Different Models of Partnership: Pro's & Cons

Jurriaen Sleijster - mci

48th ICCA Congress & Exhibition
Wednesday 11 November 2009
Different models of partnership: Pro's & Cons

Agenda:
• A review of some common models
• An interview with two PCO's
• An interview with two CVB's
About me...

- Executive Vice President of MCI
- MCI: A globally integrated association, communications and event management company.
- € 210 million+ budget under management
- 800+ Talents, 37 Offices in 20 countries
- Growth: organically and through acquisitions, start-ups, JV's, and alliances
Why partner?

Ask yourself:
  • Does size matter?
  • Extend global reach?
  • Strengthen my brand?
  • More skills?
  • Or niche market position?
  • Full control versus shared control?
Why partner?

Reasons could be:

- Need for funding
  - Add money to grow, invest, develop
- Fighting the pressure of commodity
  - Add value-services
- Too dependent on too few clients
  - Increase client portfolio
- Lack of talent
  - Get to new staff, successors
Why partner?

Consider:

- Growth: cost of management structures
- Growth: communication issues in larger structures
- Alignment of services, standards of operations
- One brand, one image?
- All staff are equal?
Partnership models

Let's review a few models:
• Acquisition
• Minority Interest (ownership)
• Joint Venture
• Alliance
• Franchise
Acquisition

• Wikipedia: "The buying of one company by another"
• The acquisition process is very complex, with many dimensions influencing its outcome:
  • Future fit
  • Matching cultures
  • Brand
  • Integration
  • Cost versus "ROI"
Acquisition

• Bain & Company research:
  • Continual acquirers who do small deals have consistently higher returns than those who do few & big deals
  • "The best plan for opportunity"
  • Maintain relationship with each target: be ready to go if the opportunity presents itself
Acquisition

- Bain research of 1,700 acquirers between 1986 and 2001:
  - 20+ deals / 15 years gave 2x more shareholder return than "none-dealers"
  - Frequent acquirers: 1.7 x better than those who did 5 deals or less
  - Those that bought companies < 15% of own size got on average 6x the returns of those that bought companies ≥35% of their size
  - Average deal size is small
  - Most successful acquirers do a lot of deals more or less continually
Acquisition

Potential reasons behind a purchase:
• Broadening of products/services and geographic reach
• Potential to cross-sell to both businesses’ customers
• Biggest potential for return (but also risk)
• Bigger size = greater negotiating and purchasing power
• Full ownership = easier to manage
Acquisition

Possible issues with acquisitions:
- More risky than organic growth
- Higher financial exposure (borrowed funds?)
- Return on investment not always achieved
- Management versus operations: do you have the skills?
- Merging cultures can take a long time
- Staffing issues: unwillingness to accept new structure or to relocate if needed
Minority Interest (Ownership)

- Wikipedia: "Minority Interest refers to ownership of a company that is less than 50% of outstanding shares"
- You are "co-owner" but do not have a majority vote
Minority Interest

Why a Minority Interest?

• Great for creating a mindset of mutual destiny and trust:
  • With similar companies
  • With complementary companies
  • With suppliers

• A less risky approach to investing
  • In a business which is not mature but in growth mode
  • Portfolio approach (if ownership in multiple companies)
Minority Interest

Why a Minority Interest?

• May be a good first step to a majority interest or an acquisition

• In some countries, foreign investments in companies is limited to less than 50%, and represent the only entry point into that market
Minority Interest

Minority Interest Issues:

• Limited or no control over corporate policy
• Limited influence on management decisions of the company
• "Own business first", partnership 2nd
• Intellectual property risk in case of buyout
• Possible “squeeze-out” by majority owners:
  • withholding information
  • exclusion of employment
  • elimination from the BOD
  • no dividends
Joint Venture

• Wikipedia: "an entity formed between two or more parties to undertake economic activity together"

• The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise

• The venture can be either for one specific project only, or a continuing business relationship
Joint Venture

Reasons to form a Joint Venture (JV):

• Quicker new market penetration, especially when market is well known by one of the parties
• Cost and risk reduction through sharing
• Economies of scale and synergies
• Access to new products, technologies, processes and management practices
• First step to something more?
Joint Venture

Reasons for dissolution:
• End of a JV is usually predetermined
• Goals of the venture were met (or not)
• Both parties have developed new objectives
• Market conditions make the deal impertinent
• Shared risks can lead to financial or legal concerns
Alliance

• Wikipedia: A formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need

• A cooperation which aims for a synergy where each partner hopes that the benefits from the alliance will be greater than those from individual efforts

• Each party remains independent from the other
Alliance

Main characteristics:
• High level of transparency between partners
• Common long-term strategy and goals
• Pooling/sharing ideas
• Increased business opportunities and reach
• Greater service capabilities, focus on adding value
• Executive and senior management exchange (BOD?)
Alliance

Potential issues:
• The alliance partner might under-deliver due to focus on its own bottom line
• If chosen for its expertise, the partner might take advantage of its situation
• The allied company could become a competitor in the long run or possibly try to take over the other company
• Possible culture barriers, ego and ideology clashes
Franchise

- Wikipedia: The practice of using another person's business model
- The franchisor grants the independent operator the right to distribute its products, techniques, and trademarks for a percentage of gross monthly sales and a royalty fee
- Franchisee operates their own business
Franchise

Why franchise?

• Faster and cheaper access to a potential market than direct ownership
• Profit generation with lower risks
• Easy to find franchisees once established with good reputation
• Foster brand name and products/services
• Profit generation with minimal investment
Franchise

When not to franchise:

• Low gross margins due to immature or failing business (can Franchisee afford a 15% cost?)
• Limited geographic scope or culturally-bound
• Very complex processes to replicate
• Services haven't yet stood the test of time
**Conclusion**

Different partnerships - different pro's and cons

- What is it you are looking for? Money? Clients? Talent?
- How much control do you want?
- How much risk can you handle?
- Can you manage it?
- Will it add value?
Interview with two PCO's

Adriana Spitteler - Managing Director
Congrex Travel AG - Switzerland

Wolfgang Kerkhoff - CEO
Eurokongress - Germany
Interview with two CVB's

Ana Maria Viscasillas - President & CEO
Puerto Rico Convention Bureau

Handan Boyce - General Manager
Istanbul Convention & Visitors Bureau
Conclusion

Q & A
Thank you!
48th ICCA Congress & Exhibition
Wednesday 11 November 2009