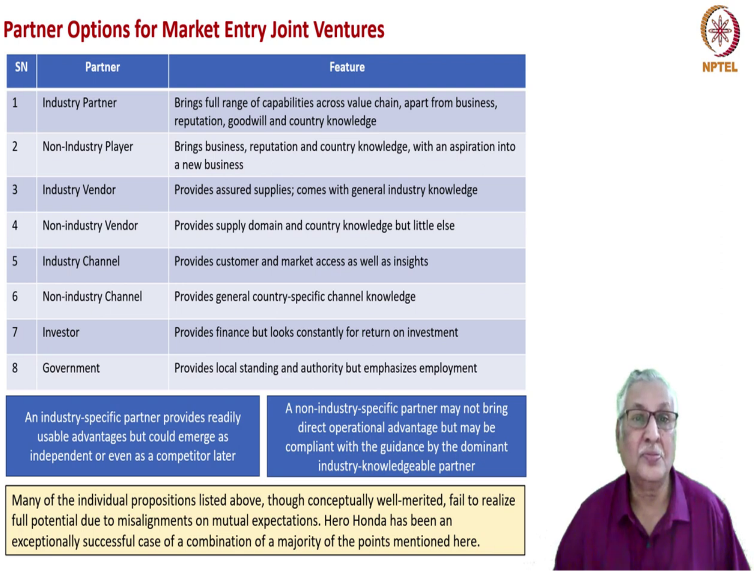
Then, when you get into a conflict phase, you got to take the joint venture to the remediation phase and that would require resolution of the problems, key alignment, reinforcement. Many times, each partner has to advocate what needs to be done and also advise the other partner of doing the things in the right manner based on either local context or the global context or the strategic context.

And when that remediation happens in a responsible way and if the both the partners representatives in the joint venture respond in a positive way, it would be possible to rejuvenate the joint venture despite the conflicts zone the company has entered earlier and despite the remediation that may seem to be tentative in the beginning. But once the remediation is done in the whole rejuvenation is not too far off and that would lead to hybrid culture, synergy and success.

However, as I said these kinds of turnarounds in joint venture journeys when they are down and under, down and under, requires positive empathetic and confident leaders and that also requires cultural transformation on the part of the partners to some extent and definitely in the joint venture itself to a great extent.

The reinvention process requires the partners to introspect, listen to each other and accept the appropriate ways of alliance development and management. If not done timely and resolutely, exit becomes inevitable for one of the partners or both the partners.

(Refer Slide Time: 24:22)



Partner Options for Market Entry Joint Ventures

SN	Partner	Feature
1	Industry Partner	Brings full range of capabilities across value chain, apart from business, reputation, goodwill and country knowledge
2	Non-Industry Player	Brings business, reputation and country knowledge, with an aspiration into a new business
3	Industry Vendor	Provides assured supplies; comes with general industry knowledge
4	Non-industry Vendor	Provides supply domain and country knowledge but little else
5	Industry Channel	Provides customer and market access as well as insights
6	Non-industry Channel	Provides general country-specific channel knowledge
7	Investor	Provides finance but looks constantly for return on investment
8	Government	Provides local standing and authority but emphasizes employment

An industry-specific partner provides readily usable advantages but could emerge as independent or even as a competitor later

A non-industry-specific partner may not bring direct operational advantage but may be compliant with the guidance by the dominant industry-knowledgeable partner

Many of the individual propositions listed above, though conceptually well-merited, fail to realize full potential due to misalignments on mutual expectations. Hero Honda has been an exceptionally successful case of a combination of a majority of the points mentioned here.

What are the partner options we have for market entry joint ventures? As I said earlier also most of the ventures are in terms of entering into a market to make use of the market potential. Many companies from developed countries enter emerging economies because there is a huge market opportunity that exists in the emerging markets.

There could be several types of partners who could be available for establishing a joint venture. You can choose an industry partner. The advantage of choosing an industry partner is that such a partner brings the full range of capabilities across the total value chain, apart from business, reputation, goodwill and country knowledge.

You may also choose a non-industry player, that is if you are an automobile company you can choose a player who is in the construction business or in an engineering business, nothing wrong. Because even that player brings certain advantages to the joint venture business knowledge, reputation, and country knowledge and also, he has in addition an aspiration to move into a new business that could offset some of the other voids in the operational knowledge.

You can partner not necessarily with a OEM or the Original Equipment Manufacturer. You can partner with an industry vendor too. And the advantage is that assured supplies are provided by the vendor and the vendor also comes with general industry and country knowledge. You can as well tie up with a non-industry vendor too. Such a vendor provides supply domain and country knowledge, but little less.

You can tie up with a channel that is a channel such as TVS Motors, Sundaram Motors or where any other dealership such as VST Motors. Such a relationship provides customer and market access as well as insights. You can choose a non-industry channel as well. You can tie up with somebody who is very strong in retail. You can tie up with reliance retail for example, and that provides general country specific channel knowledge.

You may tie up with just an investor who would provide finance, but you also must be cognizant that the provider also looks constantly for return on investment. You can look at government as a partner. Many ventures have started In India with in partnership with state governments, state government agencies or in some cases with the central government itself.

The advantage is that such partnerships provide local standing under authority, but one has to be careful because such partnerships also emphasize employment as one of the primary reasons, why the partnership is existing? In the overall an industry-specific partner provides readily usable advantages such as the value chain advantage, industry advantage, the country advantage, but in course of time such a partner could emerge as independent partner or even as a competitor later.

