Grow together
A senior executive’s perspective
Introduction

A wave of new announcements in 2015 by companies such as Telstra, Toll, Ramsay Healthcare, Qube, Seven West Media and Qantas further underline the extent to which Joint Ventures and Strategic Alliances (JVSAs) have become a significant feature of the Australian corporate landscape. At the start of the year, 62 per cent of Australian CEOs surveyed by PwC, from a wide range of industries, said they were planning to enter a new JVSA – the third year in a row that this figure has increased.

Further evidencing the trend, PwC has recently advised on major JVSAs in the retail, consumer, industrial, telco, financial services, healthcare and resources sectors – as well as launching our own global strategic alliance with Google.

JVSAs have been discussed in earlier publications by PwC. To deepen our understanding further, we recently invited a number of Australia’s leading corporate executives to share their practical experiences of JVSAs at a roundtable discussion, under the theme of ‘JVSAs as Win–Win Partnerships’.

Robert Nason, chairman of Foxtel and recently retired Telstra executive, kindly agreed to co-chair the discussion with PwC’s Global JV and Strategic Alliances Leader, Peter Mastos.

In our discussions we explored four themes:
1. **Why now?** Why is this trend so strong in today’s market? What has changed from the past?
2. **Success factors and pitfalls** – What practical lessons have we learnt from our past experiences with JVSAs?
3. **Emerging markets** – What specific nuances have we encountered when forming such cross-border JVSAs?
4. **The future** – How will this trend evolve and what capabilities will successful corporates of the future need to develop?

In this document, we aim to tap into the rich, practical experiences of seasoned deal executives, bringing theory to life on ‘what has worked, what has not – and why’?

“**JVSAs are the way of the future. All businesses are facing the fact that they can’t do everything themselves.**”

Robert Nason

“We are now seeing JVSA activity across all industry sectors. Our leading corporates are hungry for growth and starting to realise the need for a new model”

Peter Mastos
Contributors

Contributing to the discussion were some of Australia’s leading practitioners in the area of JVSAs:

- Robert Nason, Chairman, Foxtel (discussion leader and co-host)
- David Attenborough, Managing Director and Chief Executive Officer, Tabcorp
- Stuart Boxer, Chief Financial Officer and Executive Director, DuluxGroup
- Mark Engel, Chief Marketing Officer, La Trobe University
- Jon Eide, Head of Alliance Partnerships, Qantas
- Michael Howard, Chief Financial Officer, Officeworks
- Amelia Jalleh, Australasia Commercial Manager, Talisman Energy, Repsol Group
- Justin Portelli, General Manager Corporate Development, Australia Post
- Renee Roberts, Group Executive, Enterprise Services and Transformation, NAB
- Andrew Rosengren, Group Executive, Strategy, Planning and Mergers and Acquisitions, Orica
- Jacob Sumsion, General Manager, Acquisition Integration, Telstra
- Colin Wise, non-executive director

PwC participants:
- Peter Mastos (co-host)
- Nick Chipman
- Simon Gillies
- David Smorgon
- Mike Sum
- Donna Watt
- Simon Milne
- Jason Perry
- Amita Riksen

Robert Nason

Chairman Foxtel Joint Venture

- Robert has over two decades of leadership experience in telecommunications and related industries.
- He is currently Chairman of Foxtel, a joint venture between Telstra and News Corporation.
- Prior to joining Telstra he was Managing Director, Wagering, responsible for Tabcorp’s race wagering and media businesses, and sat on joint ventures with the racing industry in Victoria and New South Wales.
- He has also been Chairman of EDS Australia, a joint venture between Electronic Data Systems and the Commonwealth Bank of Australia.
- He has led a number of partnerships and strategic alliances with companies in Asia.

Peter Mastos

Global Joint Ventures and Strategic Alliances Leader, PwC

- Peter leads PwC’s M&A Consulting team across Asia-Pacific and is PwC’s global lead partner for JVSAs.
- He is a highly experienced practitioner across the M&A lifecycle, encompassing deals strategy, financial and operational due diligence, integration and separation.
- Peter has 20 years of international M&A experience from Australia, Asia and the USA. He spent four years in PwC’s New York office and is now based in Melbourne.
- Peter’s current focus is managing large, complex deals for major Australian corporates in the Consumer & Industrial Products & Services sector, including Australia Post and Telstra.
Discussion

1. Why now?

Why is this trend so strong in today’s market? What has changed from the past?

