# Final Paper

## Comparing the success of two joint ventures in the ready-to-drink tea market: implications for alliance management theory.

Tom Langie
Promoter: Prof. Dr. Wim Vanhaverbeke
Co-Promoter: Prof. Dr. Nadine Roijakkers

Master of Applied Economic Sciences - Innovation and entrepreneurship

Hasselt University - Faculty of Business Economics

Academic year 2013-2014

# Preface

This final paper marks the end of my study of Applied Economic Sciences, option Innovation and Entrepreneurship at Hasselt University. Although the subject of this paper was very interesting and instructive, it was not an easy one to write and several challenges had to be overcome in the process.

These challenges could never have been overcome without the help of some key individuals, which I would like to thank in this foreword. First and foremost I would like to thank my promoter, Prof. Dr. Wim Vanhaverbeke, and my co-promoter, Prof. Dr. Nadine Roijakkers, for their guidance, counselling and input. I would also like to thank Dr. Matthias Berger for his views and for enabling me to research PLI by providing me with the indispensable contacts within the joint venture. I would also like to thank Nuno Pena for his views and for providing me with the contacts at BPW. Naturally, I would also like to thank all of the interviewees, whose views have enabled me to build a vast amount of expertise on the subject at hand. Without all of the above, this paper would never have been possible. I thank you.

*"If you really want to do something, you'll find a way. If you don't, you'll find an excuse"* - Jim Rohn

# Summary

Joint ventures are a very popular type of alliance and can offer a lot of advantages. Yet they can be a hand full to manage and many joint ventures fail to properly achieve their objectives. Since Unilever and PepsiCo agreed to help me on this final paper, I was in a unique position to thoroughly scrutinize their joint venture, called PLI, which manufactures and sells Lipton Ice Tea. The reason why this was such an instructive experience is because there is another almost identical joint venture, called BPW, which started out very similarly but has known a lot more difficulties than PLI. BPW manufactures and sells Nestea and is a joint venture of Nestlé and The Coca-Cola Company. By doing a comparative case study on these two joint ventures I was able to uncover which factors are truly important for joint ventures to succeed. The research question of this thesis is as follows:

***"What are the critical factors driving the success of the Unilever and PepsiCo joint venture, PLI, and what are the main reasons behind the collapse of the Nestlé and The Coca-Cola Company joint venture, BPW?"***

In the first part of this final paper I present the problem definition of my research. Based on this problem definition I deduce the central research question and the sub research questions.

The second part of this final paper consists of a literature review. In the first chapter of the literature review I provide a clear definition of what joint ventures exactly entail and position them in their framework of strategic alliances. I also elucidate the different types and advantages of joint ventures in this chapter. In the second chapter I provide an overview of the factors that the literature deems critical to alliance success. I have split these up along the different stages of the alliance life cycle.

In the third part of this paper I explain the methodology I have used in my research and provide an overview of the people I have interviewed.

For the fourth part of this final paper I have done a comparative case study. I have conducted several interviews with PLI and BPW managers. I have also interviewed a Mintel industry analyst. In the first two chapters I give an answer to the central research question of this paper. In the first chapter of this part I have summarized the factors that are considered to drive the success of PLI. In the second chapter I have summarized the main drivers of the BPW downscaling.

In the final chapter of this part I add my findings to the existing literature and make recommendations for future research. Based on the consolidation of the existing literature and the interview findings I also provide a checklist and guidelines on how to best set up and manage a joint venture to maximize the chances of success.

I finalise the paper with a general conclusion containing several interesting findings based on the literature review and the interviews. In the last part, the personal review, I look back on this final paper and some of the difficulties I have encountered while writing it.

