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HOW TO FIND (and keep) A FOREIGN JOINT VENTURE PARTNER

Prepared For

The AgriBusiness Cell
Ministry of Food, Agriculture & Cooperatives,
Government of Pakistan
and the
Private Sector Agribusiness Community
in Pakistan

Prepared By

Gordon R. Kunde
Corporate Agribusiness Specialist
RONCO Consulting Corporation
Analysis of Corporate Sector Constraints in Agriculture (ACSCA) Project

November 1991
Islamabad, Pakistan

The analysis on which this report is based is supported by the
United States Agency for International Development
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I. INTRODUCTION

The rationale and guidelines which follow are for agribusiness firms seeking foreign partners to enhance the growth and viability of their ventures.

II. INTEREST IN LOCATING A FOREIGN PARTNER

The AgriBusiness Cell (ABC) receives various inquiries from agribusiness firms throughout Pakistan that are seeking a foreign partner who will participate in their growth. They want a full fledged partner who will invest money, equipment, or technology to form a new enterprise that is more efficient, more profitable, and better capitalized. It is a worthy goal, and one which the ABC encourages.

However, it is not a goal easily achieved. Rather, it requires a clear perception of the objectives of a foreign investor, combined with a realistic appraisal of the local firm's own capability, all within the demands of the international agribusiness environment. Creating a joint venture, which is mutually beneficial, does not just happen. It is achieved. (The descriptive term "joint venture" as used below refers to a foreign/Pakistani venture in which both parties make some type of investment.)

The purpose of these guidelines, therefore, is to guide those companies who are serious about locating, negotiating, and operating a working business participation with a compatible foreign company.

There are seven basic steps to a successful joint venture.

PREPARATION

PURSUIT

PRESENTATION

PROPOSAL

PACT

PLAN

PERFORMANCE

2.1 Preparation

The company which has the best chance of establishing a profitable venture with a foreign company is the one that begins by separating specific business goals from the general feeling that having a foreign partner would be a good idea. The questions to be asked are simple, but essential.

What is the business opportunity for the new venture?

What does the joint venture need to be profitable?

The answer must be framed in terms that correspond to basic business functions and objectives: Marketing, Sales, Production, Management, and Finance. In short, the local company is prepared when it knows what it is looking for in a joint venture with a foreign firm.

2.2 Pursuit

Backed by a clear understanding of what the local firm is looking for, the search begins. A search strategy is executed starting with those prospects that are likely to be most knowledgeable about the local firm and its operations. If these are unsuccessful, move on to those which are less aware of local firms and Pakistan, but whose business activities are compatible with the business opportunity identified.

2.3 Presentation

There are two types of presentations, and many companies use both. They are intended to communicate important facts about the company to potential partners, to assist in identifying and screening possibilities, and to advance the preliminary introductions toward more serious discussions.

The first and more general is the ***One Page Company Profile.*** A brief summary of essential information, it provides an introduction to the company. An outline of its contents is described below.

COMPANY PROFILE

Name of Firm	Including address, phone number, facsimile and telex number.
Ownership	List names of individuals or corporations. If broadly held, provide major blocks of shareholders.
Management	Position, titles, and names.
Business Activity	Describe in some detail the products sold, the process utilized, and the equipment and technology used.
Business Volume	Units produced and sold, and gross revenues for the last three years.
Bankers	List of financial institutions utilized by the company.
Other Businesses	Parent company and subsidiaries, including any foreign partners and joint ventures.
Foreign Business	Suppliers, buyers, agents and financing relationships.
Auditors and Legal Counsel	Show the names and addresses of auditors and attorneys used by the firm.
Buyers	List the types of buyers of the various products and market locations.

The second type of presentation is more flexible, includes various documents, and is prepared for a specific potential partner. It is the type of presentation that might be appropriate for a company which has already responded to the above Profile. Such a presentation would make use of such information that might be on hand, such as annual reports, financial statements, internal management or operational reports, construction plans, proposed expansion projects and feasibility studies.

2.4 Proposal

There are two levels in the proposal, the making and the defining phase. Based on its perception and analysis of the business opportunity, the local company briefly defines the business envisioned -- including a check of risks and benefits -- and proposes the participation of a foreign company in the joint venture. Since it is the ***opening offer*** from the perspective of the local company, it must demonstrate that the proposed venture has been carefully thought out. (It is advisable to include general capital cost estimates for any specific expansions that are proposed.)

