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The disruption brought about by the COVID-19 pandemic has prompted many organizations to turn to joint ventures and strategic alliances as means of survival. Unlike mergers and acquisitions (M&As), a joint venture and a strategic alliance come with a certain degree of flexibility for both parties. They're able to maintain their own identity and continue their core business operations without being overpowered by another organization. Although both a joint venture and a strategic alliance help organizations gain a competitive edge in the market, offer access to a wider customer base and combine expertise, there's also a significant difference between strategic alliance and joint venture. Before we begin examining joint venture vs strategic alliance and look at joint venture and strategic alliance differences, let's find out what each term means. A joint venture involves two or more entities that pool resources to create synergy and accomplish a set objective, such as a new project or undertaking. The participating organizations share the ownership of the new project and the profits and/or losses associated with it. A joint venture often involves the formation of a new legal entity that's separate from the participating organizations' business operations. A strategic alliance is a business agreement between two or more organizations to take on a project that benefits each party involved. The organizations involved in a strategic alliance retain their autonomy and independence while working toward a shared goal. Entering a strategic alliance allows organizations to take on projects that would otherwise have been too complex to execute independently. A joint venture and a strategic alliance differ in terms of their very meanings. While a joint venture usually results in forming a separate legal entity, a strategic alliance does not. Now that we know what a joint venture and a strategic alliance mean, let's examine joint venture vs strategic alliance and look at the difference between joint venture and strategic alliance: Objective A primary difference between joint venture and strategic alliance is in terms of their objectives. Through a joint venture, organizations aim to minimize, mitigate and limit risks by joining forces to undertake a new business. A strategic alliance's objective, on the other hand, is to maximize returns, generate profit and boost the performance of each organization involved. Management Another key difference that arises while analyzing joint venture vs strategic alliance is in terms of the management involved. In a joint venture, management is bilateral or shared between the two parties involved in the venture. A strategic alliance involves delegated management. Contract Another important difference between joint venture and strategic alliance is the type of contract involved in each. A joint venture is more binding than a strategic alliance because it includes a formal contract that outlines the terms agreed upon between the parties involved. A strategic alliance doesn't mandate the existence of a formal contract. It may simply work based on an informal handshake between the parties involved. Form A key joint venture and strategic alliance difference is their form. A joint venture is a form of strategic alliance, whereas a strategic alliance is a form of corporate partnership. Irrespective of their differences, a joint venture and a strategic alliance both yield significant benefits when the organizations involved complement one another. Such benefits not only take the form of better market reach, improved economies of scale and an expanded customer base but also shared expenses, better revenue and enhanced brand image. Participating organizations must be prepared to put aside their differences and respect one another for a collaboration to succeed. There's a significant difference between strategic alliance and joint venture. Whether organizations establish a joint venture or enter a strategic alliance depends on their own unique business needs. It's also essential for the leaders of organizations to analyze the current market scenario, look into legal considerations and assess business goals before opting for either a joint venture or a strategic alliance. Harappa's High Performing Leaders program equips senior professionals with a leadership toolkit to help them understand the difference between joint venture and strategic alliance and navigate their current demanding and challenging mandates. They learn to influence clients, expand the business footprint and ensure client delight. They're able to embrace reflection and a growth mindset to enhance judgment and decision-making. The program is built on Harappa's signature 10-on-10 pedagogy and includes a selection of academically-robust concepts such as the Three I Formula, Trust Equation and Pyramid Principle. Thrive skills such as Big-Picture Thinking, Creative Solutioning and Instinctive Adaptability teach senior professionals to decode the strategic big picture without missing out on details, drive innovation with out-of-the-box solutions and respond to change. Want the leaders of your organization to lead into the future? Sign up today for Harappa's High Performing Leaders program. Share — copy and redistribute the material in any medium or format for any purpose, even commercially. Adapt — remix, transform, and build upon the material for any purpose, even commercially. The licensor cannot revoke these freedoms as long as you follow the license terms. Attribution — You must give appropriate credit , provide a link to the license, and indicate if changes were made . You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use. ShareAlike — If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original. No additional restrictions — You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits. You do not have to comply with the license for elements of the material in the public domain or where your use is permitted by an applicable exception or limitation . No warranties are given. The license may not give you all of the permissions necessary for your intended use. For example, other rights such as publicity, privacy, or moral rights may limit how you use the material. When running a business, one of your main goals is to