# Table of contents

**Preface** 2

**Summary** 6

**Table of contents** 10

**List of figures, graphs and tables** 14

**Part 1. Problem definition and establishing research questions** 17

- **Chapter 1. Problem definition** 19
  - Introduction 19
  - Nestea 21
  - Lipton Ice Tea 22
  - Problem definition 23
- **Chapter 2. Research Questions** 25
  - Central research question 25
  - Sub research questions 26

**Part 2. Literature review** 31

- **Chapter 1. What exactly is a joint venture, and what are the advantages it has to offer within a company's strategic objectives?** 33
  - Joint Venture Definition 33
  - Positioning within framework of alliances 34
  - Different types of joint ventures 37
  - Advantages 38
- **Chapter 2. Which factors are crucial to the success of a joint venture?** 41
  - Introduction 41
  - Alliance performance 41
  - Success factors 43
  - A. Formation phase 44
  - B. Design phase 49
  - C. Postformation phase 54
  - D. Overlapping success factors 58

**Part 3. Methodology** 63

- **Methodology** 65
  - Case study design 65

Research design ... 65
Interview account ... 67

**Part 4. Case study ... 73**

**Chapter 1. What are the critical factors driving the success of the Unilever and PepsiCo joint venture, PLI? ... 75**

PLI Conclusion ... 82

**Chapter 2. What are the main reasons behind the collapse of the Nestlé and The Coca-Cola Company joint venture, BPW? ... 83**

BPW Conclusion ... 88

**Chapter 3. Implications for alliance management theory ... 89**

Additions to the existing literature ... 89
Checklist and guidelines ... 91
Recommendations for future research ... 94

**Conclusion ... 97**

**Review ... 101**

**Glossary ... 103**

**Sources of wisdom ... 105**

**Attachments ... 113**

Attachment 1: Questions PLI ... 115
Attachment 2: Questions BPW ... 119
Attachment 3: Questions Industry Analyst ... 123

# List of figures, graphs and tables

Graph 1 - Termination rates of joint ventures (Bruce Kogut, 1989)) 23
Table 1 - Summary of joint venture definitions 34
Table 2 - Summary of alliance definitions 35
Figure 1 - Types of interfirm relationships 36
Figure 2 - Joint venture types 37
Table 3 - Joint venture advantages 39
Figure 3 - Alliance life cycle (Kale & Singh 2009) 43
Figure 4 - Arc of alliance strategy (Gomes-Casseres 2004) 45
Table 4 - Partner selection criteria (Bamford et al. 2003) 48
Figure 5 - Alliance objectives and progress measures (Bamford et al. 2003) 50
Table 5 - List of interviewees 69
Figure 6 - Joint venture checklist 92

# Part 1. Problem definition and establishing research questions

# Chapter 1. Problem definition

## Introduction

The joint venture in the ready-to-drink (RTD) tea market between Unilever and PepsiCo, PLI, is very successful, while the one between Nestlé and The Coca-Cola Company, BPW, collapsed in 2012.

Before embarking on the journey to fully explain the problem at hand, I would first like to introduce the relevant players, characters if you will, that play the most significant role in this paper.

Nestlé

Nestlé is a 140-year-old Swiss multinational. Their main business consists of food and beverages. They are the largest food company in the world.[1]

The Coca-Cola Company

The Coca-Cola Company is the world's largest beverage company. It is an American multinational that focuses on non-alcoholic beverages. The company is best known for its Coca-Cola soft drink, the world's most valuable brand. [2]

Beverage Partners Worldwide (BPW)

Beverage Partners Worldwide (BPW) is a joint venture between The Coca-Cola Company and Nestlé focused on the ready-to-drink tea business. The joint venture received it's current name, BPW, in 2001, but was founded as the Coca-Cola Nestlé Refreshments Company in 1991. [3]

Nestea

Nestea is a brand of iced tea that is manufactured by Nestlé and is distributed by Beverage Partners Worldwide, a joint venture between The Coca-Cola Company and Nestlé focused on the ready-to-drink tea business. [4]

---

[1] http://www.nestle.be/nl/hetbedrijfnestlebelgie

[2] http://www.coca-colacompany.com/our-company/infographic-coca-cola-at-a-glance#TCCC

[3] http://www.nestle.com/media/pressreleases/allpressreleases/beverage-partners-worldwide-jointventure