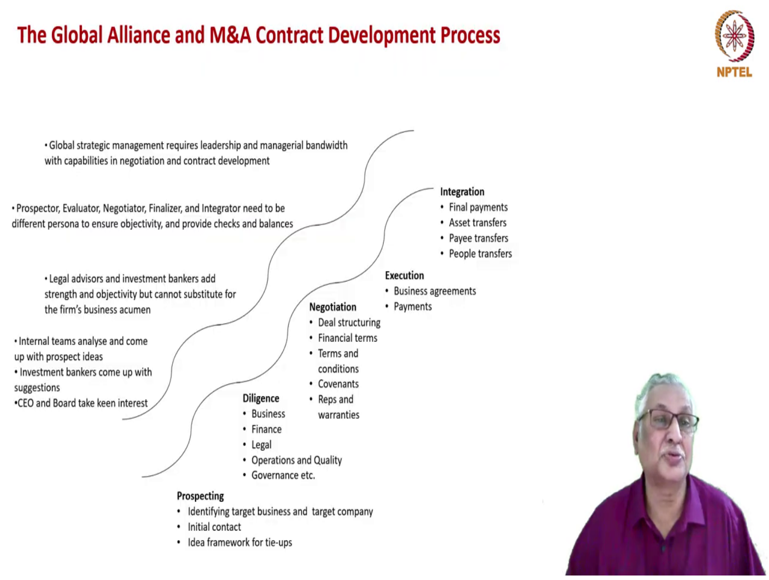
On the other hand a non-industry specific partner may not bring direct operational advantage, but may be compliant with the guidance by the dominant industry non-eligible partner. Many of the individual propositions listed above are conceptually well-merited, but at times they fail to realize the full potential because of the misalignments in terms of the mutual expectations in each case of partnership that is selected.

For example, Hero Honda has been an exceptionally successful case of a combination of a majority of the points mentioned here. The Hero group was a non-industry player if we look at industry solely as automobile industry.

Despite being a non-industry player that is a player essentially operating in cycles, Hero group brought lot of business reputation and country knowledge in way of explaining to Honda how the Indian market system operates. And it also had the inspiration to learn a lot from Honda’s superior development and manufacturing practices.

Therefore, the partnership was very successful. So, it is not that you should only go for an industry partnership. Any other partnership also may work very well. For Kantra, it is not necessary that an industry partnership will automatically be excellent in operation. That is also not necessarily true.

(Refer Slide Time: 29:10)



The Global Alliance and M&A Contract Development Process

- Global strategic management requires leadership and managerial bandwidth with capabilities in negotiation and contract development
- Prospector, Evaluator, Negotiator, Finalizer, and Integrator need to be different persona to ensure objectivity, and provide checks and balances
- Legal advisors and investment bankers add strength and objectivity but cannot substitute for the firm's business acumen
- Internal teams analyse and come up with prospect ideas
- Investment bankers come up with suggestions
- CEO and Board take keen interest

Prospecting
- Identifying target business and target company
- Initial contact
- Idea framework for tie-ups

Diligence
- Business
- Finance
- Legal
- Operations and Quality
- Governance etc.

Negotiation
- Deal structuring
- Financial terms
- Terms and conditions
- Covenants
- Reps and warranties

Execution
- Business agreements
- Payments

Integration
- Final payments
- Asset transfers
- Payee transfers
- People transfers

The global alliance and M and A contract development process is a process that is somewhat applicable for the joint venture partnership activities as well. First, the partners have to prospect that is they have to identify the target business and target company. Initial contact has to be established and the idea of framework for tie-ups has to be made.

The second stage, we need to have diligence of the business finance legal operations and quality and governance etcetera. After the diligence, the partners will decide whether they are made for each other to set up a new joint venture. Then comes the negotiation process because you got to do the joint venture agreement, the shareholders agreement, the overall deal structuring, the financial terms, terms and conditions, covenants representations and warranties.

And then comes the execution phase, the whole business agreements related to that. A shareholders agreement, a joint ventures agreement and in case a separate technical collaboration agreement exists, that agreement too and the payments thereof. And during the integration phase, you got to contribute your shared to the capital. You have to ensure that the assets are transferred as an joint venture agreement. The re-transfers and people transfers are undertaken.

The important thing is that in each of these phases, you require leaders and teams which are specially suited for those respective phases. In the prospecting phase, we have internal teams that analyze and come up with prospecting ideas. At times or even most of the times investment bankers come up with suggestions and the CEO and board take keen interest in the idea of prospecting and as well as the prospecting outcomes as well.

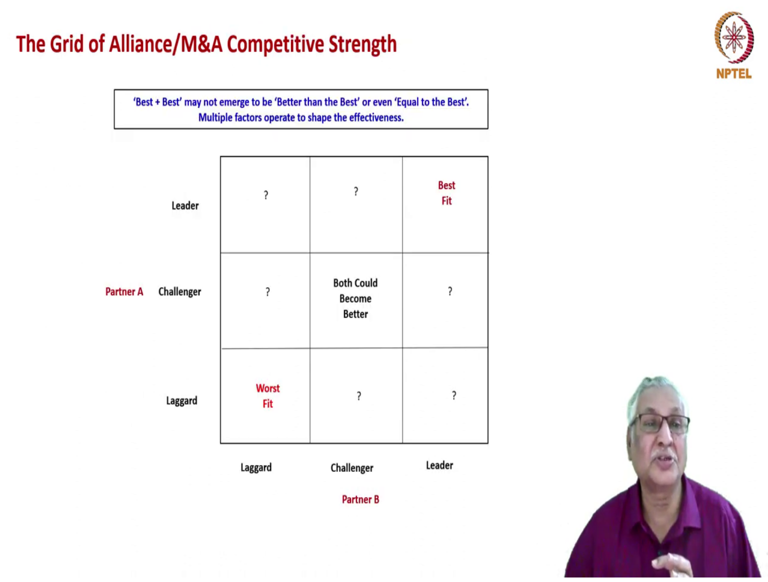
In the diligence phase, we have legal advisors and investment bankers who add strength and objectivity to the internal teams, but they cannot substitute for the firm's business acumen. In the negotiation phase, you again require internal teams taking a strong lead role, duly supported by legal advisors and investment bankers for their subject matter expertise and also for being able to provide a third party unbiased perspective to protect the interests of the partners while also supporting the joint business goals.

Typically, the prospector, evaluator, negotiator, finalizer and integrator are all of different personnel. And then only there would be objectivity and there would be a proper check and balance system. However, it is not possible for a person in his role or her role as a individual to have all these types of personalities.

So, typically in multi-national companies, those who prospect or not the ones who do due diligence and those who complete due diligence or not the ones who do negotiation, and similarly those who negotiate an agreement need not necessarily be the ones who are executing it or even integrating it.

But in conditions such as ours that is from India, we may not have the luxury of having different kinds of managers for different stages of a joint venture development. Global strategic management in our case requires leadership and managerial bandwidth and a capability spectrum in negotiation and contract development with foundation capabilities in prospecting and diligence as well as in forward looking integration and optimization areas. So, that is the how the overall global alliance and MA contract development process gets applied even to joint venture formation.