maximise your profits. Your business can expand in many different ways depending on the methods that you use. A great way to expand your business is by entering into a joint venture or a strategic alliance. A joint venture is when two or more businesses enter into a temporary alliance for a particular project. This alliance is generally set in stone by a specific contract or product that is mutually beneficial for both entities. The term strategic alliance effectively refers to joint ventures; the terms are used interchangeably although strategic alliance may be more common in some consulting contexts. Read along! Table of Contents A joint venture (JV) refers to a business arrangement that involves two or more parties that collaborate to carry out a specific project or task. In joint ventures, the parties involved combine their resources. Joint ventures can be between the following: Organisations Companies Individuals Parties can enter into a joint venture agreement for either short- or long-term projects. Before you enter into a joint venture, you should be aware that everyone involved shares responsibility in regard to its costs, losses, and profits. Nevertheless, joint ventures exist as a separate entity from the other business interests of their participants. There are two types of joint ventures: Incorporated Joint Venture: There is a separate legal personality. Therefore, it can enter into contracts and hold property under its own name. Unincorporated Joint Venture: Parties hold specific shares in the joint venture depending on the agreement but do not hold a separate legal existence. When parties enter into a joint venture, they usually sign a joint venture agreement. If you want to enter into a joint venture, you should use Lawpath's joint venture agreement template to get started. Joint ventures provide businesses with growth opportunities Joint ventures are available to businesses of all sizes Joint ventures are temporary agreements Joint ventures provide businesses with the chance to work together and pool resources and expertise Joint ventures allow businesses to save money as funding and resources from several businesses will be utilized There may be differences in the management styles of the parties involved, which could influence their expectations. In order for a joint venture to succeed, due diligence must be performed beforehand, including feasibility studies, analysis, and research. There could be unequal contributions that are made towards the joint venture that could lead to conflict between the parties involved Joint ventures and strategic alliances are both ways in which companies can achieve many of the same goals as outright mergers or acquisitions. Informal discussions with dozens of CXOs among DealRoom's client base show that over 80% would happily consider a joint venture or strategic alliance for their company if they could find the right fit in a partner. This is just one of the challenges involved. In this article, DealRoom looks at joint ventures and strategic alliances, as well as similarities and differences.In this respect, the confines of joint ventures are in some ways easier: A new entity is created, and both companies enjoy the dividends in the proportion of their shareholding in the entity. Where are the confines of a strategic alliance? The answer tends to be more difficult to define and often involves some form of technology transfer - a sharing of expertise, cross-usage of patents for example.Joint VenturesJoint ventures, commonly referred to as 'JVs', are essentially a form of merger between two companies where, instead of merging with each other, the two companies merge through a separate legal entity, a "NewCo". Joint ventures do often eventually lead to full acquisitions, but only when the joint venture has been deemed a success. If the JV isn't a success, the parent companies can, with relative ease, spin off the JV, with less difficulty than would be possible after a merger or acquisition.Like the LOI (letter of intent) for a merger or acquisition, joint ventures are preceded by an MOU (memorandum of understanding) between the companies partaking in the JV. The MOU outlines the terms of the deal, which include issues such as capital commitment expected from each of the investors, milestones expected from the JV, issues around corporate governance, the duration of the deal and options for renewal, and each party's exit options.Far from being the poorer relation of a merger or acquisition, JVs can be highly intelligent strategic plays on the part of companies unwilling to enter potentially risky conditions without testing the water first. There are several recognized motives for a company to undertake a joint venture transaction:Enter foreign marketsWhen entering a new foreign market, rather than acquiring a foreign company outright, a company may opt instead to create an investment that leverages the existing resources (usually the distribution network) of a company already existing in that market. Learn about international joint ventures from an executive at General Motors.Combined expertiseCertain combinations make sense purely on the individual strengths of each of the companies. For example, it made sense, in the decade before last, for computer companies and cell phone manufacturers to come together and create JVs to make smartphones.Leveraging combined resourcesIdeally, a joint venture will create synergies just like a regular M&A transaction through the combination of two companies' resources. Good examples here in the past have included real estate investors specialized in warehousing and logistics, creating JVs with 3PL (third party logistics) firms.Lower CostsThe cost of most acquisitions is what makes them so risky. By sharing the costs with one or more companies, the costs, and by extension, the financial risks, are diminished.See also: How to Develop International Joint Ventures SuccessfullyCreating Joint Ventures at a Scale - WebinarStrategic AlliancesStrategic alliances are similar to joint ventures - and you'll notice that many tend to use the two terms interchangeably - but there is one key difference: With a strategic alliance, no new legal entity is created. So then, you might reasonably ask, 'what's the difference between a strategic alliance and a contract with any regular supplier?' And