[4] http://www.nestea-usa.com/#products

Unilever

Unilever is a Dutch-British multinational corporation. Their main business consists of packaged consumer goods. It is the world's third largest of its kind, following Procter & Gamble and Nestlé.[5]

PepsiCo

PepsiCo is one of the world's leading food and beverage companies. It is an American multinational corporation. The company is best known for its flagship soft drink Pepsi cola, one of Coca-Cola's most important competitors.[6]

Pepsi-Lipton International (PLI)

Pepsi-Lipton International (PLI) is a joint venture between Unilever and PepsiCo. It is an expansion of their first joint venture, the Pepsi Lipton Tea Partnership (PLTP), which started in 1991 for the marketing of ready-to-drink teas in North America. Pepsi-Lipton International (PLI) first saw light in 2003, and was created to cover non-United States markets. PepsiCo and Unilever each control 50% of the shares of these joint ventures.[7]

Lipton Ice Tea

Lipton Ice Tea is an iced tea brand with a Belgian origin. Pepsi Lipton International (PLI) and Pepsi Lipton Tea Partnership (PLTP), two joint ventures between Unilever and PepsiCo, manufacture, distribute and market the product worldwide. Lipton Ice Tea is the market leader in the RTD tea business and is one of Nestea's biggest competitors.[8]

---

[5] http://www.unilever.com/aboutus/introductiontounilever/

[6] http://www.pepsico.com/Company

[7] http://www.unilever.com/mediacentre/pressreleases/2007/UnileverPepsicotoexpand.aspx

[8] http://www.unilever.be/nl/merken-in-actie/detail/Lipton/317530/

The following section tells the tale of the two joint ventures. Starting with the Nestea joint venture, BPW, followed by the Lipton Ice Tea joint venture, PLI.

**Nestea**

In 2012, The Coca-Cola Company and Nestlé decided to phase out their joint venture, known as Beverage Partners Worldwide in the US and Asia.[9] The joint venture was created to develop and market ready-to-drink tea, in particular Nestea, around the world. Prior to their phasing out, the Beverage Partners Worldwide joint venture operated in more than 60 countries.

The decision marked a significant scaling back of their long-running BPW joint venture, although they agreed to continue working together in Europe and Canada and Coke maintained a license agreement for Nestea in Taiwan and Hong Kong. In all other territories, the joint venture was phased-out in a transition period that was completed by the end of 2012.[10] The company also noted that the license for its Nestea brand granted to Coke in the US was due to expire at the end of 2012.[11] The phasing out of the JV in the US was thus an opportunity that presented itself rather than a forced decision.

Nestea's performance during the years preceding the decision indicated that Nestlé might have seen the move as a necessity. According to Beverage Digest data[12], 247 million cases of Lipton were sold in the US in 2010, compared to 74 million cases of Nestea. In 2000, Nestea's sales volume in the US was still greater than 100 million cases. Nestea's own case sales had thus declined by about 26 million from 2000 to 2010.

---

[9] http://www.ft.com/intl/cms/s/0/b1d22234-38af-11e1-9d07-00144feabdc0.html#axzz2hKM0oWb6

[10] http://www.nestle.com/media/pressreleases/allpressreleases/beverage-partners-worldwide-jointventure

[11] http://www.beveragedaily.com/Markets/Nestle-and-Coke-scale-down-Beverage-Partners-Worldwide-JV

[12] http://www.beverage-digest.com/editorial/archive12.php#120113

**Lipton Ice Tea**

In contrast, the Lipton Ice Tea joint venture between PepsiCo and Unilever has experienced a lot less turbulence in the past decade.

