Practitioner Perspectives

WOLF DEN ASSOCIATES, LLC

July 2018 *(Vol. 7; Issue 7)*

Top 10 Characteristics of a Successful JV

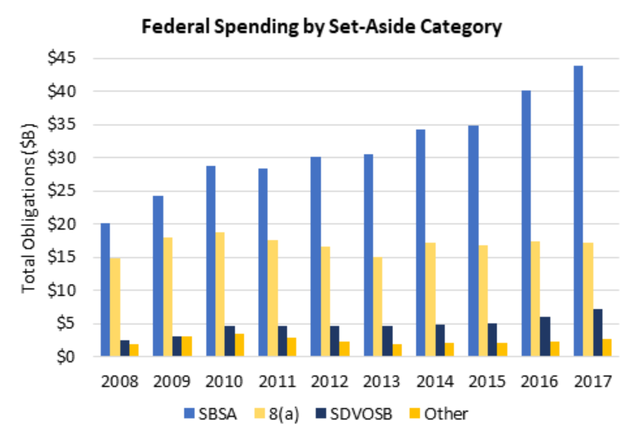
1. ***Trusted relationship: JVs are hard to manage; especially between strangers***
2. ***Complementary cultures: If JV partners do not see eye to eye on customers and employees, the magic will quickly fade***
3. ***Harmonious rate structures: It is hard to make a JV work from opposite sides of the tracks***
4. ***Diverse capabilities: Variety is the spice of life, so pick JV partners to maximize the work you can pursue***
5. ***Symbiotic customer mix: JV partners should expand addressable markets***
6. ***Strategic vision: JVs need a healthy combination of short and long-term objectives***
7. ***Clean operating structure: Nothing dooms a JV like an overly constrictive prenup***
8. ***Dedicated management time: Partners need to budget senior management time to make it work***
9. ***Clear roles and responsibilities: Set expectations to avoid conflict or resentment***
10. ***Shared resources: Agree up front on profit distributions and how to divide shared assets***

Here for the Right Reasons

- SBA's All Small Mentor-Protégé Program has created a feeding frenzy of primes seeking to JV with the most attractive small businesses
- Protégés typically only have **one** "summer" mentor, but can have a maximum of **two** mentors at any point in time
- Mentor firms can have **three** protégés at a time and up to **three** contracts with each protégé through a Mentor-Protégé JV
- Small business partners in JVs must perform **40%** or more of all work and must own **51%** or more of the JV to preserve the JV's SB status
- Populated and unpopulated JVs have key differences and disparate financial accounting practices that JV partners need to know well
- To forge a bond that won't fade with summer tans, aspiring JV partners must be sure they aren't just signing up for a one-bid stand

Understanding Joint Ventures (JVs)

Like "summer flings," JVs come with many benefits, but can be confusing for both partners. JV members can pool past performance, share costs and resources, and cross-leverage customer intimacy, but also have extensive rules, operating costs, legal implications, and strings attached. At a basic level, JVs are legal entities created for a specific business purpose. JVs have separate federal identification numbers, separate System for Award Management (SAM) accounts and are subject to FAR Subpart 9.6. JVs come in many shapes and sizes, including corporations, limited liability companies (LLC), and partnerships, each with unique rationales and risks. Most SBA recognized JVs are unpopulated, meaning that they do not have direct employees. Outside the SBA, however, populated JVs are far more common.



Total federal set-aside spending shows no sign of slowing down, making JVs an increasingly important element of capture and proposal strategy.
Source: FPDS Data and Wolf Den Analysis

Right v. Right Now

Much like splitting popcorn at the movies, JVs can be a cheaper date for federal customers than eating alone. JVs can help the partners approach complex procurements that require size, scope, and complexity beyond that of either standalone company. Taking this plunge can bring together diverse capabilities and credibility under a single entity. Of course, much like Uber pairings at last call, hastily conceived pairings born of desperation to preserve legacy set-aside revenue are still common. While these single-purpose relationships get the deed done, they are more "right now" than "right." If growing old together in a more strategic JV is not in the cards, opportunity-specific JVs like these can still make competitive and financial sense. With respect to the latter, remember that in populated JVs, the minority partner books no revenue and only its share of profits while the majority partner books the remaining profit, but all of the revenue.

Avoiding Heartbreak

JVs and summer flings can be a lot of fun, but a lack of strings attached does not mean there are not possible longer term repercussions. For example, a "future mate" may not value revenue from this hookup the same way they would if it came from the operating company, so structure your JV with an eye toward your longer-term strategy. All suitors in the JV need to recognize that this is a legal entity that will require material effort and dedicated man/woman hours. Additionally, you will be open to reputational and legal risk if things sour. For a more casual approach to getting close to industry partners without putting a label on "us," some relationship-phobic companies are choosing Contractor Teaming Arrangements (CTAs). These carry the added benefits of schedule sharing and low indirect loads, with fewer strings attached.

Offseason Planning

JVs are partnerships of convenience and often conceived with a specific purpose in mind. Before you put on your sundress and ramp up the bicep curls, know the risks and responsibilities. Thoroughly research potential partners with a focus on those who bring complementary capabilities and augment your ability to win work. Also, JVs involve a lot of paperwork and administration so have a good lawyer handy with special expertise in the various types of JV arrangements. Depending on the type of JV, you may need to engage the SBA or another cognizant agency to recognize your venture, so research the process and prepare necessary documentation. Ideally, these preparatory activities will take place well in advance and outside the pressure of a live bid. Summer doesn't last forever, so if you want to get lasting value out of JVs, put in the effort ahead of time, know what you are getting out of it, and be sure your partner has the same expectations.

1751 Pinnacle Drive
McLean, VA 22102
wolfdenassociates.com

Jim Ghiloni
Jim.Ghiloni@wolfdenassociates.com
(703) 254-6762

Meghan Gifford
Meghan@wolfdenassociates.com
(517) 648-6223

Jay Walker
Jay@wolfdenassociates.com
(202) 607-4083