that's where it gets a little complicated: A strategic alliance, by definition, involves some form of technology and/or knowledge transfer in manufacturing, marketing, or R&D.Strategic alliances are typically divided into three types:Learning alliancesA formal or informal agreement between two organizations to facilitate know-how transfer between each. Usually, the organizations aren't direct competitors, so they're not worried about giving away the 'special sauce'.Co-specializationsSimilar to the example of the cell phone companies and technology companies outlined above, in co-specializations, each of the organizations brings its set of capabilities to the table, and combines them to achieve some objective. CoalitionsOften, the trade missions of countries in other countries amount to coalitions - a group of companies from the same industry within the same country (e.g, German industrial firms visiting the US together)with largely the same objectives, cooperating together to create what amounts to a coalition to break the new market.Common reasons for Strategic AlliancesTheir similarity to joint ventures means that strategic alliances usually have largely the same underlying motives.However, as a rule, the motive to share knowledge or technology tends to be stronger in strategic alliances. To outsiders not privy to the details of the MOU underpinning the strategic alliance, it can be difficult to define what's happening with the deal, as the value of 'sharing ideas' can be virtually impossible to measure. And yet, nobody doubts that the sharing of ideas can be impactful, giving strategic alliances enduring allure.Real World Examples of Joint Ventures and Strategic AlliancesJoint Venture ExampleOne of the textbook examples of a joint venture was the foundation of Micro Compact Car AG (the maker of SmartCars), a new company whose shares were held evenly by Swatch Watch and Mercedes Benz. After a bumpy first few years, the car ultimately became a success in southern Europe, where it was ideal for the smaller streets and budgets. Furthermore, the JV benefitted from Mercedes Benz's automobile industry expertise and Swatch's ability to market youthful, affordable products.Strategic Alliance ExampleThanks in large part to 'boxing clever', Barnes & Noble is still going strong as the largest brick-and-mortar book retailer in North America. It has a strategic partnership with coffee chain Starbucks, which has brought co-branded B&N/Starbucks cafes to hundreds of its stores across America. It's a great way for both to benefit from what they do best, as well as share many of the resources that would otherwise be invested in setting up locations near to each other.Key Differences Between Joint Ventures and Strategic AlliancesCarrying Out a Successful AgreementA joint venture or strategic alliance is an excellent way to achieve the same goals of a merger or acquisition with fewer resources. See also: Making Joint Ventures SuccessfulIn fact, if your company lacks the resources required for a deal, perhaps it should be considering one of these transactions instead. But just because you're not going the full nine yards and not acquiring the counter party, it doesn't mean you shouldn't undertake good due diligence. The due diligence process in JVs and strategic alliances can be as powerful a value generation tool as with M&A. Talk to DealRoom today about how our platform can help you navigate potential joint ventures and strategic alliances. Alliances play a key role in a corporate growth strategy. They are an alternative to the organic option of building a new business from the ground up, or the inorganic option of making an acquisition. PwC research finds it's often possible to create more value than any firm could achieve alone by working across industry boundaries — through joint ventures or alliances, for example — to provide what customers need. Companies in ecosystems are 1.7 times as likely to be faster to market than peers, 1.2 times as likely to be flexible and agile, and 2.3 times as likely to be highly innovative. Even as partnerships and strategic business alliances are becoming more important, the challenge of managing them is rising. The need for trust, collaboration, and equitable risk-sharing make these arrangements far more delicate to navigate than traditional M&A transactions. Alliances, if done well, can lead to outperformance and competitive advantage. Nevertheless, these rewards can be accompanied by high risk. Constant vigilance and significant commitment from the senior leaders of each parent is necessary to maintain rigorous, professional end-to-end execution. Despite the fact that there is no "silver bullet" to help facilitate the success of an alliance, there are several factors that can help. As globalization and competitiveness intensify, more organizations are likely to turn to JVs and alliances as an effective strategy to win in the marketplace. Nevertheless, the complexity and level of commitment associated with these arrangements cannot be underestimated. Organizations that take a collaborative approach built on trust and gain sharing — and combine it with formalized and well-planned execution — will dramatically increase their chance of success and be well-positioned to leverage these arrangements to create a sustainable competitive advantage. Learn more about PwC's unique, scalable and either deal-specific or recurring services that help address corporate development support needs for clients. Joint VenturesJoint VenturesBOOT CAMP - Financial Modeling (6 Hrs)Boot Camp: LEARN Financial Modeling in Just 6 Hours!Table Of ContentsA joint venture is an arrangement between two or more parties. It occurs when two or more parties agree to enter into a contractual agreement to carry out some specific business undertaking.The joint venture aims to combine its strengths and pool its resources to create a competitive advantage while minimizing the risk. While entering into the contract, the parties should specify the venture's purpose, goals, and limitations. The joint venture can be from corporations, partnerships, Limited Liability companies, and other business entities. It can also combine small and larger companies with big or little projects or long-term continuing projects/deals.The most important agreement in the joint venture case is the