(Refer Slide Time: 33:00)



The Grid of Alliance/M&A Competitive Strength

'Best + Best' may not emerge to be 'Better than the Best' or even 'Equal to the Best'.
Multiple factors operate to shape the effectiveness.

	Leader	?	?	Best Fit
Partner A	Challenger	?	Both Could Become Better	?
	Laggard	Worst Fit	?	?
		Laggard	Challenger	Leader
			Partner B	

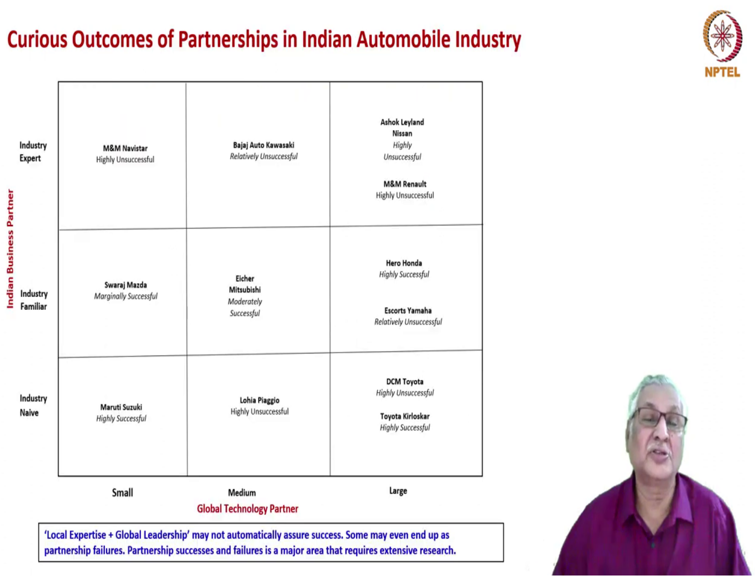
As said that having a partner from the same industry could be a success driver and need not also be a success driver. So, let us look at a situation where we can have partners who are classified under 3 categories. One laggard that is the company is not doing so great in the industry. It does not mean that it is a bad company, but it is a company which is existing as an industry average performer.

Then, there could be a challenger that is a company which is aspiring to go above the industry average and challenge the leader. There could be always be a leader in the leadership position. Now, partner A also could have similar profiles a laggard challenger and leader. Now, theoretically if you have a laggard teaming up with a laggard for joint venture, it could denote the worst possible fit. If a leader teams up with a leader of another jurisdiction it could be the best fit.

If a challenger teams up with a challenger, the joint venture outcome could be better than both the challengers. If any of the other combinations take place that is a challenger or a leader with a laggard or a challenger with a laggard or leader or from partner A being a leader and partner B could be being a laggard or challenger, the outcomes could be questionable. We may not be able to decide which is the one.

If the partner A is the best possible from the local jurisdiction and if partner B is the best possible from the collaborative jurisdiction. It does not mean that if these two best partners collaborate for a joint venture the joint venture would be the best. It may not even be matching up to the individual capabilities of the individual partners. Therefore, best plus best may not emerge to be better than the best or even equal to the best. It is a paradoxical principle of the joint venture competitive strength.

(Refer Slide Time: 35:12)



Curious Outcomes of Partnerships in Indian Automobile Industry

Indian Business Partner	Small	Medium	Large
Industry Expert	**M&M Navistar** Highly Unsuccessful	**Bajaj Auto Kawasaki** *Relatively Unsuccessful*	**Ashok Leyland Nissan** *Highly Unsuccessful* **M&M Renault** Highly Unsuccessful
Industry Familiar	**Swaraj Mazda** *Marginally Successful*	**Eicher Mitsubishi** *Moderately Successful*	**Hero Honda** *Highly Successful* **Escorts Yamaha** *Relatively Unsuccessful*
Industry Naive	**Maruti Suzuki** *Highly Successful*	**Lohia Piaggio** Highly Unsuccessful	**DCM Toyota** *Highly Unsuccessful* **Toyota Kirloskar** *Highly Successful*

Global Technology Partner

'Local Expertise + Global Leadership' may not automatically assure success. Some may even end up as partnership failures. Partnership successes and failures is a major area that requires extensive research.

I have some curious cases of partnership within the Indian automobile industry which underlined this paradox. Let us look at global technology partner in terms of their standing in their respective global industries, we can say small, medium, large. We can look at the Indian business partner as being industry name, industry familiar and industry expert.

Now, we may conclude that if a small global technology partner ties up with an industry name Indian partner that joint venture could be a failure. But in actual fact in respect of Maruti Suzuki, the joint venture has been highly successful. As we know Maruti Suzuki limited when he tied up with Suzuki was not a automobile industry specialist.

It was actually industry name. Suzuki was not the greatest of the Japanese automobile companies. It was seen as one of the small car makers. But today when you look at the Indian automobile industry landscape, you will find that Maruti Suzuki has been the highly successful company and that too consistently over its several decades of existence and growth in India.

Then, you can look at Lohia Piaggio. Piaggio is a medium scale global technology partner. It is not something which needs to be wished away in terms of capabilities. And Lohia of course, has been industry name it has been a machine tool manufacturer of one type. And this venture has been highly unsuccessful.

Then, we have a large player such as Toyota tying up with two companies in two different generations. It tied up with DCM which in its own right was a successful, non-automobile industry player. It was an engineering conglomerate. However, DCM Toyota was highly unsuccessful.

On the other hand, the same Toyota tied up with Kirloskar which again was not an automobile specialist, although it had some oil engine capability and other auto component capability. But Toyota Kirloskar as a venture has been highly successful.

Let us look at Swaraj Mazda. Swaraj a tractor manufacturer was industry familiar partner, but not industry leader. And Mazda again a small company by the Japanese automobile standard. This company has been marginally successful. You can look at a medium scale or medium scoped technology partners such as Mitsubishi.

Very large conglomerate, but in terms of automobile picking it was in the medium range, not as great as Toyota or Nissan, but not as small as small Navistar or Suzuki or Mazda. It tied up with Eicher group which has a large presence in tractors and other engineering capabilities. And that venture has been moderately successful.

Then, we have a large giant such as Honda which tied up with an industry familiar group such as Hero. I would say industry familiar because they were in the Cycles business, which required distribution all across India and it was also a kind of engineering product, the bicycle or advanced bicycle. This venture has been highly successful, beyond imagination.