At the end of 2007, PepsiCo and Unilever announced they agreed to expand their international partnership PLI for the marketing and distribution of ready-to-drink tea products under the Lipton brand, the world's best-selling tea.[13]

The new agreement added 11 countries to the partnership's existing Lipton Ice Tea ready-to-drink tea business. The new agreement effectively completed the partnership and created the leading global ready-to-drink tea business. The new agreement built on the original 1991 Pepsi Lipton Tea Partnership (PLTP) North American joint venture that established Lipton as the leading ready-to-drink tea brand in the United States, and on the subsequent 2003 Pepsi Lipton International (PLI) joint venture that currently spans more than 40 countries and has enjoyed strong double-digit volume growth. The new agreement more than doubled the volume of the companies' PLI joint venture and positioned both companies to capture more of the growth opportunities associated with the rapidly expanding global ready-to-drink tea market.[14]

"This agreement gives us the opportunity to build on the tremendous success of the joint ventures to date." - Vindi Banga, Unilever's Former President of Foods

Lipton Ice Tea faces a major competition from Nestea and Snapple. However, Lipton Ice Tea successfully manages to lead the market. Besides positioning its product as the healthiest and the most refreshing drink available on the market, Lipton Ice Tea's intelligent packaging and pricing strategy have significantly contributed to its success. Its low prices make Lipton Ice Tea more affordable as compared to its competitors and its packaging makes it instant and easy to use.[15]

---

[13] http://www.unilever.com/mediacentre/pressreleases/2007/UnileverPepsicotoexpand.aspx

[14] http://www.unilever.com/mediacentre/pressreleases/2007/UnileverPepsicotoexpand.aspx

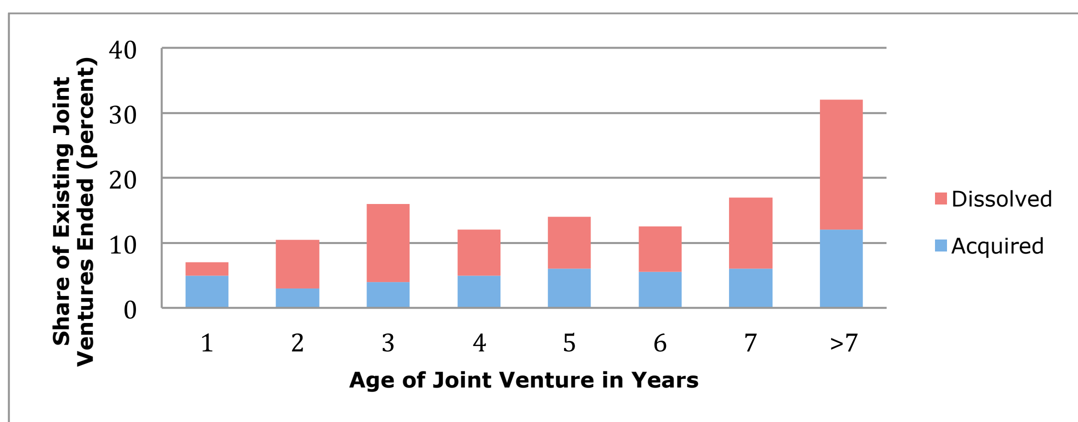
[15] http://www.ukessays.com/essays/marketing/product-and-market-analysis-of-lipton-iced-tea-marketing-essay.php

**Problem definition**

Alliances present a paradox to firms. On the one hand, firms engage in a large number of alliances to secure and extend their competitive advantage and growth. On the other hand, their alliances exhibit surprisingly low success rates (Kale & Singh, 2009).

In the last two decades, alliances have become a central part of most companies' competitive and growth strategies. The typical corporation relies on alliances for about 15% to 20% of its total revenues, assets, or income (Ernst & Bamford, 2005). The reasons companies choose for alliances are abundant. Alliances help firms strengthen their competitive position by enhancing market power (Kogut, 1991), increasing efficiencies (Ahuja, 2000), accessing new or critical resources or capabilities (Rothaermel & Boeker, 2008), securing production capacity, lowering production costs (Shaukat, 2011) and entering new markets (Garcia-Canal, Duarte, Criado, & Llaneza, 2002).