joint venture agreement, which specifies all the details about the contract. For example, it mentions the partners' rights and obligations, initial contribution, the objective of the venture, day-to-day operations to be carried out, the profit-sharing ratio, and responsibilities to losses.A strategic alliance is an agreement where two or more independent parties come together for an objective and do not lose their independence. Two or more parties usually form a strategic alliance when each has some expertise or business resources that help achieve the target or enhance their businesses. A joint venture can also start a strategic alliance to create another new company without losing its current existence. It is less than a formal merger or partnership between two firms. The parties with the common interest achieve the common business objectives to earn a profit.It is an arrangement by which two or more parties share the resources or knowledge. It is an alliance formed to share its internal capabilities and assets and help achieve the common business objective.The followings are the key differences between them: - A joint venture is an association formed by two or more entities with a separate legal identity to achieve specific business objectives. On the other hand, a strategic alliance is an arrangement between two or more companies that carry out a particular purpose. Here, a new company is formed, with the original companies operating. The companies creating a joint venture no longer perform as independent entities, unlike the strategic alliance where the firms continue to work independently. In the case of a joint venture, the existence of the contractual agreement is necessary, which specifies all the terms and conditions of the arrangement between the two parties. However, there is no such compulsion in the case of a strategic alliance. It can be expressly declared or can be implied too. A joint venture is a form of strategic alliance. However, the strategic alliance is a form of collaboration or corporate partnership. The joint venture is a separate legal entity with a distinct identity. However, the strategic alliance is not a separate legal entity. The joint venture aims to reduce the risk, whereas maximization of returns drives the strategic alliance. Since a joint venture is formed by two firms coming together and joining to create a separate legal entity to carry out mutual objectives, it has bilateral management. However, in the case of the strategic alliance, delegated administration is usually found since the independent entities continue to operate. With an era of growing competition and technological advancement, the companies are moving toward the strategic alliance form of concept rather than joint venture as they want to cope with the existing risk by maximizing returns. On the other hand, joint ventures can access the knowledge and resources of member entities to utilize the best of help with the motives of enhancing business.Thus, after analyzing all the aspects, one shall make the final investment decision. Then, after analyzing the market situation, risk-taking capacity, and taking legal advice, one should decide.Thus, one should decide after defining their business goals and assessing the risk availing capacities and market situation. Joint ventures and strategic alliances are both ways in which companies can achieve many of the same goals as outright mergers or acquisitions. Informal discussions with dozens of CXOs among DealRoom's client base show that over 80% would happily consider a joint venture or strategic alliance for their company if they could find the right fit in a partner. This is just one of the challenges involved. 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Strategic Alliance can be termed as an arrangement wherein two or more entities come together to undertake common interest. Such an arrangement is in vogue in the contemporary business environment. Indeed, it is a response to the vigorous forces of globalisation, change in technology, deregulation and so forth, due to which the environment is now more complex and competitive in nature. One of the forms of strategic alliance is a joint venture, which can be understood as the temporary partnership, in which two or more entities conjoin to undertake a specific venture. The basic difference between the joint venture and strategic alliance lies in their nature and relationship between the two entities. In the given article, we've presented you all the substantial points of distinction amidst these two, so take a read. Content: Joint Venture Vs Strategic Alliance Comparison Chart Definition Key Differences Conclusion Comparison Chart Basis for ComparisonJoint VentureStrategic Alliance MeaningJoint Venture refers to a form of business organization, set up by two or more companies, to carry out financial activity.Strategic Alliance implies an agreement amidst two or more entities to work jointly with one another, to increase performance of both the entities. Independent OrganizationThe entities which come together in a joint venture, do not continue to operate as independent companies.The entities which come together in a strategic alliance, continue to operate as independent companies. ContractExistMay or may not exist Form of Strategic AllianceCollaboration or corporate partnering Separate legal entityYesNo ObjectiveRisk limitationReward maximization ManagementBilateralDelegated Definition of Joint Venture Joint Venture may be defined as a combination of two or more firms, which set up a separate legal entity, which indicates the capital and interests of the two parties. In finer terms, when two or more firms, invest funds for forming a jointly owned new company is known as a joint venture. The parties to the joint venture, contribute their resources, competencies, skills, technology, in a definite proportion and share the revenues, expenses and company's control. The four basic reasons for entering into such a strategic alliance is: Learning partner's skills. Upgrading and improving skills Seeking vertical integration Shaping future industry evolution A joint venture may result in pooling of resources, massive leverage, lower risk, optimum utilisation of resources, high profits, etc. Definition of Strategic Alliance Strategic Alliance is an arrangement between