Joint ventures and partnering

A joint venture is when two or more businesses pool their resources and expertise to achieve a particular goal. The risks and rewards of the enterprise are also shared.

Reasons you might want to form a joint venture include business expansion, development of new products or moving into new markets, particularly overseas.

Your business may have strong potential for growth and you may have innovative ideas and products. However, a joint venture could give you:

- more resources
- greater capacity
- increased technical expertise
- access to established markets and distribution channels

Entering into a joint venture is a major decision. This guide gives an overview of the main ways you can set up a joint venture, the advantages and disadvantages of doing so, how to assess if you are ready to commit, what to look for in a joint venture partner and how to make it work.

Types of joint venture

How you set up a joint venture depends on what you are trying to achieve.

One option is to agree to co-operate with another business in a limited and specific way. For example, a small business with an exciting new product might want to sell it through a larger company's distribution network. The two partners could agree a contract setting out the terms and conditions of how this would work.

Another option is to set up a separate joint venture business, possibly a new company, to handle a particular contract. A joint venture company like this can be a very flexible option. The partners each own shares in the company and agree how it should be managed.

In some circumstances, other options may work better than a limited company. For example, you could form a business partnership or a limited liability partnership. You might even decide to completely merge your two businesses. For more information, see our guide on legal structures: the basics.

To help you decide what form of joint venture is best for you, you should consider whether you want to be involved in managing it. You should also think about what might happen if the venture goes wrong and how much risk you are prepared to accept.
It's worth taking legal advice to help identify your best option. The way you set up your joint venture affects how you run it and how any profits are shared and taxed. It also affects your liability if the venture goes wrong.

You need a clear legal agreement setting out how the joint venture will work and how any income will be shared. See the page in this guide on how to create a joint venture agreement.

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**Joint venture - benefits and risks**

Businesses of any size can use joint ventures to strengthen long-term relationships or to collaborate on short-term projects.

A successful joint venture can offer:

- access to new markets and distribution networks
- increased capacity
- sharing of risks and costs with a partner
- access to greater resources, including specialised staff, technology and finance

A joint venture can also be very flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting the commitment for both parties and the business’ exposure.

Joint ventures are especially popular with businesses in the transport and travel industries that operate in different countries.

**The risks of joint ventures**

Partnering with another business can be complex. It takes time and effort to build the right relationship. Problems are likely to arise if:

- the objectives of the venture are not totally clear and communicated to everyone involved
- the partners have different objectives for the joint venture
- there is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners
- different cultures and management styles result in poor integration and co-operation
- the partners don't provide sufficient leadership and support in the early stages

Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.

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**Are you ready for a joint venture?**
Setting up a joint venture can represent a major change to your business. However beneficial it may be to your potential for growth, it needs to fit with your overall business strategy.

It's important to review your **business strategy** before committing to a joint venture. This should help you define what you can realistically expect. In fact, you might decide that there are better ways to achieve your business aims. See our guides on how to assess your options for growth and enter into mergers and acquisitions.

You may also want to look at what other businesses are doing, particularly those that operate in similar markets to yours. Seeing how they use joint ventures could help you choose the best approach for your business. At the same time, you could try to identify the skills they apply to partner successfully.

You can benefit from examining your own business. Be realistic about your strengths and weaknesses - consider performing a SWOT (strengths, weaknesses, opportunities and threats) analysis to discover whether the two businesses are a good fit. You will almost certainly want to find a joint venture partner that complements your own business' strengths and weaknesses. See our [SWOT analysis example](#).

You should take into account your employees' attitudes and bear in mind that people can feel threatened by a joint venture. It can also be difficult to build effective working relationships if your partner has a different way of doing things. See our guide on reorganisations, restructurings and other major changes.

If you do decide to form a joint venture, it may well help your business to grow faster, increase productivity and generate greater profits.

Joint ventures often enable growth without having to borrow funds or look for outside investors. You may also be able to use your joint venture partner's customer database to market your product, or offer your partner's services and products to your existing customers. Joint venture partners also benefit from being able to join forces in purchasing, research and development.

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### Plan your joint venture relationship

Before starting a joint venture, the parties involved need to understand what they each want from the relationship.

Smaller businesses often want to access a larger partner's resources, such as a strong distribution network, specialist employees and financial resources. The larger business might benefit from working with a more flexible, innovative partner, or simply from access to new products or intellectual property.

Similarly, you might decide to build a stronger relationship with a supplier. You might benefit from their knowledge of new technologies and get a better quality of service. The supplier's aim might be to strengthen their business from a guaranteed volume of sales to you.
Whatever your aims, the arrangement needs to be fair to both parties. Any deal should:

- recognise what you each contribute
- ensure that you both understand what the agreement is expected to achieve
- set realistic expectations and allow success to be measured

The objectives you agree should be turned into a working relationship that encourages teamwork and trust. See the page in this guide on how to make your joint venture relationship work.

