

Joint ventures: A fast-track strategy for growth

Partnering with another company enables a family firm to enter a market more quickly and broadly than it could otherwise. Day & Zimmermann, a multibillion-dollar family company, has used this strategy to great success. Their advisers explain how.

By Nancy Drozdow and Kelvin Schleif

MOST BUSINESSES have some experience with acquisitions and organic growth, but they often bypass the powerful momentum that joint ventures can offer. In the case of Day & Zimmermann, a third-generation, Philadelphia-based company with \$2 billion in annual revenues, joint ventures not only have saved years of work but also have added tens of millions of dollars in new revenue and margins.

Day & Zimmermann's owners, the Yoh family, have a clear, concise and focused goal: strategic, profitable and sustainable top- and bottom-line growth. Hal, Mike and Bill Yoh are third-generation leaders of Day & Zimmermann, a 107-year-old firm that provides engineering and construction, security, facility management, munitions, plant maintenance and technical staffing services. The 24,000-employee firm, with 150 locations worldwide, has completed projects in more than 75 countries, serving more than 45% of the *Fortune* 100. Since its founding in 1901, the firm has actively pursued and refined its expansion strategies to include joint ventures and partnerships in addition to organic growth and acquisitions.

Day & Zimmermann itself is the product of an acquisition; it was acquired in the 1960s by H.L. Yoh, the family's original company. A deep desire to grow while remaining independent has driven the Yohs' thinking.

For the Yohs, joint ventures—a strategic feature of their portfolio for decades—represent an opportunity to quickly and efficiently fill gaps in services and enter markets with greater presence than they would otherwise be able to achieve. For example, partnering through joint ventures has enhanced Day & Zimmermann's capabilities as a gov-

ernment services contractor and given the company access to much larger contracts. Such collaborations offer the opportunity to leverage the best capabilities of both companies in the partnership, although there are some risks involved.

Why not just acquire?

Understandably, many family business owners are reluctant to leverage their firm by taking on more than a modest level of debt to fund the business. Setting aside the question of what level of debt may be prudent for any particular business, in a time of (relatively) inexpensive debt and highly publicized acquisitions, joint ventures have seemingly been overlooked by family businesses as a reasonable

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alternative to strategic acquisition.

Yet joint ventures offer considerable advantages over acquisitions. They cost less. They risk less. And privately held family firms are particularly well positioned to capitalize on this strategy. Because accounting for joint ventures can muddy a balance sheet, such partnerships are potentially less attractive to public companies, which must adhere to reporting requirements. Private family businesses, on the other hand, have obligations to a more limited group—other family members and banks—making the sharing of

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information a different process. Leaders can concentrate on the decision of whether or not to collaborate. As long as shareholders understand and endorse plans, the managers can proceed quickly and decisively once they have determined that the pros outweigh the cons.

Why pursue a joint venture when acquiring puts you in the driver's seat? After all, while joint ventures require less capital, companies entering into them risk loss of control. Day & Zimmermann CEO Hal Yoh points out, however, that speed to market and speed to scale trump risk, if the potential downside is knowable and manageable. Relative to acquisitions, joint ventures are easier to negotiate and on the whole much quicker to execute. In addition, particularly for firms like Day & Zimmermann, which bids on government and large commercial contracts, market opportunities are not only extremely competitive, but also often have very limited timing for bids. Joint ventures allow companies to bid more readily on projects that would otherwise take years to develop internally, and on those that would require substantial costs in order to acquire adequate capability. Also, joint ventures are not as difficult to unwind, making them attractive for a single effort of limited duration that has a sufficiently high payoff.

The common if overused phrase "If you can't beat 'em, join 'em" applies to joint ventures as well. Splitting the pie turns potential competitors into allies without the finality or emotional charge of an acquisition. A joint venture can be a high-return alliance that keeps the parent company's integrity and ownership intact, while delivering a reasonable share of a new, heretofore-unattainable market segment.

For the Yoh family, joint ventures represent an opportunity to quickly and efficiently enter markets with greater presence than they would otherwise be able to achieve.

There are advantages for the customer, as well, whether it's a large company or the federal government. Hiring one company for a complicated engineering or logistics task is risky. Joint ventures can add an extra degree of security for customers, as the odds that neither company in the partnership will deliver as promised are substantially reduced. For this reason, many customers—particularly federal and state governments—give preference to contracts bid on by teams of companies as opposed to solo contractors.