two or more firms to carry out a number of objectives agreed upon by the entities or to fulfil a critical business requirement while operating as separate organisations. In finer terms, a strategic alliance is a relation that exists amidst two firms, to do business together, which is more than a regular firm to firm dealing, but less than a merger or complete partnership. The entities involving in the alliance may pool their resources such as products, knowledge, expertise, goodwill, capital, distribution channels and so forth. The entities may maintain their autonomy, while they achieve new opportunity. The alliance aims at gaining synergy, wherein each party expects that the strength of the alliance will surpass individual efforts. It encompasses transfer of technical know-how, economic specialisation, divide rewards, risk and expense sharing. The points given below explain the difference between joint venture and strategic alliance When an independent entity is formed by two or more other entities, the business venture is known as a joint venture. On the other extreme, a strategic alliance is an arrangement between two or more companies from various nations, work together to collaborate in any activities of value chain system. The entities which undergo to form the joint venture, do not operate as independent entities. Conversely, the firms undergoing strategic alliance, operate as independent entities. The contractual agreement must exist in the case of joint venture whereas the strategic alliance may be expressly declared or implied between the concerned entities. The joint venture is the most complicated type of strategic alliance. As against, a strategic alliance is a form of collaboration or corporate partnering. The joint venture is a separate legal entity, created by the conjoining firms. On the contrary, a strategic alliance is not a separate legal entity. Joint Venture is aimed at reducing risk, while strategic alliance focuses on reward maximisation. When we talk about management, a joint venture has bilateral management. In contrast, a delegated management can be found in a strategic alliance. Conclusion Nowadays, most of the companies are turning towards the strategic alliance, with the aim of coping with uncertainty and risk, as well as to approach a gamut of competencies, market and technology. On the other hand, joint ventures can access the knowledge, assets and funds from all the firms to venture, so it is a blend of best features of those entities, without altering the parent enterprise. Differences between strategic alliance vs joint venture explained. Are you looking forward to expanding your business horizons? Do you want to partner with one or more companies? Are you unable to decide whether you should prefer a merger, strategic alliance, or joint venture? The decision to form a strategic alliance or a joint venture depends heavily on the core of your business. However, knowing the difference between a strategic alliance and a joint venture is crucial. Here is a deep analysis of both strategic alliances and joint ventures. A strategic alliance is a type of agreement in which two or more companies come together to undertake a specific task while remaining independent. They bring together their own capacities and resources to achieve a common goal that benefits them mutually. This common goal is achieved through expertise, knowledge, and what each company is most capable of. A strategic alliance is an informal agreement. A joint venture is an agreement in which two or more companies come together to perform a common purpose and end the agreement after fulfilling the purpose. For instance, many sole proprietors can come together to form a new venture or entity. A chef and baker can join hands to open a new food joint. The agreement defines the type of joint venture the parties have decided to enter into. It can be a partnership, corporation, limited liability company, or so. A joint venture is more formal than a strategic alliance. Like any partnership agreement, a joint venture agreement lays down everything clearly. It has strict governance, including the board of directors, profit sharing ratio, rights and duties of partners, objective obligations, registered office, and more. To know the difference between the two, here are clear points between strategic alliance vs joint venture that set them apart in many ways:The objective of a strategic alliance is to maximize returns by making the optimal use of the resources, capital, and every other advantage each of the companies involved in the strategic alliance possesses. It works towards generating more profits. The objective of a joint venture, on the other hand, is to minimize the risks involved in doing business. A joint venture allows two or more companies to work together to mitigate the risks. For instance, an Asian company can join hands with a European company to expand its business, thus avoiding the risk of new market entry. They do so by using complementary assets of the already established company there. A strategic alliance has no separate legal entity, i.e., a strategic alliance has no legal entity of its own. The law doesn't apply as it is a mutual agreement in an informal setting. This works as a contractual agreement and not as a legal partnership. A joint venture, on the other hand, is a separate legal entity. This means the venture's partners are different from the business entity. In case of dissolution, the business is independent of the individual or owner. The owner is not responsible for the venture's debts if it is a limited liability partnership. A strategic alliance is formed by sharing the resources of the entities involved in the alliance. Whereas in a joint venture, a third entity is created by combining the existing resources of the parties involved. In the case of a strategic alliance, the management is delegated, which means the existing employees authorize other persons to do the tasks or assign the respective work. In a joint venture, management is usually bilateral, i.e., equally shared amongst the parties or as agreed upon as part of the contract. Sometimes, separate management is formed as part of the joint venture. As mentioned, a strategic alliance is an informal agreement that may merely start with words exchanged. Therefore, there is no