Casing the Joint

Joint ventures can be an effective way to enter new markets, get larger jobs, and gain expertise.

By Stephen Darnell

Classic reasons for joint venturing are to enter new marketplaces, get larger jobs, and learn from a partner.

However, in all cases, a joint venture must be a good deal for both parties. For example, a contractor bidding on a large project might seek a joint venture partner to provide financial backing in return for half the job profit.

The contractor brings management, accounting, and equipment-while the financial partner puts up the bonding capacity and most of the start-up costs. This is a common joint venture arrangement.

Joint venturing can also be an excellent vehicle for entering new markets with minimal risk. On out-of-town pre jects, a local partner can provide local knowledge of suppliers, local reputation, local labor control and, perhaps, equipment. Having local partner greatly reduces the risk on a job.

The classic joint venture situation involves two firms who are complementary on a specific job, bidding together to perform the job. This is most typically seen in heavy/civil projects where a sizeable job, providing enough

Many foreign construction firms are expanding into the U.S. market by joint venturing with American contractors. In return, the American company gains financial backing that enables it to undertake larger projects.

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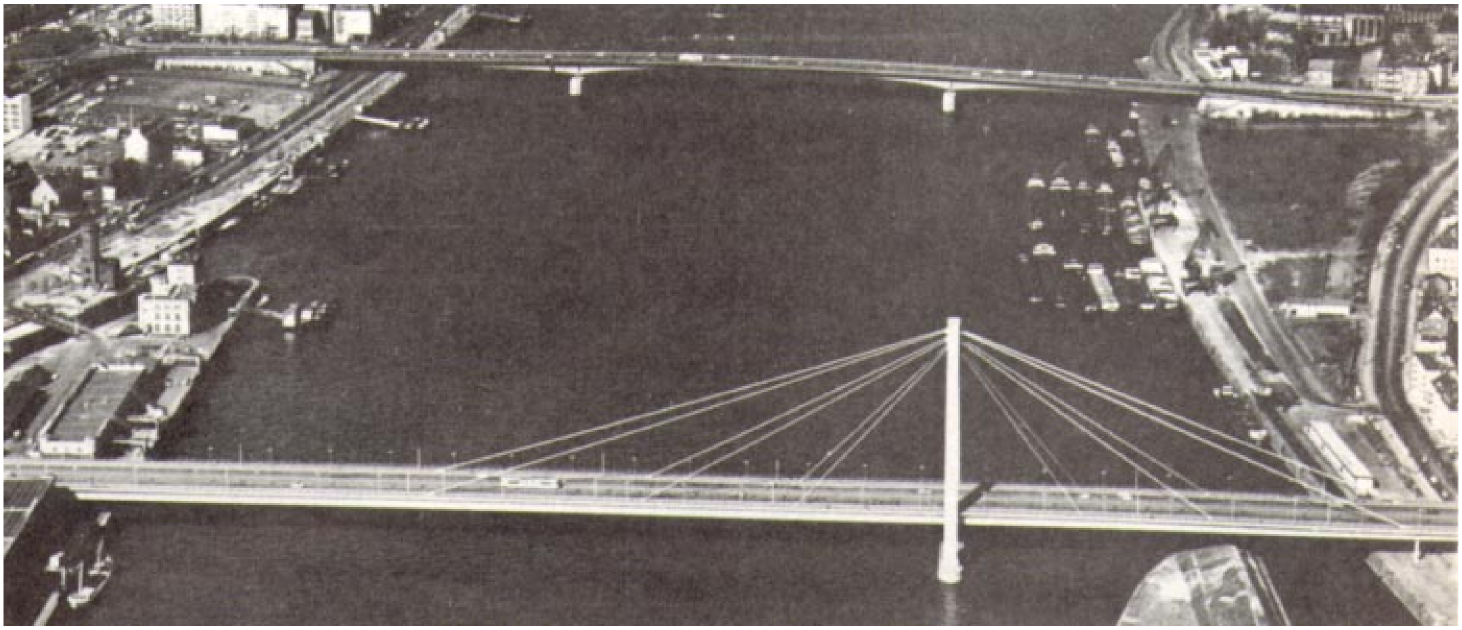
magnitude and gross profit to be shared, can be done by two firms.

Instead of developing a true joint venture entity, the two joint venture partners might split specific phases of the work and perform the work separately, account for it separately and take their own risks and rewards separately. These joint venture arrangements are typically known as “line item” joint ventures.

Many international construction firms have targeted the $300 billion annual construction market. Besides the acquisition route, these firms, consider



Historically, most joint venturing occurs in heavy or civil construction projects large enough to be shared by two firms, where building phases can easily be segmented. One example is a large bridge, where one firm builds the understructure and the other builds the superstructure.

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joint venturing a way to gain needed American personnel and organizations to perform work in the U.S.

Joint venturing with U.S. companies can be an excellent route for developing immediate and substantial profits in this country without significant front-end investment.

American contractors are frequently interested in a partnership with a large international firm, perhaps needing a financial partner to perform larger jobs. These are contractors who have the capability to perform but have not routinely been able to perform above a certain job size.

The international entity's ability to do business in the United States may be in-

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hibited since a clearcut financial statement is necessary to prequalify in most states. (Bonding issues can also be a problem since many U.S. bonding companies are hesitant for their clients to joint venture in uncharted waters.)

Prequalification in many states requires current financial information audited by a U.S. CPA firm. For example, the state of Florida requires a financial statement no more than 120 days old from the prequahfying date, and it must be prepared by a U.S. CPA firm.

It takes time to prequalify and prequalifications in most states must be researched, obtained and submitted. In some cases, local political and legal help might be necessary to deal with the idiosyncracies of different states in prequalification. Having to work things out on the other side of the ocean can complicate and delay matters.

Obviously, education and effort are necessary to successfully develop joint venture relationships. But "sweat equity" can produce results and accomplish objectives—like market entry—with lower risk and higher return than start-ups or acquisitions.

***About the Author** . . . Stephen Darnell is vice president of the Fails Management Institute, Raleigh, NC. He is a specialist in construction merger and acquisition consulting services.*