JVSAs are not a new phenomenon. In the Resources industry in particular, JVSAs have been a longstanding feature formed by competitors to share risk on large capital projects. These still remain common.

However more recently, we have seen a marked increase in more growth-oriented JVSAs across a wide range of industry sectors.

We started our Round table discussion here, by asking our participants to share their perspectives and motivations for entering recent JVSAs.

Unsurprisingly, JVSAs were cited as an attractive (and in some cases the only) vehicle to enter new markets...

“World dynamics have changed – economic purchasing power is continuing to shift to Asia’s growing middle class. This brings immense opportunity right to our door step, and we are excited to participate in this growth.”

“We are looking to grow our business outside Australia and New Zealand. As we think about where to go in South-East Asia, JVSAs are hot on the agenda.”

“We’ve historically had a propensity to ownership, but continued growth in this complex business environment requires a different model…so we are entering joint ventures, both domestically and internationally.”

Equally, the opportunity to grow by moving into adjacent industry sectors was identified a key strategic driver for pursuing JVSAs...

“Our industry is highly consolidated, leaving limited avenues for further growth; exploring growth opportunities in adjacent sectors through partnerships is proving successful and worth exploring further…”

It was also evident that more and more corporates are using JVSAs to find suitable partners that bring complementary capabilities that can help both parties to grow further, faster...

“Our growth depends on our ability to innovate, otherwise our possibilities are limited. Bringing in partners helps us to expand our R&D pool, share expertise and develop enhanced products and services for our customers.”

The benefits of a vertically integrated model were cited as another strategic driver for JVSAs...

“Verticalisation is increasing in our industry…customers expect integrated expertise and advice across their value chain…this is changing our company’s focus from product orientation to service orientation, helping us to drive growth. Both formal and informal partnerships help us meet our evolving customer demands and are a key for us to maintain our growth…”

It was clear from our discussion that the increasing trend of JVSAs represents a shift in the mindset of leading companies on how they seek growth, collaborate and compete in this constantly changing complex business environment...

“Businesses will need to collaborate across their entire ‘eco system’ to grow – with their wider communities, with academic institutions, with their supply-chain partners, and with a host of overseas relationships.”
2. Success factors and pitfalls

What practical lessons have we learnt from our past experiences with JVSAs?

In our 2014 publication *The Science of Alliances: Success factors in joint ventures and strategic alliances*, we noted the historically high failure rate of JVSAs, and we listed seven keys to success. To complement this analysis we asked our contributors to share their real-life experiences.

Robert Nason and Peter Mastos led the discussion by raising two crucial aspects of every JVSA: the formal (the agreement), and the informal.

**The formal (the agreement)**

Firstly, we asked our contributors to assess the importance of the agreement, and to identify the most important elements to get right...

“I originally went in to sit on the board thinking I would never really need to refer to the agreement, but it is important. Particularly where you have either a minority position or a 50–50, and a situation where the parties differ in what they want to do. To avoid grinding to a halt, the mechanism for dealing with such disputes is important to draw on.”

Many JVSAs include related-party transactions, in which the partners provide services to the alliance...

“For this JV, we have content being supplied by one partner, and infrastructure being supplied by the other partner. It’s important that each party can see that these services are being provided at a fair market price. Thinking about this upfront in the agreement is far better than trying to do that after the event.”

Further discussion ensued on the most important terms of an agreement...

“Every board I deal with tells me: it’s all very well getting into bed, but what are the exit processes, and what is the optionality we have to raise or lower our stake?”

Seven drivers of JVSA success

1. Strategy first
2. Invest in joint upfront planning
3. Plan the end
4. Create trust
5. Start small
6. Keep track
7. Build enterprise-wide capability
As well as the formal mechanisms, it is important to consider how an exit will work in practice...

“The exit clause isn’t just important at exit, it lies at the back of every major dispute you have. Getting the balance right so that each party has real leverage, rather than just what’s written on the page, is critical.”

“What looks great on paper may not be effective in practice. Often, an investor may agree to the right to sell to a third party with a first right of refusal to its existing partner. In reality, one can end up with a position where the partner is reluctant to allow access to due diligence, and few investors are prepared to enter into a hostile partnership. Thus a fair market price is unachievable, and the partner can buy out cheaply.”

The duration of the agreement emerged as a major consideration...