Nevertheless, alliances also tend to exhibit high failure rates (Dyer, Kale & Singh, 2001). They can be very challenging to manage (Beamish & Lupton, 2009) and studies have shown that between 30% and 70% of alliances fail. In other words, they neither meet the goals of their parent companies nor deliver on the operational or strategic benefits they purport to provide (Bamford, Gomes-Casseres, & Robinson, 2003). As can be seen in Graph 1, JV termination rates are reportedly over 50% (Lunnan & Haugland, 2008) and the average life span of a joint venture is just five to seven years (Ernst & Bamford, 2005).




*Graph 1 - Termination rates of joint ventures (Bruce Kogut, 1989))*

In many cases forming such relationships has resulted in shareholder value destruction for the companies that engage in them (Kale, Dyer & Singh, 2002). The most common mistakes made concerning joint ventures are: unclear

objectives, lack of a detailed business plan, decision gridlock, aligning with a weak or competitive partner, unmanaged cultural clash, failure to learn or protect capabilities, and failure to plan for alliance evolution (Gomes-Casseres et al. 2003).

This creates a paradox for firms. On the one hand, companies face significant obstacles in ensuring sufficient success with alliances. On the other hand, they need to form a greater number of them than before, and must increasingly rely on them as a means of enhancing their competitiveness and growth. Therefore, managers need a better understanding of what really underlies alliance success, and how firms can manage them better (Kale et al., 2009).

There is already a substantial amount of literature available on the different factors that could make or break an alliance. However, even with these useful articles available, there still appear to be many joint ventures that underperform or even outright fail (Draulans, deMan & Volberda, 2003). Even the ones that are almost identical at first sight can still significantly differ when it comes to performance, as is the case with the BPW joint venture when compared to the PLI joint venture. It therefore seemed imperative to scrutinize the existing literature and assay whether these findings held in practice and vice versa. In this master thesis I uncover some of the most important factors underlying alliance success and make several useful recommendations for managers. This should in turn allow their businesses to tap the full potential of their alliances and substantially increase their competitive advantage.

## Chapter 2. Research Questions

### Central research question

Despite the apparent importance and frequency of international strategic partnerships and in particular joint ventures, many of these report differing degrees of success. It seems therefore that research into the critical success factors of alliances is of utmost importance (Yan & Luo, 2001). As Teece (1992) puts it: "The emergence and proliferation of alliances may turn out to be as significant an organisational innovation as the moving assembly line and the multidivisional structure.".

The fact that so many alliances fail despite the marked need for them makes them an interesting subject for research. Accordingly, numerous surveys have been conducted into the success and failure factors, but the success rates of alliances have not improved. Apparently all this research is not generating the required answers (Draulans, deMan & Volberda, 2003) and thus companies are missing out on enormous untapped opportunities (Ernst et. al, 2005).

Traditional research into the success and failure factors of alliances appears to overlook an important element. The capability that an organisation has built up in managing alliances, known as alliance capability, makes an important contribution towards enhancing alliance success. Existing research concentrates unduly on the fit between the partners and the characteristics of the alliance instead of focusing on the capability of the partners to manage the alliance. Therefore, instead of solely answering the question of why certain *alliances* are more successful than others, it is better to also examine why certain *organisations* are more successful with alliances than other organisations. Factors such as the knowledge, experience and management techniques that the organisations have in the alliance field could be examined, making the organisation instead of the alliance the frame of reference for research. Furthermore, additional in-depth case studies on how firms identify, assimilate and apply knowledge on alliances need to be done (Draulans, deMan & Volberda, 2003).

This master thesis aspires to alleviate these problems and address these concerns by providing a step-by-step checklist and offering ready-to-use guidelines for managers and practitioners on how to best set-up and manage a joint venture. The backbone of these tools is based on the combination of a literature review

and in-depth case studies.