Then we had Escorts which had much better industry familiarity being a tractors company. And it tied up with Yamaha which is known as much as Honda for its two-wheeler technology. And this venture Escorts Yamaha has been relatively unsuccessful. Let us look at the M and M Navistar. M and M is a automobile conglomerate in India. Navistar is a well-known truck maker in the United States.

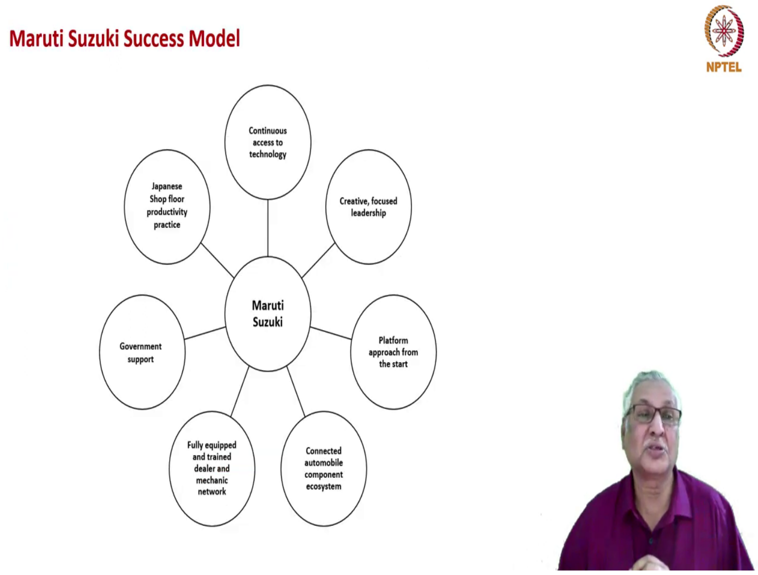
So, an industry expert tied up with a small automobile conglomerate in India, but M and M Navistar as far as the trucks are concerned became highly unsuccessful. M and M did not have the kind of truck presence. Therefore, it was a small truck maker and that has been unsuccessful.

Then, we had the leader in two-wheeler technology and two-wheeler manufacturer in India, Bajaj Auto. And it tied up with Kawasaki which has its own global fame in terms of two-wheelers, particularly performance bikes. But that venture has been relatively unsuccessful.

Nissan is a large global partner and Ashok Leyland is an industry expert, being an expert in the trucking field. Such collaboration became unsuccessful. Similarly, M and M tied up with the Renault for cars. This venture also became highly unsuccessful despite MM M and M being large and Renault being an industry expert in the field which they have chosen to collaborate.

So, local expertise and global leadership may not automatically assure success. Some may even end up as partnership values. Partnership successes and failures is a major area that requires extensive research. These curious outcomes of partnerships in an Indian automobile industry point to the need for greater level of research in this subject.

(Refer Slide Time: 40:39)



Maruti Suzuki Success Model

Maruti Suzuki

Continuous access to technology

Creative, focused leadership

Platform approach from the start

Connected automobile component ecosystem

Fully equipped and trained dealer and mechanic network

Government support

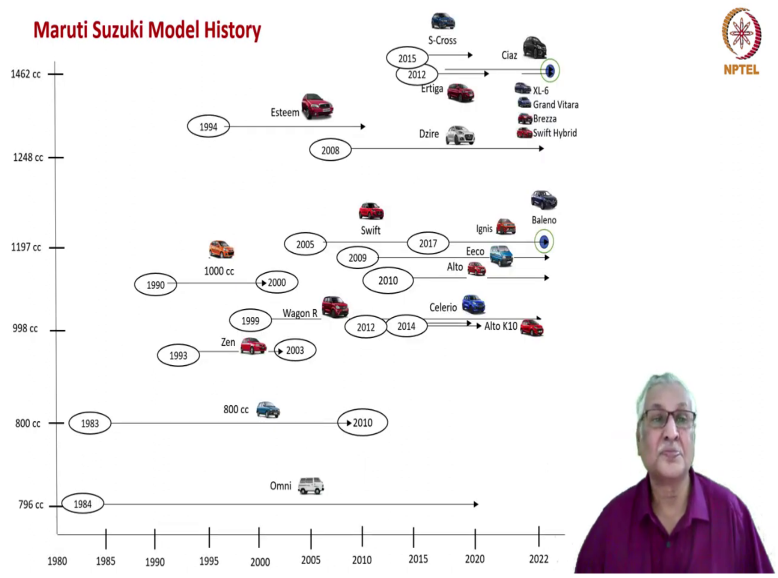
Japanese Shop floor productivity practice

Then, why did Maruti Suzuki succeed as a joint venture and led as a wholly warned or near wholly warned company of Suzuki? Why did it succeed so much? There are 4-5 reasons which are primary and 3-4 reasons which are ancillary to the whole thing. Continuous access to technology, creative and focused leadership, platform approach from the start, a connected automobile component system have been the core of Maruti Suzuki's product and manufacturing success.

Then, we had very important ancillary support systems; a fully equipped and trained dealer and mechanic network because the Indian user segment for small cars of that technology was named to the maintenance requirement. So, Maruti Suzuki had to create a nationwide service and spare parts capability which it did with the plumb.

Then, we had government support as a very important ancillary support and there was also the Japanese shop floor productivity practice that was imbibed by Maruti Suzuki and it pervaded Maruti’s culture from day one. And these factors, these 7 factors explain Maruti Suzuki’s success.

