12 Advantages and Disadvantages of a Joint Venture

You may have a great idea looming around in your head, journal or back pocket, but you can't make it happen because you lack the resources, capital and the market knowledge to deliver it. Hence, forming a joint venture with another company is seen as a plausible solution and major step forward in starting your business.

It is not like a partnership agreement because this has a definite end to it as it focuses on a single project or undertaking. It does pose a great sense of benefit for both companies, but it also comes with its share of side effects as well. That is what we are hoping to bring to light in this article.

Advantages of a Joint Venture

1 – New insights and expertise

Starting a joint venture provides the opportunity to gain new insights and expertise. Think about it; the market is now way easier for you to understand given the short-term partnership that you have forged.

2 – Better resources

Forming a joint venture will give you access to better resources, such as specialized staff and technology. All the equipment and capital that you needed for your project can now be used.

3 – It is only temporary

A joint venture is only a temporary arrangement between your company and another. By definition, you won't be committing to it long term.

4 – Both parties share the risks and costs

In case the joint-group project fails, you are not alone when bearing the costs of its failure. Because you two had volunteered to share the expenses, you both will also support the losses.

5 – Joint ventures can be flexible

According to assignment writing service writers, an example of this is that a joint venture can have a limited lifespan and can only cover only a fraction of what you do, thereby limiting your commitment as well as your business's exposure.

6 – There are ways to exit a joint venture

In the timeline of divestiture and consolidation, a joint venture offers a creative way for companies to escape non-core businesses.

7 – You will know what's yours and will be able to sell it

Gradually, firms can separate their business from the rest of the organization, and then later, sell it to the other parent company. Approximately 80% of all joint ventures end in a sale, from one partner to the other.

8 – You are more likely to succeed

Your chances of success will become higher as you are already riding with a renowned brand. As a result of this, your credibility will also vastly improve.

9 – You will build relationships and networks

Even though your partnership is only for a specific goal, this move will enable you to create long-lasting business relationships.

10 – Your potential will virtually be limitless

Despite having little to no money at your disposal, you can create more venture deals in the process. You will create momentum and have partners with you. Take advantage of it!

11 – You get to save money by sharing advertising and marketing costs

And that works for a lot of other types of costs. Starting a joint venture is a great way to save money and/or split costs.

12- International joint venture eradicates the risk of discrimination.

International joint ventures are very common nowadays. This is a great opportunity to cooperate with people from different countries and combine our strengths!

Disadvantages of a Joint Venture

1 – Vague objectives

The objectives of a joint venture are not 100 percent clear and rarely communicated clearly to all people involved.

2 – Flexibility can be restricted

There are times when flexibility is restricted in a joint venture. When that happens, participants have to focus on the joint venture, and their individual businesses suffer in the process.

3 – There is no such thing as an equal involvement.

An equal pay may be possible, but it is extremely unlikely for all the companies working together to share the same involvement and responsibilities.

For example, Company A is working on the production process, whereas Company B is responsible for the production, and Company C is in charge of planning and implementing market strategies. Since Company A is not directly involved in the production and promotion process, the pressure is on the latter companies. It will also affect individual businesses.

4 – Great imbalance

Because different companies are working together, there is a great imbalance of expertise, assets, and investment. This can have a negative impact on the effectiveness of the joint venture.

5 – Clash of cultures

A clash of cultures and management styles may result in poor co-operation and integration. People with different beliefs, tastes, and preferences can get in the way big time if left unchecked.

6- Limited outside opportunities

It is very common for joint venture contracts to restrict outside activities of participant companies while working on a venture project. You need to make sure you understand what you are getting into if you don’t want to negatively impact your entire business.

7 – A lot of research and planning are necessary

The success of a joint venture highly depends on thorough research and analysis of the objectives.

8 – It may be hard for you to exit the partnership as there is a contract involved

Once again, even though a joint venture is temporary, it is crucial that you know what you are getting into if you don't want to be locked in a partnership.

9 – You might be tempted to leave the joint venture

You will get enough leadership and support in the early stages of a joint venture and might be tempted to leave.

10 – Lack of clear communication

As a joint venture involves different companies from different horizons with different goals, there is often a severe lack of communication between partners.

11 – Unreliable partners

Because of the separate nature of a joint venture, it is possible that the partners do not devote 100% of their attention to the project and become unreliable.

12 – Unclear and unrealistic objectives

Unrealistic and unclear objectives may be set up. To avoid this, it is necessary that you and your partners do a lot of research before starting your joint venture.