At the next level, a ***detailed proposal*** is tabled for discussion by both partners. Counter proposals are often made in an attempt to structure the joint venture in light of each of the representative parties' corporate objective capabilities, and limitations. It is important to reach this phase in the discussion process as quickly and as inexpensively as possible. This process often involves stops and starts as each side takes time to consider a certain possibility, or to analyze the implications of a proposed business decision. It is also often the part of the joint venture search that requires the most perseverance.

2.5 Pact

If the discussions and negotiations proceed through these two proposed phases, both sides eventually come to a point where they are ready to negotiate an agreement, at least for the first business activity that they will attempt together. Each partner has determined the level of his investment, calculated his estimated costs, and forecasted the anticipated returns. The financial and other commitments which each participant intends to make have to be agreed upon.

To formally confirm commitments made, a Letter of Intent or a Memorandum of Understanding is drawn up and signed by the parties. Other legal documents, such as contracts, Articles of Incorporation and the Registration of the joint venture in the local host country follow thereafter.

It is wise to include the advice of legal counsel and effect legal documents only as deemed necessary by the partners. In the first place, experience has shown that excessive legal counsel tends to create delay and complicate joint venture agreements. In the second place, it is very difficult to enforce business behavior across national boundaries using legal instruments and pressure. In the third place, a business relationship that requires extensive legal safeguards to be in place does not possess the mutual trust between partners essential to establishcd operate a viable joint venture.

What is more important is that each partner clearly understands his rights and obligations as participants in the venture. Legal documents and advice of counsel should be used primarily to clarify legal matters and resolve misunderstandings and disputes as they arise.

2.6 Plan

Once the parties have agreed to engage in a venture, and the terms of the participation have been spelled out, they are ready to set out the implementation of the pact in a plan to guide and schedule their respective investments and business implementation activities. It functions as an extension of their agreement, and is vital for building a foundation of mutual business confidence and operational understanding.

Depending on the complexities of the undertaking, it can be as comprehensive as a Business Plan or a brief schedule of activities. At the very least it should contain a detailed list of the activities to be undertaken, an assignment of responsibilities and the targeted completion dates.

2.7 Performance

The final step, and indeed the test of the success of a joint venture, is not in terms of the agreement or the plan, but in performance. Because of its importance, many joint ventures have started with an initial participation that requires a modest investment, in order to achieve a track record of successful performance before engaging in more substantial commitments. Once the joint venture has a track record and some operating experience, it becomes more credible for both partners to attempt larger projects that involve a higher level of risk.

One of the features that separates a joint venture from a mere commercial transaction is the longer term perspective required in a joint venture. This, of course, includes profits, but it also encompasses the improvement of management, workmanship, plant operations, and product quality. A joint venture takes time to break even and achieve profitability. What should not be delayed is good performance between the parties in implementing and operating the venture.

III. GUIDELINES TO FOLLOW

As every successful manager knows, the road to a successful joint venture is difficult, and doing business is generally never easy, but there are some sign posts along the road which can provide direction. Moving through the joint venture process can be time consuming and expensive in terms of management time and travel. It is essential to recognize a dead end early, and to press forward aggressively with every possibility that has real promise.

The guidelines that follow are intended to inform, correct, and sharpen the strategies and plans of the local agribusiness firm as it seeks to enter the agribusiness joint venture arena with a foreign partner.

3.1 Guideline 1

Recognize that there is competition in the market place

The tendency for firms which have only operated within Pakistan is to underestimate the competition among companies and countries that are seeking participation from a multinational or foreign company. What appears from within one's country as unique and attractive, such as climate, soil fertility, or the cost of labor is, in reality, presented by others just as well. Unless the Pakistani company lays claim to a rare natural resource in high demand, it must base its attractiveness as a joint venture partner on its business capability and the soundness of its proposal. Even within this region there are many agribusiness companies competing for the attention and resources of foreign firms; with the recent changes in Eastern Europe the competition is even more rigorous.

3.2 Guideline 2

Consider the attractions to the foreign partner

In addition to a political and economic environment favorable to the private sector, a foreign company is attracted to a venture in another country because of one or more of the following:

i) Capital repatriation

The normal objective of a foreign investment is to earn a profit and recover capital invested in a country that permits repatriation in hard currency in accord with unambiguous and assured terms and conditions.

The would be foreign investor has two primary financial objectives: (1) earning a profit on operations and (2) remitting profits to his company to meet the financial objectives of his shareholders. If the potential foreign partner cannot confirm that other foreign companies are achieving these objectives, he will severely hedge against risk, participate on a very marginal basis, or loose interest in the joint venture altogether.