written or legal contract/agreement in the strategic alliance. On the contrary, a joint venture is a formal and legal agreement/contract, and all partners/entities are legally bound through it. The contracts lay down the duties and obligations assigned to each party. The main feature of a strategic alliance is its independence. The parties involved in a strategic alliance work together by taking advantage of each other's resources. However, they operate separately and independently without losing their business entity, unlike in the joint venture case. In a joint venture, two parties merge and operate as one, working and operating by being dependent on each other and, therefore, having a separate legal entity. In a strategic alliance, the main resources that parties use to maximise profits include knowledge, product, expertise, capital, goodwill, etc. Joint ventures aim to minimize risks using resources such as optimum utilization of resources, risk-free or lower-risk plans, leverage, etc. The strategic alliance has an excellent level of risk due to its lack of a separate legal entity. It is an informal agreement with no contract, leading to conflicts and loss of trust between parties. A joint venture is a lower-risk venture as it is a legal contract and solely aimed towards doing business with minimal risks involved. AdvantagesThe main advantage of a strategic alliance vs. a joint venture is that it allows the expansion of resources for a less capable business by being in a strategic alliance with a more powerful company. In return, the other company can help by sharing its expertise in marketing and sales or by promoting its market presence. As a result, all parties involved can speed up their productivity. A strategic alliance usually involves a foreign company joining hands with a local company to access a new market. Entering a new foreign market is usually impossible due to cultural differences, trade regulations, and other factors. For instance, if you are an Australian company and want to expand your business in the USA, you can strategically partner with a local American company to penetrate the market. A strategic alliance provides a visible change in the production rate. It helps companies manufacture and distribute goods faster, meeting consumers' demands with added resources and expertise. Two heads are better than one holds for a strategic alliance. When a company partners up with the right alliance, both companies can come up with some impressive ideas and products. Together, they can outpace the competition with their revolutionary products and services created with the power of 2x. A company in the wrong strategic alliance can lose control of its own company if not handled properly. Without a contract, it is more important for a strategic alliance to work with transparency and honesty. When in a strategic alliance, pay proper attention while choosing by building trust over time. A dominant alliance can make you lose control over your business productivity, which may not benefit either party. A strategic alliance involves doing business independently. However, when sharing resources, a company becomes dependent on another one in some way. If a company fails to provide the right resources on time, this can cause a rift in the workings and eventually lead to a loss of reputation. For instance, Tesla's dependence on Panasonic to deliver electric batteries caused a delay in vehicle production.A joint venture creates a new entity by combining the capital brought in by the parties involved. This allows easy collection of initial capital, thereby reducing each company's financial burden. A joint venture can reduce the companies' financial burden by dividing expenses, bringing down the overall costs. Each company brings its expertise, knowledge, and know-how, which leverages the overall output of the venture. A small company joining hands with a large company can help a small company gain market visibility quickly. When expanding its business horizons through joint ventures, a well-known brand always attracts media houses to cover the news. This benefits small companies in terms of their brand image and market visibility, and it increases their credibility. A joint venture helps in facing severe competition in the same market niche. When there is cutthroat competition within a market and increased pricing pressure, joining a company can help tackle the competition better. The 2x power makes it easier to dominate the market and eradicate all competitors in the area. A joint venture between a small and large company also enjoys high economies of scale, as an increase in output leads to a lower overall cost. The operational synergy resulting from the joint contribution of both companies helps the venture grow better. Companies in a joint venture suffer when their objectives for being in a joint venture aren't clear. The contract does not mention the real purpose of entering into a partnership. Moreover, the joint venture suffers when the goals are not communicated to the company's employees. Another problem that arises in a joint venture is based upon cultural differences. If a European company joins hands with an Asian company, they are bound to have some cultural differences that can hamper a joint venture's success. Thus, a company should form a joint venture within a similar corporate culture or eliminate the cultural barriers that arise. Sometimes, a conflict of interest may arise when a company believes it contributes more of its resources to the joint venture than another party. Despite having an upper advantage in the joint venture, such a company may feel it is unfair to share equal profits resulting from the joint venture. However, a conflict of interest can be solved through proper and free communication amongst the parties. Strategic alliances are mutual relationships that are destined to be terminated at some point. They have no fixed period and can be dissolved with the parties' consent. This usually happens when the strategic alliance is no longer fruitful. The committed partners of an alliance can decide to dissolve it when it is underperforming by implementing a series of steps. Here are the common reasons behind the dissolution of a strategic partnership:When the alliance partners are unable to manage the operations due to