(Refer Slide Time: 41:58)



Maruti Suzuki Model History

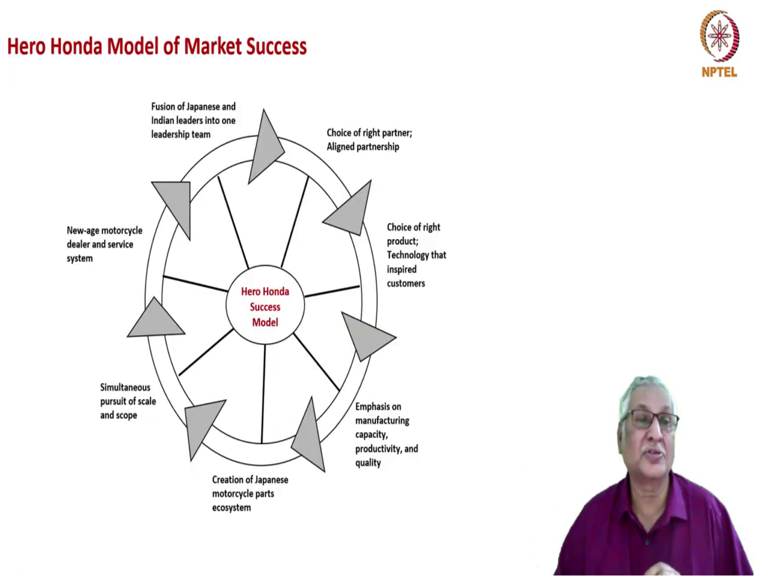
And let us look at what Maruti Suzuki di. It did not just rely on Japanese parentage, it translated all of its parentage into successful products. And you can also see how the product introduction has gathered this over the recent years. It started in 1984 as a small car, but then it moved into different kinds of a products.

I talked about the platform approach then. Interestingly, at the point of time, the platform for Omni as well as Maruti had several commonalities that helped the company to come up with optimal ways of develop and manufacturing.

Today, the company is focused on a cluster of products in the 1000 to 1200 CC and another cluster of products in 1300 to 1500 CC. The slew of launches that have been happening in the post-COVID era are remarkable for their coverage of the market and also providing a firm imprint of its standing in the Indian automobile industry.

And this has been further strengthened by its cost batching agreements with Toyota, where by Toyota is gaining with the Suzuki's development experience in certain areas and Maruti is gaining with Toyota's development expertise in certain other areas. So, the model history has provided this kind of insight and learning for us.

(Refer Slide Time: 43:29)



Hero Honda Model of Market Success

Hero Honda Success Model

Fusion of Japanese and Indian leaders into one leadership team

Choice of right partner; Aligned partnership

Choice of right product; Technology that inspired customers

Emphasis on manufacturing capacity, productivity, and quality

Creation of Japanese motorcycle parts ecosystem

Simultaneous pursuit of scale and scope

New-age motorcycle dealer and service system

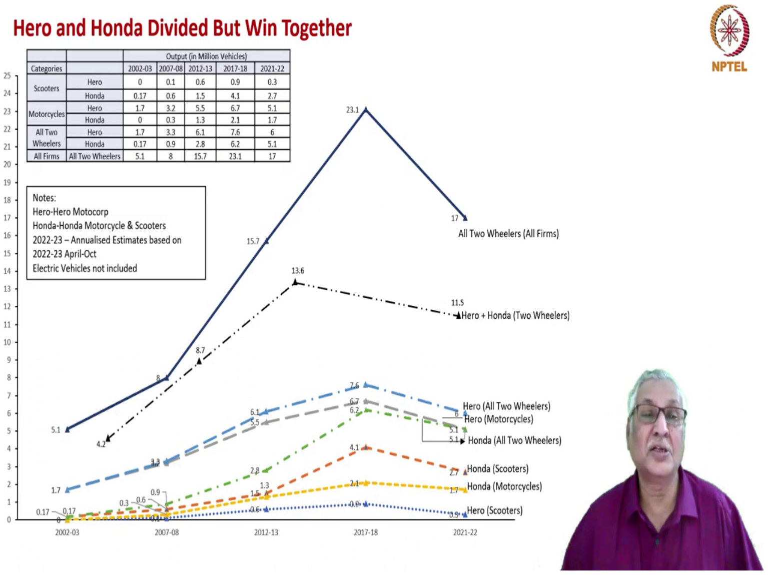
How did Hero Honda succeed to the extent that it has succeeded? Hero Honda success model was based fundamentally or the choice of right partner and aligned partnership. Honda never saw any threat from Hero group.

In fact, they saw a lot of synergy. Similarly, Hero had a disciple approach towards Honda. They understood that Honda came with superior practice, and it decided to provide whatever it could provide in terms of Indian market and knowledge and advantage, but to learn everything else from the Japanese partner.

Then, they chose the right kind of commuter bike for India, which needed speed, fuel economy, the right price point and also look and feel. So, the choice of right product and choice of technology that inspired customers ensured a strong place in the customer mindset. Then, there was an emphasis on manufacturing quality, capacity, productivity and quality management, all the fundamental drivers of Japanese efficiency were brought forth into the company.

Then, like Maruti Suzuki, Hero Honda created a Japanese motorcycle parts ecosystem, and then they pursued simultaneously scale with scope. They also set up a new age motorcycle dealer and service system. And the Japanese leaders as well as the Indian leaders who were provided to the joint venture, seamlessly fused into one leadership team and that has helped Hero Honda become a big success in the Indian market.

(Refer Slide Time: 45:03)



Hero and Honda Divided But Win Together

		Output (in Million Vehicles)				
Categories		2002-03	2007-08	2012-13	2017-18	2021-22
Scooters	Hero	0	0.1	0.6	0.9	0.3
	Honda	0.17	0.6	1.5	4.1	2.7
Motorcycles	Hero	1.7	3.2	5.5	6.7	5.1
	Honda	0	0.3	1.3	2.1	1.7
All Two Wheelers	Hero	1.7	3.3	6.1	7.6	6
	Honda	0.17	0.9	2.8	6.2	5.1
All Firms	All Two Wheelers	5.1	8	15.7	23.1	17

Notes:
Hero-Hero Motocorp
Honda-Honda Motorcycle & Scooters
2022-23 – Annualised Estimates based on
2022-23 April-Oct
Electric Vehicles not included

All Two Wheelers (All Firms)
Hero + Honda (Two Wheelers)
Hero (All Two Wheelers)
Hero (Motorcycles)
Honda (All Two Wheelers)
Honda (Scooters)
Honda (Motorcycles)
Hero (Scooters)
2002-03
2007-08
2012-13
2017-18
2021-22
4.2
8.7
13.6
11.5
NPTEL