“Are you committed to a long-term investment, and how easy do you want to make it to exit? In most cases you’d prefer a long-term deal … if it was, say, five years, it would drive you mad, because you’d be renegotiating almost as soon as you started … better to get a signed commitment up front and know you need to ride out any issues because you know you’re there for the long term.”

“We’re certainly seeing, in the shorter agreements we have, you can get dysfunctional behaviour starting quite early. We prefer much longer agreements, making it very hard and painful to walk away for both parties.”

Although we need to recognise the limitations on due diligence...

“The reality is, you can only do so much due diligence, then you find out afterwards what you really bought into.”

“You do find things afterwards that didn’t come out in due diligence. If it doesn’t work from the start, then better to enact an early termination, but if you don’t exercise that, then lock and load.”

But while the above factors do represent some clear success factors to consider in the JVSA agreement, our contributors did acknowledge an uncomfortable reality...

“While you can construct the legal contracts as carefully as you want, these won’t in themselves make for a successful partnership. It’s all about the people”
The informal

On this note, the discussion then moved to the informal aspects of JVSAs, focusing on the quality of the relationship and the meaning of trust...

“Trust is about understanding the people and understanding what you may or may not be exposing yourself to.”

“We spend a lot of time on ‘Who is managing this relationship? How can we make sure that everything is right at all times?’. Who is managing it at different levels is more important than the actual remedy. It boils down to the relationship and trust you have as partners whether it works or not.”

Contributors noted the important concept of ‘frenemies’ in JVSAs...

“Partners are often ‘frenemies’ – friends for the purpose of that venture, but enemies for their ultimate market share.”

“We have a very clear definition of each partner’s scope of services and accountabilities, so we are friends for the partnership, despite competing with each other outside of that.”

The relationship with partners can present problems at times – but a big-picture, long-term view is essential...

“As parents, we’re investing a lot of time and effort for free to the JV to make it successful. Though you can have the best of intentions flying in and out, and nothing really happens...seconments can be more effective... but I don’t feel like we have nailed the best way yet.”

“Our learning is to try and avoid telling the partner what they need ... get them to suck the capability as opposed to us pushing it into them.”

“The big picture is important to maintain. If you’re aiming to grow in Asia, and we over-invest, that’s a rounding error in terms of the dividends of future growth. It’s about building capability, not short-term profits.”

Our contributors noted a reality of business today, that relationships evolve and people change. As a result, ongoing alignment on the partnership’s objectives is important...

“What is the rationale for the alliance, why was this set up, and what are we about? Write it down, have it as part of the governing agreement, and review by mutual agreement over time.”

...as is ongoing monitoring, relationship management and review.

“The partnership can sometimes be immaterial to both parents, so you need to enforce a formal review, and too often that doesn’t happen. You want avoid getting to ‘what happened to that, why did that fail’? Ask yourself ‘is this working for both partners’, and if not, do something about it”

In summary, while the formal agreement is important, it is the informal elements of the relationship that tend to dictate success or failure. As one contributor put it...

“If you can put the agreement to one side and say ‘you and I can work together’, that will often give the best outcome”.

Grow together | Joint ventures and strategic alliances as win–win partnerships | 7
Emerging markets

What specific nuances have we encountered when forming cross-border JVSAs of this type?

Entering emerging markets to achieve above-average growth is more important than ever for Australian corporates. PwC’s 2015 report *Passing us by* showed that only 9 per cent of Australian corporates are currently active in Asia. But this tide may be turning. Our recent *Courting China Inc.* report found that over 70 per cent of Australian CEOs are considering entering the Chinese market in the next 12 months.

Emerging markets pose particular hurdles for companies trying to set up, mobilise and manage partnerships.

Several lessons around successfully undertaking and managing partnerships in emerging markets emerged from our discussions.

We learnt about the importance of having a clear and pointed strategy for entering emerging markets...

“The environment is very, very different to here and you have to embrace that environment. You have to open your eyes and look at the reality of doing business there. It means extra levels of due diligence, choosing a partner who is well respected and has a record of working with others. You need to be clear where you will draw the line, and what you will and won’t tolerate”.

And the importance of having on-ground presence...

“We always invest in a local team, be it our own or outsourced, to help us identify and ‘vet’ transactions, navigate the fast-changing markets and complex regulatory regimes, and build our reputation as a trustworthy partner.”

“Use your local teams to go beyond traditional due diligence, to identify gaps in skills and capabilities required to win, and to understand local stakeholders.”