While the local enterprise can influence the profit potential of the investment, it is the Federal Government, the Central Bank and/or the Ministry of Finance which rules on remittances. It is the responsibility of the local partner to address capital repatriation issues early in discussions and confirm the positive performance of Pakistan in this regard.

ii) Source of Supply

The foreign partner could be interested in a joint venture because it supplies a finished or intermediate product he can market. Often this includes a product for which the foreign company already has developed a market, and is looking for new sources of supply which meet quality standards required at a competitive price.

The potential that the product could, in principle, be produced in Pakistan does not make the investment attractive. The investor must be convinced that it will be produced. Even the fact that the product is now being produced in Pakistan does not necessarily make the investment attractive. The investor must be convinced that it will be produced in accord with his quantity, quality and price specifications. Achieving this confidence level is vital part of the joint venture discussions.

iii) Lower cost of production

This can be a key business factor attractive to a foreign joint venture partner. Labor costs are the ones usually cited. However, many investors are wary that such advantages are deceptive because cheaper labor is often insufficient, resulting in inferior product quality or delayed deliveries. A lower cost of production is only an advantage, if market criteria are satisfied. The foreign investor must be convinced that lower production costs are a major positive reason to invest in Pakistan.

Once the foreign investor is convinced this is the case, the challenge to the local firm is to address forthrightly all the costs of getting the product out the door. In this respect the investor must be convinced that the local firm is presenting a comprehensive, as well as a realistic, cost picture. Thus, the potential of lower costs has a greater chance of being turned into an operating reality.

iv) Access to the local market

In some situations the size and purchasing power of the local market may stimulate the interest of a foreign investor. By itself, however, this may not be an adequate attraction to a foreign investor. In combination with other factors, such as export to the investor's existing buyers, can strengthen the interest of a foreign company in pursuing a joint venture.

v) Regional export potential

There are cases when a company has an existing or potential regional market that is too difficult or costly to be serviced from the home base of the company. If production and shipping conditions are advantageous in Pakistan, a joint venture investment could be very attractive.

Changing export trade conditions and preferential trade agreements favorable to Pakistan may, at times, dislodge a company from its regional market or diminish its current competitive advantage. Foreign companies made aware of such changes could become good prospective joint venture investors to take advantage of such opportunities.

vi) Expanding the local market for a foreign partner's products

If the local company seeks a joint venture with one of its foreign suppliers, the proposed new venture also serves as a market agent to expand the local market for its foreign partner's products. This provides an immediate revenue stream from the sale of products exported to Pakistan, and complements the longer term attraction of a return on the investment in the proposed joint venture.

In summary, a foreign company may consider an investment in Pakistan for any one or combination of the above reasons. A local company which offers several of these attractions will improve its position in promoting and negotiating a joint venture with a foreign company.

3.3 Guideline 3

Seek a compatible joint venture partner

Before embarking on a search for a partner, the local firm should give careful thought to the type of company with whom to joint venture. In order for discussions and negotiations to be fruitful, and in order for the time and expense of the search to be productive, the foreign company should meet specific criteria.

In general, the corporate characteristics to look for and those to be avoided fit within the following parameters.

- ***Look for a company that understands your business and operating investment....***

This does not mean that it must be involved in the same business, but rather that its experience gives it the basis for comprehending the seasonal, material handling or storage problems faced by the local company. Without this understanding the foreign partner will not be able to understand the operational problems which may arise and are unique to Pakistan, nor will they be of assistance in solving them.

Foreign companies involved in the production or marketing of the same or similar products are generally the most attractive foreign investors for a local joint venture.

- ***Look for a company that has some international experience....***

Many foreign companies that have no international experience have the mistaken notion that earning a profit in a developing country is easier than at home. As a result their management and financial expectations are unrealistic, and they will not have the patience to work through the problems of the early stages of the venture.

Companies that do have some international experience will bring some difficult questions to the negotiating table, but, if they make a commitment to the venture, they will work for its success in the flexible manner required.

- *Look for a company that brings more than money.....*

It is tempting to seek a joint venture partner that will invest funds and not be involved in management, implementation or marketing. However, not only is such an investor extremely difficult to find, they may be overly focused on quick profits at the expense of solid growth, and tend to contribute little to creative problem solving or seizing new business opportunities which may arise.

3.4 Guideline 4

Qualify your future partner

A local company which has carefully analyzed its own capability will seek a joint venture partner who can bring additional strength in such areas as marketing and sales, general and financial management. Production methods and technology choices.