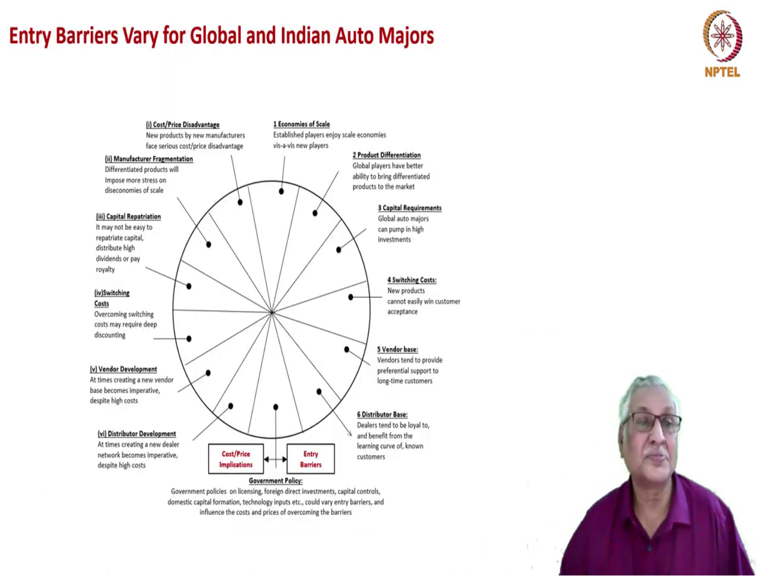
But the success was too good to last one may say because Hero group felt that the as the output increased substantially, there was a potential for it to reduce the royalties, but the agreement did not allow that to happen. Then, Honda felt that they had learned so much about the Indian market and they could probably exploit the Indian market all by themselves, so they decided to split.

And when they split in 2002-03 around that place, Hero was 0 in scooters and Honda was 0 in motorcycles. Hero had certain motorcycle production because of the Hero Honda heritage and Honda started with scooter production. But, and together therefore, against all two-wheelers of 5.1 million vehicles that were sold in 2002-03, Hero had a share of 1.7 and Honda 0.17.

But as the graph shows here, forgetting the decline that happened because of COVID, when the peak was in 2017-18 at 23.1 million, the combined at impact of Hero separately and Honda separately has been far higher than what would have happened if Hero Honda continued to do growth on its own. So, they divided, but they won together in a manner of speaking with their higher output.

So, out of the 23.1 million vehicles that were produced and sold in 2017-18 as many as 13.8 vehicles in millions were sold by Hero separately and Honda separately and they can be bracketed together as of being one classification. And that is what the capability of this joint venture that could provide because of the split of their ways of functioning, but having leveraged on their established brand values they could achieve for greater performance impact in the marketplace. This is an interesting case again.

(Refer Slide Time: 47:16)



Entry Barriers Vary for Global and Indian Auto Majors

(i) Cost/Price Disadvantage
New products by new manufacturers face serious cost/price disadvantage

1 Economies of Scale
Established players enjoy scale economies vis-a-vis new players

(ii) Manufacturer Fragmentation
Differentiated products will Impose more stress on diseconomies of scale

2 Product Differentiation
Global players have better ability to bring differentiated products to the market

(iii) Capital Repatriation
It may not be easy to repatriate capital, distribute high dividends or pay royalty

3 Capital Requirements
Global auto majors can pump in high investments

(iv)Switching Costs
Overcoming switching costs may require deep discounting

4 Switching Costs:
New products cannot easily win customer acceptance

(v) Vendor Development
At times creating a new vendor base becomes imperative, despite high costs

5 Vendor base:
Vendors tend to provide preferential support to long-time customers

(vi) Distributor Development
At times creating a new dealer network becomes imperative, despite high costs

6 Distributor Base:
Dealers tend to be loyal to, and benefit from the learning curve of, known customers

Cost/Price Implications

Entry Barriers

Government Policy:
Government policies on licensing, foreign direct investments, capital controls, domestic capital formation, technology inputs etc., could vary entry barriers, and influence the costs and prices of overcoming the barriers

Entry barriers vary for global and Indian auto majors. There are several entry barriers when somebody wants to come to India. The first is the economy’s upscale. Established players enjoy scale economics, vis-a-vis new players. This is a dictum of the automobile industry. Second, global players have better ability to bring differentiated products to the market. So, product differentiation advantage lies with the global auto majors.

The capital requirements for an automobile firm are huge. Therefore, the global auto majors are better positioned to pump in high investments. That is what happened with DCM Toyota in the negative sense and with Toyota Kirloskar in the positive sense. DCM Toyota was set up with a 25 percent shareholding for DCM and 25 percent for Japanese and the rest being with the public.

But when the higher investment requires Kavin DCM was not prepared to pump in the travel of money, so the venture flogged. But on the other hand, in the Toyota Kirloskar joint venture both the partners understood upfront, the Toyota would need to bring in additional funding and that would keep Toyota at a higher percentage of the shareholding progress.

So, the a position which Kirloskar willingly understood and Toyota mactanmously said that it would continue to keep Kirloskar's batch in the joint venture regardless of the equity level of Kirloskar Motors. So, that has enabled an equity despite the equity shareholding being differential. Then, switching costs. New products cannot be easily brought into the Indian market because customer acceptance is difficult to win.

Then, the vendor base is also an important thing. Vendors tend to provide preferential support to long-time customers. And the distributors also will be loyal to the companies which have been providing the vehicles till date. So, in these cases, the joint ventures had to create brand new vendor bases, brand new distributor bases and also pump in the resources that are required to manage the switching costs.

But there are also cost price implications related to joint ventures. One, cost price disadvantage. New products by new manufacturers using new technologies will face serious cost price disadvantage. There will be manufacturer fragmentation. The more the entrance into the Indian market considering that the market is a large market. The more will be the level of fragmentation and therefore, the more will be the diseconomies of scale.