Emerging markets present a host of risks and complexities not seen in more developed markets. Partnerships with local players can limit these risks and position foreign companies well to navigate the complexities...

“Use partnerships and alliances as a way of entering your chosen market – learn about the local market with an experienced partner, rather than bearing the risk and cost of entry all by yourself.”

The topic of ‘building trust, and clearly communicating with your local partners’ unanimously resonated as a critical success factor for doing business in emerging markets...

“Build trust early and invest in face-to-face time to get to know your partner(s) individually. Ask yourself: ‘Why should my partner trust me?’ not just ‘Why should I trust my partner?’”

“Do not assume that signed documents always reflect the agreed position. If you do, you may find that your partner or counter-party is still dissatisfied. To avoid this, work hard to ensure all parties communicate clearly and that the partners genuinely agree.”

In addition, investment made in developing deeper relationships with external stakeholders locally go a long way...

“Know your regulators. It is vital that you build a relationship and strong rapport with the relevant regulator – don’t rely solely on your local partner.”

“Maintain high standards for things like health, safety and environment. Set a tone for the venture that meets the needs of your organisation and helps you build a positive profile locally with your customers, suppliers, government and regulatory bodies.”
4. The future

How might this trend evolve, and what does this mean for the most successful corporates of tomorrow?

JVSAIs are likely to become even more prevalent for Australian corporates as barriers to Asian markets dissolve, and Boards build confidence in such ventures...

“I can see us having a hundred of these sorts of relationships in the future.”

So, what will the successful JVSA practitioner of the future look like?

Our discussions highlighted several key attributes which will become important, including an ability to operate and thrive in a community of like-minded business partners...

“The future is ecosystems, multiple parties dependent on each other. We’re going to have to develop a core capability in partnering. Knowing how to grow, hold and sell partnerships will become an art”

A strong brand and profile as a trust-worthy successful partner will be important...

“Companies will need to develop a strong reputation as a ‘partner of choice’, built by successfully entering and developing formal and informal partnerships. This will provide greater comfort to future partners, and accelerate the building of trust between parties.”

…and an ability to constantly innovate and adapt to the rapidly changing business environment...

“The risks are evolving rapidly. You’ve got to stay on top of emerging issues like cyber security, anti-money laundering, data analytics and privacy”

…and the skills and capabilities of our people will need to evolve...

“We’re going to need people with high levels of emotional intelligence, experienced in working in multicultural environments... in the past, people have made it to the top who don’t necessarily have those capabilities”

Overall, the challenge is significant, and will require a step change in capability...

“It won’t be enough to focus on individual alliances and making each one successful. We will only succeed when we have developed a systematic, enterprise wide capability to manage a whole portfolio of them”
Growing together…

We thank our participants for openly sharing their perspectives and insights. While JVSAs are complex and risky, there are some clear practical lessons to be learned from experience. We believe that those companies who consciously develop a core capability based on best practices will be best positioned for success.

Key messages:

• **Partnerships will continue to grow in importance as a way for Australian corporates to drive growth.**

• **While well-structured agreements are important, successful partnerships are built on shared objectives, trust and mutual respect. They require long-term, equitable, win-win relationships between parties.**

• **Emerging markets bring additional and unique challenges, but the same fundamental principles apply.**

• **In the future, successful corporates will actively build a reputation as ‘partner of choice’, manage wide-ranging portfolio of partners and will have systematically built enterprise-wide capabilities to do so.**
Assess yourself…
An illustrative JVSA healthcheck diagnostic