More specifically, the search for a suitable joint venture partner can be greatly facilitated by attempting to locate a partner that can offer essential and desirable capability to foster the success of the venture.

Qualification 1: Type of Business

The business in which the foreign company is engaged has an affect on the joint venture process and its resulting agreement. It does not need to be the exact same product or process as the local company, but it is helpful if the search is targeted to enterprises that are in a related business field.

Qualification 2: Location of Business

There may be product processing or market penetration reasons why it is essential that the partner sought be from a certain country or region. Because of its agricultural base, agribusiness tends to be focused in certain geographic locations. Contacts, meetings, and presentations can be made more efficiently in these areas of agro-industry concentration.

Qualification 3: Size of Business

While this cannot be stated with precision, it is important to approach only those foreign firms whose scale of operations and resources are adequate to participate at the required level. The scale of the joint venture should be within a range that is important to, and the capital required within the financial capability of the potential foreign partner. On the other hand, companies that are too large may be excessively bureaucratic or unwilling to flexibly adapt to new circumstances and operational realities unique to Pakistan.

Qualification 4: Geography of Business

If the company has engaged in some international transactions in this region: such as the purchase of supplies or the sale of products, its management will have the experience to understand some of the factors attendant to establishing a joint venture in Pakistan.

3.5 Guideline 5

Start with those who know you

Having defined as accurately as possible the qualities which are desirable in the foreign partner, the local company can begin its search in earnest. This can be a time consuming as well as costly exercise, so it is important to plan and execute an effective strategy.

The first doors upon which to knock are contacts that can not only provide introductions, but who can also give a recommendation. It is very advantageous to meet a potential partner who will take seriously the local company as a successful enterprise, before the possibility of a joint venture is even mentioned. Once the local firm has established a reputation among foreign firms that it is a stable company with a proposal worthy of consideration, then other referrals will follow, even if the first contact is not interested. Identifying a joint venture partner often occurs by means of the informal network of known and trusted business associates.

In addition to these primary business and referral relationships, there are more neutral sources which are often interested in promoting joint ventures. Some of these are listed below:

Chambers of Commerce and Industry
Trade Associations
Foreign firms operating in Pakistan
Executives of foreign banks
Trade fairs
Investment conferences
Commercial/Economic officers at foreign embassies

No matter how the contact is made the local firm still has to establish itself as a credible joint venture candidate with a bonafide business opportunity to create and sustain the interest of potential foreign investors.

A word of caution: Beware of middle men (brokers, attorneys, manufacturers representatives, etc.) who offer to provide contacts and introductions for a fee or a percentage of the joint venture. Rarely are such people able to match their promises with performance.

3.6 Guideline 6

Negotiate for success not victory

There is a balanced perspective in the negotiation process that is critical. It is determined by focusing clearly on the objective of building a viable joint venture rather than winning at the negotiating table.

In contrast to some rather crude buying and selling transactions in which each party attempts to come away with as much as possible, in negotiating a joint venture, the purpose is to build a business partnership that will survive. So the aim is not to win, and extract as much from the foreign partner as possible, but rather to have each side bring its business strengths to the new enterprise.

Within such a perspective, the local firm will, of course, negotiate firmly for a reasonable share of the venture that will be proportional to the risk undertaken. It should be willing to sacrifice a short term benefit for the sake of the longer term success of the venture.

3.7 Guideline 7

Build the venture with patience

Most joint ventures can usually be broken down into incremental stages of investment. It is not always necessary to implement the entire project at once. In these circumstances, rather than delay and attempt to reduce the risk by carrying out extensive feasibility studies or putting up guarantees, it is usually better to start the venture sooner rather than later, but at a lower level of mutual exposure.

This has several advantages. One, it enables the partners to develop an understanding among executives and managers of their different ways of conducting business. Second, it can generate a cash flow which not only helps to fund expansion, but can also build credibility with local banks and international lenders.

Third, problems which would be extremely costly to solve later on can be resolved when they are smaller and less expensive.

IV. CONCLUSIONS

A successful and profitable joint venture with a foreign partner starts with the efforts of the Pakistani firm. By following the **Seven Basic Steps** and using the **Guidelines** as reference points along the way, it is possible to significantly lower the mutual risk, raise the chances of success, and accelerate the joint venture formation process. Keep in mind that the end of the search is the beginning of the joint venture, which then becomes the doorway to expanding business opportunities in the future.