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**Choosing the right joint venture partner**

The ideal partner in a joint venture is one that has resources, skills and assets that complement your own. The joint venture has to work contractually, but there should also be a good fit between the cultures of the two organisations.

A good starting place is to assess the suitability of existing customers and suppliers that you already have a long-term relationship with. You could also think about your competitors or other professional associates. Broadly, you need to consider the following:

- How well do they perform?
- What is their attitude to collaboration and do they share your level of commitment?
- Do you share the same business objectives?
- Can you trust them?
- Do their brand values complement yours?
- What kind of reputation do they have?

If you opt to assess a new potential partner, you need to carry out some basic checks:

- Are they financially secure?
- Do they have any credit problems?
- Do they already have joint venture partnerships with other businesses?
- What kind of management team do they have in place?
- How are they performing in terms of production, marketing and workforce?
- What do their customers and suppliers say about their trustworthiness and reputation?

You can find detailed information about companies with the Companies House WebCHeck service. Search company information using Companies House WebCHeck.

Before you consider signing up to a joint venture, it's important to protect your own interests. This should include drawing up legal documents to protect your own trade secrets and finding out whether your potential partner holds intellectual property rights agreements. Also, it's worth checking to see whether they have other agreements in place, either with their employees or consultants.
Create a joint venture agreement

When you decide to create a joint venture, you should set out the terms and conditions in a written agreement. This will help prevent any misunderstandings once the joint venture is up and running.

A written agreement should cover:

- the **structure** of the joint venture, eg whether it will be a separate business in its own right
- the **objectives** of the joint venture
- the **financial contributions** you will each make
- whether you will transfer any assets or employees to the joint venture
- ownership of **intellectual property** created by the joint venture
- **management and control**, eg respective responsibilities and processes to be followed
- how liabilities, profits and losses are shared
- how any **disputes** between the partners will be resolved
- an exit strategy - see the page in this guide on ending a joint venture

You may also need other agreements, such as a confidentiality agreement to protect any commercial secrets you disclose. See our guide on non-disclosure agreements.

Read joint venture agreements information on the Legal Advice Centre website - Opens in a new window.

It is essential to get independent expert advice before any final decisions are taken - contact your local Business Link as a starting point for advice. Find contact details for your local Business Link through our Contacts Directory.

Download a joint venture agreement template (PDF, 18K) - Opens in a new window.

Make your joint venture relationship work

A clear agreement is an essential part of building a good relationship. Consider these ideas:

- Get your relationship off to a good start. For example, you might include a project that you know will be a success so that the team working on the joint venture can start well, even if you could have completed it on your own.
- **Communication** is a key part of building the relationship. It's usually a good idea to arrange regular, face-to-face meetings for all the key people involved in the joint venture. For ideas on ways to improve communication, see our guide on how to inform and consult your employees.
- Sharing information openly, particularly on financial matters, also helps avoid partners becoming suspicious of each other. The more trust there is, the better the chances that your relationship will work.
It's essential that everyone knows what you are trying to achieve and works towards the same goals. Establishing clear **performance indicators** lets you measure performance and can give you early warning of potential problems.

At the same time, you should aim for a **flexible relationship**. Regularly review how you could improve the way things work and whether you should change your objectives.

Even in the best relationship, you'll almost certainly have problems from time to time. Approach any disagreement positively, looking for 'win-win' solutions rather than trying to score points off each other. Your original joint venture agreement should set out agreed dispute resolution procedures in case you are unable to resolve your differences yourselves.

For more information, see the page in this guide on how to [create a joint venture agreement](#).

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**Ending a joint venture**

Your business, your partner's business and your markets all change over time. A joint venture may be able to adapt to the new circumstances, but sooner or later most partnering arrangements come to an end. If your joint venture was set up to handle a particular project, it will naturally come to an end when the project is finished.

Ending a joint venture is always easiest if you have addressed the key issues in advance. A contractual joint venture, such as a distribution agreement, can include **termination conditions**. For example, you might each be allowed to give three months' notice to end the agreement. Alternatively, if you have set up a joint venture company, one option can be for one partner to buy the other out. The original agreement may typically require one partner to buy out the other.

The original agreement should also set out what will happen when the joint venture comes to an end. For example:

- how shared intellectual property will be unbundled
- how confidential information will continue to be protected
- who will be entitled to any future income arising from the joint venture's activities
- who will be responsible for any continuing liabilities, eg debts and guarantees given to customers

Even with a **well-planned agreement**, there are still likely to be issues to resolve. For example, you might need to agree who will continue to deal with a particular customer. Good planning and a positive approach to negotiation will help you arrange a friendly separation. This improves the chances that you can continue to trust each other and work together afterwards. It can also raise your profile in the business community as a reliable and productive partner.