mismanagement, cultural differences, and other solid reasons, the strategic alliance loses its meaning. When the alliance partners realize there is a lack of resources, structures, and procedures needed to carry out the operations effectively, an alliance reaches a state of dissolution when it is unable to measure the result. When another company acquires a partner company and another alliance partner loses its value, the alliance becomes mismatched and on the verge of dissolution. Suppose a company comes into a strategic alliance with the company to take advantage of a technology the partner company possesses. However, as time passes, the technology becomes obsolete as new technology makes its appearance in the market. In such a case, the partner at a loss can choose to end the alliance. Usually, a joint venture lasts for an extended period compared to a strategic alliance. However, at some point, the joint venture also has to be dissolved, whether the purpose is fulfilled or not. A joint venture is ended on the correct terms when the purpose or the objective of the joint venture is fulfilled. Thus, when it reaches its expiry date,Like a strategic alliance, a joint venture can end if the partners' firms' objectives are no longer favorable for working together. When a partnership harms the partner firms more than good, it leads to dissolution. This could include an increase in financial, legal, and trust issues within the companies. Joint ventures minimize risks when doing business. When this objective is not achieved or if the joint venture is not contributing to any positive change in the partners' profits, it is better to end it. Changes in economic policy, political conditions, market conditions, and other factors can also lead to the dissolution of joint ventures.The strategic partnership between Uber and Spotify allows Uber to have an advantage over other ride-sharing businesses in providing its customers with the experience of personalized music while on the ride. A strategic partnership between Target and Starbucks allows visitors at Target to enjoy their favorite Starbucks drink while on a shopping spree. The strategic alliance between Red Bull and GoPro is also going strong. They team up to organize a skydiving event that only used a GoPro camera to record it. Their alliance has further started the Red Bull extreme sports events known as the Red Bull Rampage. During the pandemic, NASCAR joined the motor esports program, iRacing. Together, they created a replica or virtual version similar to live racing events.RenewAge, a construction company aimed at constructing renewable and energy-efficient solutions, entered into a joint venture with Loop, an electric vehicle charging company. Together, they aim to make over 10000 e-charging stations, seeing an increase in the demand for electric cars. Ventec Life Systems and General Motors collaborated to produce a state-of-the-art ventilator system when COVID-19 was on the rise. Together, they aimed to manufacture a portable unit that combined a ventilator, nebulizer, cough assist, suction pump, and oxygen concentrator. This sums up the differences between strategic alliances and joint ventures. Both partnership models have pros and cons. Before making a choice, consider your requirements.Have we missed anything or have any questions? Get in touchIf you enjoyed reading this, don't forget to share.You might also enjoy these popular International Expansion related articles: Venture Capital Advantages and Disadvantages, Angels vs Venture Capitalist Funding Compared – Pros & Cons and Venture Capital vs Angel Investing for Startups on a similar topic.At Scaling Partners, we are experienced at scaling startups. Scaling Partners helps you bridge your business's knowledge, processes, and gaps through connected services, hands-on solutions, and real experience. We know business growth isn't easy. But we make it easier. Faster. More sustainable. How do we do that? By partnering with you on the processes and insights you're missing and the people who've been through it all before. And because we do it as a service, it's brilliantly affordable.Learn more about how we support startups with their International Expansion.Image by Fauxels from Pexels Both joint ventures and strategic alliances involve two or more companies collaborating to achieve a certain goal or task. But there are differences between the two — and knowing them could mean the difference between the success and failure of a potential partnership. The main difference is that in a joint venture, the participating firms sign a contractual agreement and form a new jointly-owned legal entity whereas, in a strategic alliance, firms collaborate without forming a new entity. In this post, you'll learn more about how each strategy works and how to decide which one is right for your business. Keep reading. What is a Joint Venture? A joint venture (JV) is a business arrangement in which two or more companies agree to combine certain resources and work together to carry out a particular task. Tasks might include the research and development of new products, venturing into a new market, or other operational pursuits. The JV partners maintain their own separate business operations and continue to exist apart as they did before the JV. The venture itself, however, exists as a new and separate business entity — either as a partnership or a corporation. All revenues, costs, and profits that come with the JV, therefore, are considered separate from each organization's business interests. The JV participants usually sign a formal agreement that sets forth the extent to which each will exercise control over the activities of the venture as well as how they will share its profits or losses. The agreement can also specify how long the joint venture will last. Why Form a Joint Venture? Companies form joint ventures for several reasons including: To Leverage Resources One common motive for a JV is for companies to benefit from the complementary advantages or strengths of one another. For example, two entities might come together with the goal of creating and marketing a new product. One entity may have superior manufacturing and distribution facilities. The other might have a greater marketing network that can help capture market share fast upon launching the new product. So by taking