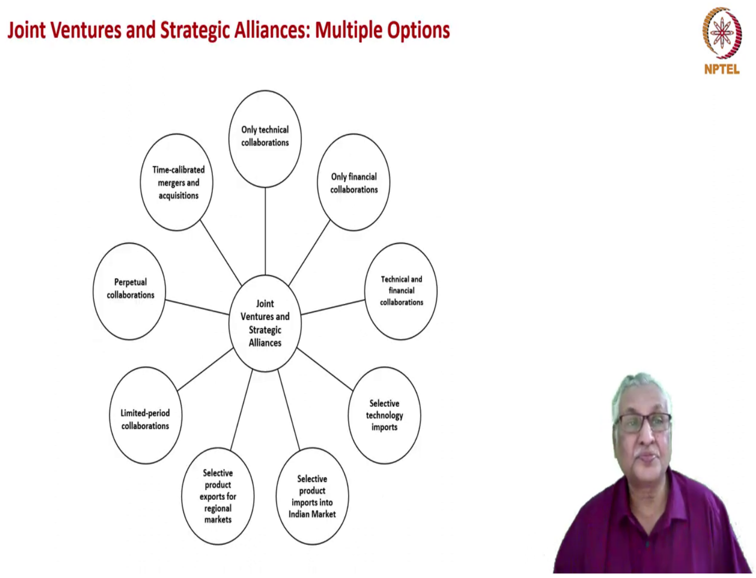
Then, there are restrictions in terms of capital repatriation. Theoretically, FDA gets locked in once it is put into the thing, they unless a determined sale is made to move out of the company. So, we may not be able to repatriate capital, distribute high dividends or pay huge royalties, there is a limitation.

Then, overcoming switching costs will require deep discounting which may be contract to the policy that may be adopted by the global headquarters. At times, as the new vendor base becomes imperative, high costs have to be cut to create such a base. And finally, the distributor development is also a challenge.

Creating a new dealer network becomes imperative despite the high costs. So, government policies are licensing, foreign direct investments, capital controls, domestic capital formation, technology inputs etcetera could vary the entry barriers and influence the costs and prices of overcoming the barriers depending upon the product segment that is chosen in terms of the technology area that is chosen.

As many automobile companies look at upgrading their vehicle infrastructure or even transforming it to electric vehicles, hydrogen vehicles, flex fuel vehicles and the like, all of these factors will appear in one form or the other as they look at new joint ventures to take care of these kinds of activities.

(Refer Slide Time: 51:29)



Joint Ventures and Strategic Alliances: Multiple Options

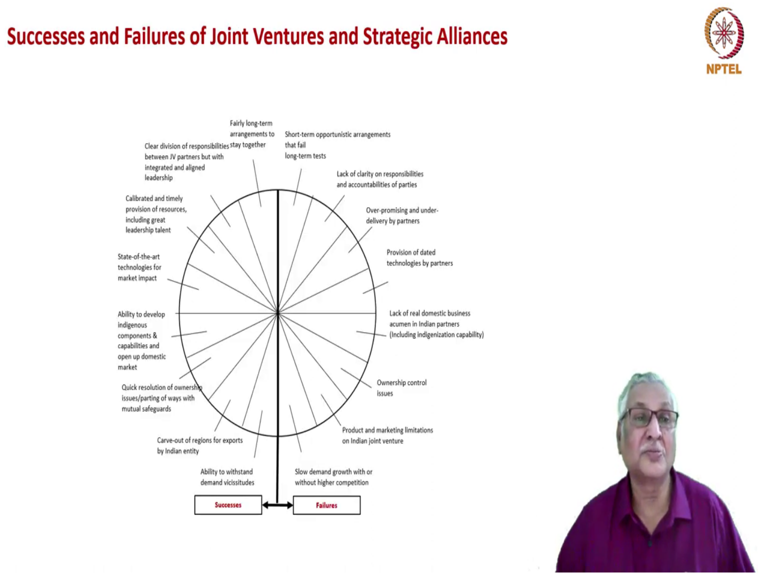
NPTEL
Joint Ventures and Strategic Alliances
Only technical collaborations
Only financial collaborations
Technical and financial collaborations
Selective technology imports
Selective product imports into Indian Market
Selective product exports for regional markets
Limited-period collaborations
Perpetual collaborations
Time-calibrated mergers and acquisitions

There are multiple options as I said in joint ventures. Let us also combined strategy alliances. We can have only technical collaborations, we can have only financial collaborations, we can have technical and financial collaborations as we have seen in the first lecture of this particular week.

Then, we can have selective technology imports. We can have hybrid technology imports. We can have selective product imports that is completely built units into the Indian market. We can have select product exports for regional markets that is the use the Indian manufacturing as the base for exports. Herniate lot of exports. Renault and Nissan do lot of exports. Maruti itself does lot of exports.

Then, you can have perpetual collaborations. Maruti Suzuki is an example for all time to come. I believe that Suzuki would be partnering Maruti and it would be one company. And Maruti Suzuki's role in the overall Suzuki's global canvas would be only going up and up as we go through the times. Then, we have time-calibrated mergers and acquisitions that could happen in the joint venture and strategic alliance field. So, the options are many.

(Refer Slide Time: 52:40)



Successes and Failures of Joint Ventures and Strategic Alliances

Fairly long-term arrangements to stay together

Clear division of responsibilities between JV partners but with integrated and aligned leadership

Calibrated and timely provision of resources, including great leadership talent

State-of-the-art technologies for market impact

Ability to develop indigenous components & capabilities and open up domestic market

Quick resolution of ownership issues/parting of ways with mutual safeguards

Carve-out of regions for exports by Indian entity

Ability to withstand demand vicissitudes

Short-term opportunistic arrangements that fail long-term tests

Lack of clarity on responsibilities and accountabilities of parties

Over-promising and under-delivery by partners

Provision of dated technologies by partners

Lack of real domestic business acumen in Indian partners (Including indigenization capability)

Ownership control issues

Product and marketing limitations on Indian joint venture

Slow demand growth with or without higher competition

Successes

Failures

But there have been successes and failures of joint ventures as well as strategic alliances as we have seen. The failures are due to the short term opportunistic arrangement that fail long term tests. Lack of clarity on responsibilities and accountability of parties. Over promising and under delivery by partners.

Provision of data technologies by partners. Fortunately, we do not have a situation today where by technologies of 2-3 generations vintage are provided. It is no longer the case. We get to get very near new technologies in the collaboration arrangements of today. So, that is coming less and less as an important factor.