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**Joint venture checklist**
A checklist can be useful when you are planning a joint venture. It should cover areas such as:

- whether your business is prepared
- choosing the right partner
- finance
- steps to implement the joint venture
- legal models
- bank accounts
- sourcing business together
- terminating the joint venture

**Is your business prepared?**

To check whether your business is ready for a joint venture, you should:

- research other business’ activities in this area
- carry out a SWOT (strengths, weaknesses, opportunities and threats) analysis of your business
- compare your working methods with those of potential partners
- consult your employees to find out their feelings about a joint venture

**Choosing the right partner**

When choosing a joint venture partner, you should consider:

- existing customers and suppliers, competitors and professional associates as partners
- whether the culture of a proposed partner fits with that of your organisation
- whether the finances of the proposed partner organisation are sound
- potential for overseas sales or activities

**Finance**

You should prepare the following documents for a joint venture:

- business plan
- marketing plan
- cashflow projection

Each partner should agree who is investing what, and in what form - eg cash or other assets.

If external funding is needed, the partners should agree:

- sources of funding, eg a share issue
- who will borrow the funds
- how the borrowing will be guaranteed

Arrangements for profit and loss should be agreed, eg:
- how any profits or losses should be divided
- how capital gains or losses should be divided
- whether one partner will be paid for providing services, other than through a share of profits

**Implementing a joint venture**

When you are ready to implement a joint venture, you should make a joint venture agreement including:

- clear business objectives
- communication arrangements between organisations/teams
- financial arrangements
- protection of your interests, eg trade secrets
- day-to-day and strategic decision making
- whether either party can pursue other business during the joint venture
- dispute resolution procedures

Decide on a legal structure for your joint venture, eg:

- contractual co-operation for a defined project
- partnership or unlimited partnership
- limited liability company
- full merger of the two organisations

Read joint venture agreements information on the Legal Advice Centre website - Opens in a new window.

Bank account arrangements will depend on the legal model chosen, although a new account can be set up for a single project.

You should also agree:

- in whose name account(s) are set up
- arrangements for depositing or withdrawing funds, including co-signatories

**Sourcing business together**

You should agree in advance which organisation has responsibility for:

- sales activities
- marketing activities
- new business generation

Such arrangements should be specified in the joint venture business and marketing plans.

**Terminating the joint venture**

The agreement needs to make provision for terminating the agreement, covering:
Here's how I made a joint venture successful

Michael Henderson and Dave Harrison
Henderson and Harrison

Michael's top tips:

- "Everyone has a different way of working - it's a case of being tolerant and willing to meet halfway."
- "It's not just having complementary skills and experience that's important - you have to like and respect your partner otherwise it could cause conflict."
- "Agree clear aims and objectives - we both want to push the business forward and each of us knows how the other is going to do it."

Michael Henderson worked as a subcontracted electrician for a house building business in the 1980s and 1990s. He always worked alongside another subcontractor, Dave Harrison, a plumber. When the house builders went into liquidation in the middle of a building project, it left both Michael and Dave with no work. Out of this crisis the joint venture of Henderson and Harrison began. Michael explains how they went about it.

What I did

Join forces with someone else so I could tender for larger projects

"Having put all my eggs in one basket, the work suddenly dried up when the builders went into liquidation. Both Dave and I continued to see the job through to the end working with the liquidators, and planning the work between us. A few months later, a large project came up for tender - but only for VAT-registered businesses. Dave and I discussed bidding for the work together under a joint venture of Henderson and Harrison as we couldn't do it under our own individual names because we weren't VAT registered. It was also attractive because the work called for electrics and plumbing together. We shook hands and decided to split the profits 50:50. The joint venture between us has continued from that moment."

Identify complementary skills

"It's a question of mixing and matching our talents to make the most of our skills. Dave is a hands-on person, so he supervises the jobs on site. He works well with the lads and is very knowledgeable about the technical side of plumbing. Dave always said I'm the one with the business brain, so I work in the office and I also go out to quote for new jobs. I like working
with new customers, I'm a people person. Identifying and playing to your strengths is the key to working within a joint venture, it means we're both happy in our work."

**Consider formalising the arrangement**

"Our arrangement at the moment is a verbal one - we split everything 50:50. However, at some stage it's possible that we could put everything on an official footing. We would need to use a solicitor to draw up a proper agreement, which would formalise how we would divide up our profits and the value of assets, such as the stock and our vehicles."

**What I'd do differently**

**Agreed to set up the partnership sooner**

"Dave and I should have set up our joint venture sooner. Although we were happy working as individual contractors, once we joined forces, we could bid for bigger jobs and have the chance of making more profits. We did it because circumstances more or less forced us into it, but sometimes it's worth just taking the decision to move your business on and looking at a larger picture."

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**Business Link Helpline**

0845 600 9 006

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**Related web sites you might find useful**

Download a joint venture checklist from the European Group for Organisational Studies website (DOC, 28K)
http://www.egos.co.uk/attach/Joint_Ventures_checklist.doc

Companies House Direct subscription details on the Companies House website
http://www.companieshouse.gov.uk/toolsToHelp/chdDirectInfo.shtml

Joint venture agreement information on the Legal Advice Centre website
http://www.legal-advice-centre.co.uk/joint-venture-agreement.html

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