advantage of each other's strengths, they both profit. To Save Costs JVs are a cheaper and less risky alternative to mergers and acquisitions (M&As). Essentially, a JV allows a firm to use the resources of another one to achieve a commercial goal rather than using large sums of money to buy a business outright. To Enjoy the Benefits of Combined Expertise The combined expertise of two or more companies entering into a JV can breed innovation. While the companies might initially form a JV to accomplish one particular task or goal, they know that other innumerable, unknown benefits can arise in the course of their partnership as a result of combining their expertise. What is a Strategic Alliance? A strategic alliance is a collaborative agreement between two or more companies that wish to pursue mutually beneficial goals, but in which there's no creation of a separate legal entity. As such, a strategic alliance is less binding and more flexible than a JV. In the course of carrying out their mutually arranged activities, the companies in a strategic alliance will most likely share their resources, revenues, and profits. They can pool their knowledge, experience, and personnel as they see fit, with each company filling in the gaps of the other. Why Form a Strategic Alliance? Companies usually form strategic alliances for the same main reasons they form joint ventures: to share resources, save money, and combine expertise. The only difference is that in a strategic alliance, the agreement and relationship between the participants are less formal. Joint Venture vs. Strategic Alliance: What are the Key Differences? Here are three key differences between a joint venture and a strategic alliance. 1. Legal Documentation A JV is a new and separate legal entity, and so, it usually comes with a binding contract. Arriving at the contract often requires meetings and sign-off from multiple parties from the participant companies. In a strategic alliance, the two or more parties agree to terms and can "seal the deal" with no more than a handshake. There might be a letter of understanding or an agreement to spell out the terms and set expectations for all parties. But the documents are typically not part of a binding contract, as would be the case with a JV. So, since there is no binding contract in a strategic alliance, how do the organizations know when the alliance has run its course? When does it end? Typically, it's when the alliance achieves its goals. But even if the strategic alliance fails, for example, due to poor performance or disagreement, the absence of a binding legal contract means that the parties can simply part company and go their separate ways. 2. Management Status Again, a strategic alliance is not its own legal entity. A JV, on the other hand, is. Because of this, the management structure is often different. Executives of companies entering into a strategic alliance generally maintain their current professional roles while taking on extra responsibilities as demanded by the alliance. On the other hand, because the JV is a separate legal entity, its structure often requires a completely different management team overseeing its operations. 3. Benefits vs. Risk Companies usually form strategic alliances to maximize the benefits and opportunities that each can bring to the table. In a JV, however, the emphasis is often on limiting risk. Such would be the case, for example, when two competing manufacturers create a JV to unite operations in a particular region to minimize labor costs, taxes, and tariffs. The table below summarizes the key differences between a joint venture and a strategic alliance. Joint Venture Strategic Alliance Involves the creation of a new legal entity in which each participant owns a share No creation of a new legal entity Includes a binding contract that specifies all the terms and conditions of the deal A binding contract is not necessary. Participants can seal the deal through a simple handshake Involves the creation of a completely different management team to oversee the JV's operations There's no creation of a new management team. Companies' executives just take on extra responsibilities as demanded by the alliance while maintaining their current professional roles. The primary aim of a JV is to share or reduce risk The aim is to maximize the benefits and opportunities that two or more companies bring to the table How to Decide Between a Joint Venture and Strategic Alliance The right strategy for your business depends on your specific circumstances and the goals of the partnership. Choose a joint venture: For large-scale projects that require significant resources and capital investment. An example is new product creation. For high-risk projects where sharing the risk can reduce overall exposure. For projects and ventures that require a long-term commitment and a shared vision. Where there's a need for joint ownership of new intellectual property. Choose a strategic alliance: For projects that call for a particular set of skills, expertise, or technology that you don't have. For projects that aren't resource-intensive, but that still need collaboration for success or that would benefit from collaboration. Examples are joint marketing campaigns or the sharing of distribution channels. To share knowledge, information, or research and development. CapLinked Can Help You Execute a Joint Venture or Strategic Alliance Successfully Whether you choose to pursue a joint venture or a strategic alliance, it's important to have a secure and efficient way to share confidential information and documents with your potential partners. CapLinked's virtual data rooms (VDRs) offer exactly that — a secure and reliable platform for all deal participants to store, share, and edit sensitive documents. With advanced features like customizable permissions, collaboration tools, and document and version management, CapLinked VDRs can speed up due diligence and keep you organized from start to finish. Sign up for a free CapLinked trial today and take the first step toward a successful joint venture or strategic alliance. Sources: Houston Chronicle – What is the Difference Between a Joint Venture and Strategic Alliance? Investopedia – Joint Venture: What Is It and Why Do Companies Form One? International Franchise Association – What is a strategic alliance?