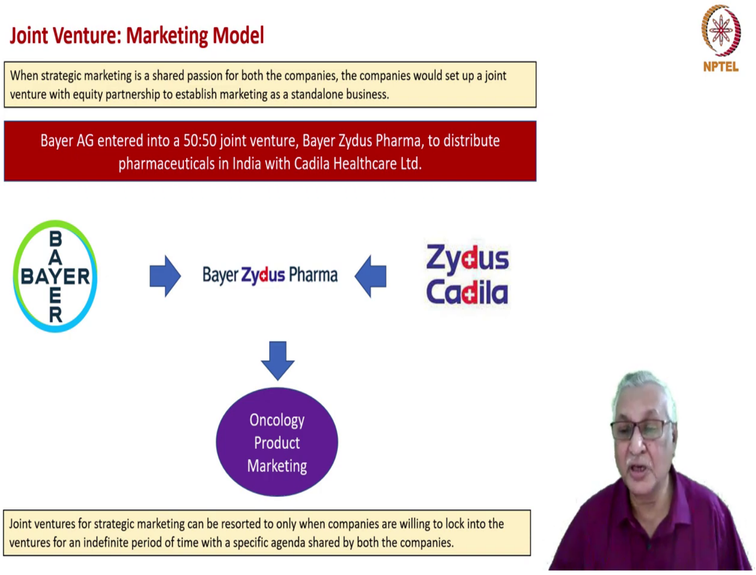
Lack of real domestic business acumen in Indian partner including the organization community. This is the place where the religious place has been grown. Then, ownership control issues. If you want to have ownership control without contributing a fair measure of equity or other assets, then it is a inequitable situation and that cannot be justified just because an agreement has been perfectly signed that way.

Then, you have product and market limitations on Indian joint venture. And slow demand growth with or without higher competition. All of these are the causes of failures of joint ventures. And what has led to the successes of joint ventures. Fairly long term arrangements to stay together. Clear division of responsibilities between JV partners, but with integrated and aligned leadership. Calibrated and timely provision of resources including great leadership talent. State-of-the-art technologies for market impact.

Ability to develop indigenous components and capabilities and open up domestic markets. Quick resolution of ownership issues and parting of ways when it is absolutely necessary with mutual safeguards. Carve-out of regions for exports by Indian entity and ability to withstand demand with vicissitudes.

These have been the reasons for the success of joint ventures and even strategy alliances. In many cases, what was seen as a valued drivers have been converted into success drivers with proactive managements and with leadership that is foresighted and farsighted.

(Refer Slide Time: 55:04)



Joint Venture: Marketing Model

When strategic marketing is a shared passion for both the companies, the companies would set up a joint venture with equity partnership to establish marketing as a standalone business.

Bayer AG entered into a 50:50 joint venture, Bayer Zydus Pharma, to distribute pharmaceuticals in India with Cadila Healthcare Ltd.

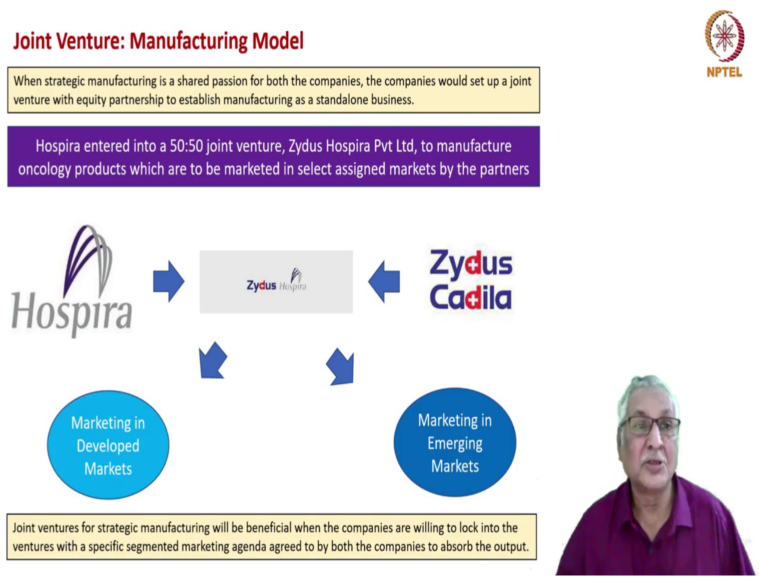
Joint ventures for strategic marketing can be resorted to only when companies are willing to lock into the ventures for an indefinite period of time with a specific agenda shared by both the companies.

Let us look at a joint venture which has been set up through the marketing modeling. When strategic marketing is a shared passion for both the companies. The companies would set up a joint venture with equity partnership to established marketing as a standalone business.

Bayer AG entered into a 50-50 joint venture by his Zydus Pharma to distribute pharmaceuticals in India. And the joint venture was made with Cadila Healthcare Limited. Zydus Cadila or Cadila Life as it now called, previously to Cadila Healthcare had a passion to have joint ventures with global giants. So, that is how Bayer Zydus Pharma came into being.

And it focuses on oncology product marketing. Joint ventures for strategic marketing can be resorted to only when the companies are willing to lock themselves into the ventures for an indefinite period of time with a specific agenda shared by both the companies.

(Refer Slide Time: 55:58)



Joint Venture: Manufacturing Model

When strategic manufacturing is a shared passion for both the companies, the companies would set up a joint venture with equity partnership to establish manufacturing as a standalone business.

Hospira entered into a 50:50 joint venture, Zydus Hospira Pvt Ltd, to manufacture oncology products which are to be marketed in select assigned markets by the partners

Joint ventures for strategic manufacturing will be beneficial when the companies are willing to lock into the ventures with a specific segmented marketing agenda agreed to by both the companies to absorb the output.

Then, we have a manufacturing model for a joint venture. Hospira entered into a 50-50 joint venture with Zydus to set up a company called Zydus Hospira Private Limited to manufacture oncology products which are to be marketed in select assigned markets by both the partners.

So, Hospira had the capability apart from generic oncology technologies marketing capability in developed markets therefore, it chose to market the products in developed markets. Zydus Cadila had all the local know how, ability to set up the facility and run the facility, and also governance structures to provide comfort to the partners. And it was strong in marketing and emerging markets at the time of thinking the joint venture agreement therefore, it chose marketing in emerging markets.

So, in this case, both the companies had strategic manufacturing as a shared passion. And therefore, the companies set up a joint venture with equity partnership to establish manufacturing as a standalone business. Joint ventures for strategic manufacturing will be beneficial, again when the companies are willing to log into the ventures with a specified segmented marketing agenda agreed to be both the companies to absorb the output.

Because you may agree to manufacture in a joint fashion, but ultimately the products have to find the market access and that taxes has to be provided with prior agreement between the two partners and that has been the success for Hospira’s joint venture with Zydus. This will come to the end of this lecture on Joint Ventures. I hope you enjoyed it. I look forward to seeing you again in the next lecture.