KPMG’s Global Joint Ventures Practice
Advising on JVs, strategic alliances, partnerships and collaborations

www.kpmg.com/uk/jointventures
Joint ventures are unusual beasts. To be successful, they demand a combination of skills and experience which remains rare today, even among the largest companies.
More and more businesses are entering into strategic alliances and joint ventures (JVs). Some now deliver over a quarter of their revenues from such arrangements - a trend which is continuing and accelerating.

Such collaborations may be the vehicle of choice in today’s more cash and talent constrained times. They may be a necessity, where the governments of higher growth markets require local partnerships or limit foreign investment.

Whatever the motivation, one thing is certain. Such ventures are complex – from a political, regulatory, cultural and commercial perspective. And although successful examples do exist, the media and press is more frequently full of high profile JV failures, disputes, write-offs and overruns.

Marc van Grondelle, the Head of KPMG’s Global Joint Ventures Practice, believes four out of five JVs and alliances fail to deliver their promised value. In most cases, this could have been prevented.

The KPMG Global Joint Ventures Practice advises clients on collaborative ventures from creation through to exit. This JV-dedicated team works with KPMG’s global member firms.

KPMG’s specialist JV practitioners see what happens later on in many JVs. This means they are well placed to help clients avoid common JV pitfalls, advise on tackling emerging challenges early, and help clients adapt to improve performance or respond to events later in the lifecycle.

Source: (1) Boston Consulting Group study, 2010
Creating and setting up

Bringing JV expertise and hands on experience to bear from pre-deal strategy, through negotiation, valuation and implementation planning helps turn a good deal on paper into something which can sustainably deliver in practice.

Typically, KPMG’s Global Joint Ventures (JV) Practice gets involved in:

- Highlighting pros and cons of potential structures to inform decision-making.
- Testing the deal to see how it copes with a range of “what if” situations.
- Advising on specific cultural, regulatory and political hurdles and risks in BRIC countries.
- Facilitating the agreement of key principles to inform early negotiation and governance.
- Managing the interconnected steps to get to a signed Memorandum of Understanding.
- Designing the venture and developing a robust implementation plan.
- Developing a range of potential exit strategies to inform the detail of the JV agreement.

Case study: Risk sharing in Russia

A global company wanted to find ways to limit its investment in, but increase its productivity from some of its core assets. However, it was nervous about doing an innovative risk-reward sharing deal with new partners in Russia.

KPMG’s Global JV Practice suggested and facilitated, alongside colleagues from KPMG’s Russian member firm, a “role playing” exercise to help assess the proposed JV - against a range of up- and down-side scenarios. As a result, the client developed more robust contractual terms, a new governance structure, a greater understanding of the potential partners’ positions and how to make the deal work. They also identified some substantive new negotiating points.

Case study: Middle Eastern partnering

A UK-based company has an ambitious growth plan based on exploiting its technology and expertise internationally, beginning in the Middle East.

The unfamiliar cultural and complex commercial components of the potential deals demanded local and technical knowledge, as well as experience of Arabic-style negotiation. KPMG’s Global JV Practice, alongside local member firms, advised on the process, helping the client to weigh its options and understand the risks and implications involved. Throughout the negotiation, the combined teams helped the client respond successfully to unexpected local partner demands, without compromising commercial value or key principles of control and brand reputation.
Case Study: Managing JV portfolio risk

A UK-based company has a portfolio of JVs, at different stages of maturity, including with state-owned enterprises.

Following a difficult JV exit, the CFO and risk team wanted reassurance that their JV agreements provided consistent protection and their existing controls were appropriate and adequate. KPMG’s JV professionals from the UK member firm were engaged to assess all JV-related documentation and conducted interviews with senior stakeholders, comparing the findings to leading practice, JV goals and Group policies.

This work highlighted some governance challenges in the biggest JV and some shortfalls in Group processes and capability across the globe.

Protecting and sustaining

"Normal" corporate risk management and governance can often be inadequate or inappropriate for joint ventures. High profile tales of failure abound.

Increasingly, Boards and Audit Committees are keen to know that their JVs are as well protected as the rest of their business.

KPMG’s Global Joint Ventures Practice brings informed insight and independent challenge to help clients:

- Review processes, skills and controls to identify JV related gaps and their risk impacts.
- Adapt central policies, procedures and their deployment, (Compliance, IT, Internal Audit, Finance), so they are fit for purpose for JVs.
- Develop JV-specific (non-traditional) indicators to spot emerging issues early.
- Build or test JV intervention capability – planning and execution, at local and Group level.
- Conduct a diagnostic review of an incident or specific JV operation.
- Design and deliver JV training and awareness sessions for staff and management at all levels.

Case Study: Information security in JVs

Increasing awareness of the value of data has raised a particular challenge for joint ventures, which are traditionally predicated on "sharing". One company - with many different types of JV internationally - sought external challenge and insight from KPMG’s Global Joint Ventures Practice, concerning the protection of their technology assets and sensitive or confidential commercial information.

The company asked for specific examples of the challenges of information protection in a JV context, e.g. how access – physical and IT-related - can be controlled, monitored, and amended through the lifecycle. The team headlined these, and the contractual and practical controls required to combat them.
Rescuing an underperforming business is tough. In a JV, with less control, more stakeholders and greater complexity, it is often assumed to be “too hard”. In reality, this is rarely the case.

Case study: Re-setting an Asian JV

A client had significant growth ambitions, which were not being fulfilled by its existing, long-established JV in Asia. The local partner was resistant to change, and the relationship had broken down, so that exit appeared to be the only option.

The work involved helping the client to spell out to their partner what would happen in the absence of change. All of the possible scenarios were likely to be extremely value destructive and proved convincingly unappealing to the local partner.

Acting as independent experts, brokering open conversations between the parties, the team has facilitated a new approach, with both sides working together constructively, putting aside past differences. During this process, the true growth potential of the JV has become clearer to all. The partners have now agreed a new common vision and future goals designed to unlock this untapped value.

Improving or exiting

KPMG’s Global Joint Ventures Practice combines an understanding of the sensitive dynamics of JVs with hard-won experience of business turnaround.

This helps enable clients to re-set a “broken” venture, returning it to target performance levels, without breaking the contract. Or decide on, and prepare for, a managed exit.

KPMG’s informed and independent challenge enables member firm clients to:

- Distinguish symptoms from causes and get a dispassionate view of what’s really gone wrong.
- Persuade their partner(s) that things need to change, overcoming concerns and trust issues.
- Identify and build a turnaround plan which all parties can buy into and will sign up to deliver.
- Adapt operational governance to be “fit for purpose”, balanced and effective.
Case study: Streamlining a sub-optimal JV in the Middle East

The joint owners of a large JV in the Middle East needed help to restore profitability and regain the commitment and backing of their parent organisations.

KPMG’s local member firms worked with the Global JV Practice to assess the financial performance and achievability of the JV’s stretch business plan, reviewing contracts and performance indicators and conducting interviews with major customers and JV staff from both partners. From this review, the team identified a programme of cash generation to enhance the business. This involved restructuring governance, processes and controls and developing a revised strategy for sustained improvement.

In just over a month, the team facilitated the creation of an actionable turnaround plan, based on these restructured principles, which was endorsed by both owners. Equally importantly, the team were able tactfully to expose some underlying issues and mistrust between senior stakeholders. Improving this relationship and mutual understanding provided a solid basis for a sensible re-set and a better functioning JV management team.
KPMG'S GLOBAL JOINT VENTURES PRACTICE

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Produced by CREATE Graphics CRT006026

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