<table>
<thead>
<tr>
<th></th>
<th>Underperformance</th>
<th>Best practice</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Organisation strategy development</strong></td>
<td>Alliance/JV was entered into with limited consideration of and linkage to the overarching organisation strategy and capability (reactive approach)</td>
<td>A strategic robust process was followed that provided a clear link from strategy development to capability assessment to deciding that an alliance/JV is necessary</td>
</tr>
<tr>
<td><strong>2. Alliance/JV strategy development</strong></td>
<td>Limited clarity on risk and control parameters, duration and success criteria</td>
<td>Clear on duration and success criteria (and exit criteria)</td>
</tr>
<tr>
<td><strong>3. Identifying and screening targets</strong></td>
<td>Limited understanding of the needs/wants, strategic and financial profile of potential partners</td>
<td>Robust selection criteria (and ‘deal breakers’) in place</td>
</tr>
<tr>
<td><strong>4. Co-developing business case and financial model</strong></td>
<td>Limited collaboration with separate working groups meeting sporadically</td>
<td>Governance process for both parties understood</td>
</tr>
<tr>
<td><strong>5. Due diligence, negotiation and agreement</strong></td>
<td>Inefficient and ineffective negotiation process</td>
<td>Due diligence scope drawn up to support strategic plan, decision making and identify key risks</td>
</tr>
<tr>
<td><strong>6. Establish governance framework</strong></td>
<td>Dispute resolution process unclear and not agreed</td>
<td>Dispute resolution clearly articulated</td>
</tr>
<tr>
<td><strong>7. Operational planning</strong></td>
<td>Limited operational planning for Day 1 to Day 100 including: • Overall fundamentals (vision, strategy, objectives etc) • Resourcing (including roles and responsibility) • Internal and external communications plan/content • Day 1 plan • 100 day plan • Cultural assessment • Incentive rewards</td>
<td>Detailed operational planning for Day 1 to Day 100 including: • Overall fundamentals (vision, strategy, objectives etc) • Resourcing (including roles and responsibility) • Internal and external communications plan/content • Day 1 plan • 100 day plan • Cultural assessment • Incentive rewards</td>
</tr>
<tr>
<td><strong>8. Execution of alliance (transition to BAU)</strong></td>
<td>Limited view of longer term plan and key milestones</td>
<td>Ongoing review and reporting of performance vs objectives and alignment with strategy</td>
</tr>
<tr>
<td><strong>9. Evaluation of alliance</strong></td>
<td>Limited reference to and evaluation of alliance strategy/alliance business case/alliance agreement</td>
<td>Periodic and structured review of alliance performance vs alliance strategy/alliance business case/alliance agreement • Is the alliance meeting our objectives? • Is the alliance still the best way of achieving our objectives?</td>
</tr>
</tbody>
</table>
51% of global CEOs are planning to enter into new JVSAs in the next 12 months

..a trend prevalent across all industry sectors

<table>
<thead>
<tr>
<th>Industry</th>
<th>Planning to Enter JVSAs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment &amp; Media</td>
<td>68%</td>
</tr>
<tr>
<td>Health</td>
<td>63%</td>
</tr>
<tr>
<td>Technology</td>
<td>61%</td>
</tr>
<tr>
<td>Engineering &amp; Construction</td>
<td>61%</td>
</tr>
<tr>
<td>Communications</td>
<td>56%</td>
</tr>
<tr>
<td>Hospitality &amp; Leisure</td>
<td>55%</td>
</tr>
<tr>
<td>Metals</td>
<td>54%</td>
</tr>
<tr>
<td>Asset Management</td>
<td>54%</td>
</tr>
<tr>
<td>Power &amp; Utilities</td>
<td>52%</td>
</tr>
<tr>
<td>Business Services</td>
<td>51%</td>
</tr>
<tr>
<td>Industry Average</td>
<td>51%</td>
</tr>
<tr>
<td>Energy (Oil &amp; Gas)</td>
<td>49%</td>
</tr>
<tr>
<td>Transport &amp; Logistics</td>
<td>48%</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>48%</td>
</tr>
<tr>
<td>Pharma &amp; Life Sciences</td>
<td>46%</td>
</tr>
<tr>
<td>Industrial &amp; Manufacturing</td>
<td>46%</td>
</tr>
<tr>
<td>Retail</td>
<td>45%</td>
</tr>
<tr>
<td>Insurance</td>
<td>45%</td>
</tr>
<tr>
<td>Mining</td>
<td>44%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>43%</td>
</tr>
<tr>
<td>Banking &amp; Capital Markets</td>
<td>37%</td>
</tr>
<tr>
<td>Automotive</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: PwC Global CEO Survey 2015 (n=1,322)
Why Australian businesses are missing the Asian opportunity. And what they can do about it.

- Only 9% of Australian businesses are currently operating in Asia.
- Nearly two-thirds of Australian businesses have no intention of changing their stance in the next 2-3 years.

By 2025 Asia will produce half of the world’s total economic output. Asia’s growing middle class will reach 3.2 billion people by 2030.

Further insights

Sources


© 2015 PricewaterhouseCoopers. All rights reserved.
PwC refers to the Australian member firm, and may sometimes refer to the PwC network.
Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.
Liability limited by a scheme approved under Professional Standards Legislation.

127104427