First of all it is important to establish one main question that the study aspires to answer. This question is known as the central research question (Sekaran & Bougie, 2009). With above mentioned problem definition and introduction in the back of mind, the central research question of this master thesis consequently reads:

***"What are the critical factors driving the success of the Unilever and PepsiCo joint venture, PLI, and what are the main reasons behind the collapse of the Nestlé and The Coca-Cola Company joint venture, BPW?"***

Both of these joint ventures are situated within one and the same industry, the ready-to-drink tea business. This enabled me to get a very comprehensive view of what the critical success factors entail for these two joint ventures and for strategic alliances in general. Doing a comparative study on two businesses that are so similar, both having the same scope and the same age, but above all are active in the same industry, was a unique opportunity. Since I interviewed several key people at both joint ventures, the qualitative data I collected and the subsequent findings I report are both objective and well rounded, resulting in valuable additions to both theory and practice.

**Sub research questions**

To be able to answer the central research question, it is imperative that this question is split up into several sub questions. I have split up the central research question into a total of five sub research questions.

1. *What exactly is a joint venture, and what are the advantages it has to offer within a company's strategic objectives?*

In this first sub question I provide a clear definition for the reader of what exactly a joint venture is. I also position joint ventures in their framework of alliances and subsequently elucidate the different forms of joint ventures in existence. I then continue with explaining the advantages this type of alliance has to offer within a company's strategic objectives. The answers to this question have mainly come from reviewing the existing literature.

2. *Which factors are crucial to the success of a joint venture?*

To answer this question I examined the literature in search of existing articles and books that provide insights into the key success factors of joint ventures. In answering this question, I give an overview of the factors, deemed important for the success of a joint venture, that have already been researched. Not only did I want to uncover these existing factors, I also wanted to get an indication of the factors that hadn't been researched yet in order to inquire after these omitted factors during the interviews.

I answered the following sub research questions (3-5) by using semi-structured interviews. I interviewed various key people from Unilever and PepsiCo that were employed in the PLI joint venture. I also did a number of interviews with key people from The Coca-Cola Company and Nestlé, which were also employed in their respective BPW joint venture. I also interviewed an industry analyst who was formerly employed by Mintel. I think these three different sources have greatly benefited the objectivity and integrity of the results.

3. *What are the critical factors driving the success of the Unilever and PepsiCo joint venture, PLI?*

By posing this question, I intended to find out which factors have made, and are still making, Lipton Ice Tea the global market leader in the ready-to-drink tea category. Because Lipton Ice Tea is run through PLI, a joint venture, I interviewed key people at both parent companies in order to get the most comprehensive view possible.

4. *What are the main reasons behind the collapse of the Nestlé and The Coca-Cola Company joint venture, BPW?*

Acquiring the answer to this question was not easy. My primary source for answering this question was a number of key people from PLI. It was safe to assume that PLI keeps a close eye on their competitors and since Nestea is one of their most important ones I took it they also had thorough information on this subject. I preferred however, to consolidate the findings from the Unilever-PepsiCo interviews with findings from interviewing key people at The Coca-Cola Company and Nestlé. After searching for about a month I was able to find a pocket of former BPW employees and was consequently able to answer this important sub research question from a hands on perspective.

5. *Implications for alliance management theory?*

After comprehensively reviewing the success and failure factors resulting from the interviews I summarize these results and interlink them with the findings resulting from the literature review. By doing so I construct the checklist and guidelines as mentioned above for managers and practitioners on how to best set up and manage a joint venture to maximize the chances of success. Besides that, I add my findings to the existing literature and write recommendations for future research, based on these findings.

# Part 2. Literature review

## Chapter 1. What exactly is a joint venture, and what are the advantages it has to offer within a company's strategic objectives?

In this first sub question I provide a clear definition of what exactly a joint venture is. I also position joint ventures in their framework of alliances and subsequently elucidate the different forms of joint ventures in existence. I then continue with explaining the advantages this type of alliance has to offer within a company's strategic objectives.