DS2, a Lockheed Martin and Day & Zimmermann company, is one joint venture that has enhanced both parent

companies' competitiveness. DS2, which became operational in July 2004, was created to provide responsive field services to the government. DS2 supports the Department of Defense on five continents at more than 100 locations. Day & Zimmermann provided the new company's first CEO, as well as base operating support and maritime contracts. Lockheed Martin Aircraft & Logistics Centers transferred a variety of its military aircraft and equipment field services contracts to DS2, and supplied its first CFO. Then, in a prearranged transition worked out in their joint venture agreement, they switched; Lockheed installed the second CEO, Day & Zimmermann the second CFO. The combined company focuses on improving field service to the challenging needs of U.S. armed forces. It accelerated both partners' growth in defense support and continues operating today.

Avoiding pitfalls

Like any business venture, if joint ventures are not well planned, structured and governed, they are unlikely to produce benefits commensurate with the investment required. Research suggests that joint ventures fail to deliver on their intended goals nearly half the time—about the same as mergers and acquisitions.

MSBNC is the product of a successful 50:50 joint venture between NBC and Microsoft. The Baseball Network, by contrast, was a miserable failure. ABC, NBC and Major League Baseball tried a combination in 1994-95. Their goals were risk reduction and cost reduction for ABC and NBC, to eliminate the competition (each other) and make it harder on

the then-upstart Fox network to gain a market hold. Unfortunately, the plan for collaboration did not thoroughly anticipate consumer interests or achieve the right product positioning. The network was not well received by baseball fans, who missed important games and revolted, causing so much bad press for all parties that during a strike they scrapped the deal.

While acquisitions demand legal and organizational clarity (though most fail because of organizational culture

clashes that negotiators didn't attend to adequately from the start), joint ventures often suffer from murky and messy details that were not initially well defined and, owing to the temporary nature of the agreement, won't ever be. These details can magnify and threaten the profitability of the venture itself, in addition to the possibility of embittering the two sides involved in the agreement.

In the Yoh brothers' successful ventures, they are careful to address all key details, starting with clear-cut governance guidelines and power structures, all the way down to man-power (will the parent companies lend employees to each

other, who will be CFO, etc.) and financial commitments. This includes not only details of the agreement but also a hard look at the aftermath of the venture, as sometimes collaborators become competitors as soon as a venture is over. In fact, partners may remain competitors; understanding this will enable the structuring of agreements that contemplate this possibility.

A detailed and working agreement paints only a partial picture for Day & Zimmermann; culture completes the picture. Because of the impermanence of these relationships between companies, complementary cultures and values are of the utmost importance. Though collaboration may make perfect financial and market sense on paper, culture should be an additional filter, one that warrants as much due diligence as the terms of agreement.

Conflicts in management style have the potential to derail a venture. Day & Zimmermann pays attention to details such as how long it takes to get a call back or a reply to an e-mail. Although it's big, Day & Zimmermann is a relatively unbureaucratic company. Its executives know they would have real trouble if their partner were overly focused on policies and procedures and forgot to pay attention to relationships.

Culture, fortunately, is a filter that family businesses usually appreciate, since successful family businesses are known to foster distinctive cultures and encourage employees to adopt values that shape their market approach.

Culture also factors into long-term plans. By thoroughly investigating and working with another company, the players have a chance to see how they can work together and potentially set the stage for a future acquisition—a sort of “try it before you buy it” arrangement. This long-term thinking can generate long-term value, as joint ventures can produce benefit beyond their lifetime.

Advice from the trenches

Having experienced both the ups and downs of the joint venture experience, Hal, Bill and Mike Yoh of Day & Zimmermann offer this advice:

- Negotiating a thorough and well-thought-out operating agreement puts partners on the same page regarding expectations. Decide first on the issues that matter most to you.
- Picking the board is key. As a new company, a joint venture needs clarity about its governance. Creating its



From left, Mike, Hal and Bill Yoh of Day & Zimmermann: High-return alliances.

own board, separate from the parents', will help it retain the kind of independence needed to operate effectively. “You want added value, not traffic cops; people who will roll up their sleeves and be good thought leaders,” says Hal.

- Be sure to take enough time to assess culture fit. To kick off the venture, select a team of people who have both the technical and the interpersonal skills to form a productive group.

- Make sure you understand under what conditions you would want a “divorce.”

Day & Zimmermann takes its plans very seriously. Company managers, including many who are non-family members, know that to reach their growth targets, they are expected to think creatively about how to achieve them as a private company that wants to remain private. Hal, Mike and Bill Yoh see joint ventures as a part of their road to profitable growth, and encourage their managers to do the same.

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