

# Advantages and disadvantages of Joint Ventures

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The advantage of having a Joint Venture when you bid for a contract is that you combine the skills sets of the participants involved in the Joint Venture. Another advantage is that you minimize your risk and exposure towards the bid and the participants also share the profits as well as the costs in the Joint Venture.

## Joint venture Advantages:

- ✓ Provides companies with the opportunity to gain new capacity and expertise.
- ✓ Enables companies to enter related businesses or new geographic markets or gain access to modern technology.
- ✓ Provides access to greater resources - including specialised staff and technology.
- ✓ Shares risks with a venture partner.
- ✓ Enables flexibility: a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business exposure.
- ✓ Offers a creative way for companies to exit from non-core business.
- ✓ Companies can gradually separate business from the rest of the organisation and eventually, sell it to another parent company. Roughly, 80% of all joint ventures end in a sale by one partner to another.

## Joint Venture Disadvantages:

- ✓ It takes time and effort to build the right relationships and partnering with another business can be challenging. Problems are likely to arise if:
  - The objectives of the business are not 100% clear and communicated to everyone involved.
  - There is an imbalance in the level of expertise, investment or assets brought into the venture by the different parties.
  - Different culture and management styles result in poor integration and co-operation.
  - The partners do not provide enough leadership and support in the initial stages.
- ✓ Creating a joint venture may result in more complex tax arrangements.
- ✓ Success in a joint venture depends on thorough research and analysis of the objectives.
- ✓ Creating a joint venture can be more costly than a consortium.

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