### Joint Venture Definition

In order to get a full understanding of what a joint venture really is, I have taken several joint venture definitions into account and looked for commonalities among them. Following below is a list of several joint venture definitions. I begin with the definition found in the Macmillan dictionary followed by definitions provided by leading authors on joint ventures and alliances. I conclude with a consolidated definition that will be used throughout the rest of this thesis.

| Source or Author | Definition of a Joint Venture |
|---|---|
| Macmillan Dictionary | Two companies working together, usually to share risk. |
| Ranjay Gulati (1995) | The creation of an independent organisation where the equity is jointly owned by both parent companies. |
| Benjamin Gomes-Casseres (1989) | Any affiliate of a multinational corporation where the equity is partly owned by another firm, usually one from the host country. |
| Borys and Jemison (1989) | Simultaneously contractual agreements between two or more organizations and a separate legal entity with its own purpose. |
| Shiva Ramu (1997) | Combination of at least two firms into a "distinct" firm with shared equity investments. Profits and losses accrue on the basis of investment. |
| Joseph M. Morris (1998) | A separate business activity formed and owned |

| | |
|---|---|
| | by two or more parties. It may have both a separate legal and tax identity, and often a separate management structure. |
| Bruce Kogut (1989) | Two or more firms pool a portion of their resources within a common legal organization. |

*Table 1 - Summary of joint venture definitions*

On the basis of Table 1, I have made a consolidated definition by which I attempt to cover all aspects of the different interpretations and definitions mentioned above.

Consolidated definition: Joint ventures are a type of alliance that involve the setting up of a separate organisation by two or more partners who jointly own its equity. It entails the development of a separate identity, management culture and set of competences as well as the creation of own corporate goals.

I have found that joint ventures and alliances are cited as synonyms in the literature from time to time. This fact certainly does not improve clarity while studying the subject. Following description will therefore help clarify the distinction between them for the reader. A joint venture is always an alliance, but an alliance isn't necessarily a joint venture. In extension, the literature on alliances does apply to joint ventures, while the literature on joint ventures doesn't always apply to alliances.

**Positioning within framework of alliances**

Before positioning joint ventures in their framework of strategic alliances I provide a consolidated definition of alliances based on the definitions that can be found in Table 2. The consolidated definition is the one that will be used throughout the rest of this thesis.

Alliance Definition

| Source or Author | Definition of an Alliance |
|---|---|
| Mohr and Speckman (1994) | Relationships between firms that share compatible goals, strive for mutual benefits and acknowledge a high level of mutual dependence. |
| Anand & Khanna (2000) | Complex organizational forms usually viewed as |

| | |
|---|---|
| | incomplete contracts. They involve the transfer of know-how between firms. |
| Shiva Ramu (1997) | Form of cooperation in order to bring together specific skills and resources in such ways that may complement each other. |
| Dyer, Kale & Singh (2001) | A form of cooperation that allows for a fast and flexible way to access complementary resources and skills that reside in other companies. |
| Ranjay Gulati (1995) | A purposive relationship between two or more firms involving the exchange, sharing, or co-development of resources and/or capabilities in order to achieve mutually relevant benefits. |
| David Ernst (1998) | A relationship between two or more separate companies that involves joint contributions and shared ownership and control. What makes alliances so unique is that independent companies must coordinate their actions and resources as well as share risks and rewards. |
| Benjamin Gomes-Casseres (2004) | A unique organizational cooperation form governing an open-ended relationship between companies that themselves remain separately owned. The beauty, as well as the challenge, of an alliance lies precisely in its flexibility and the partial commitments of its members. |

*Table 2 - Summary of alliance definitions*

Consolidated definition: Alliances are characterised by cooperation based on incomplete contracts facilitating the transfer of knowledge and combination of resources in order to create joint value.

For the sake of improving clarity even further for the reader I will distinguish alliances from networks. An alliance usually indicates a formal pooling of resources based on contracts. By networks the literature generally means relationships between complementary resource owners, tied together by looser personal bonds.

Positioning within framework of alliances

In order to position joint ventures in their framework of alliances I have used the following scheme from Yoshino and Rangan (1995), which has been adapted by Kale and Singh (2009).

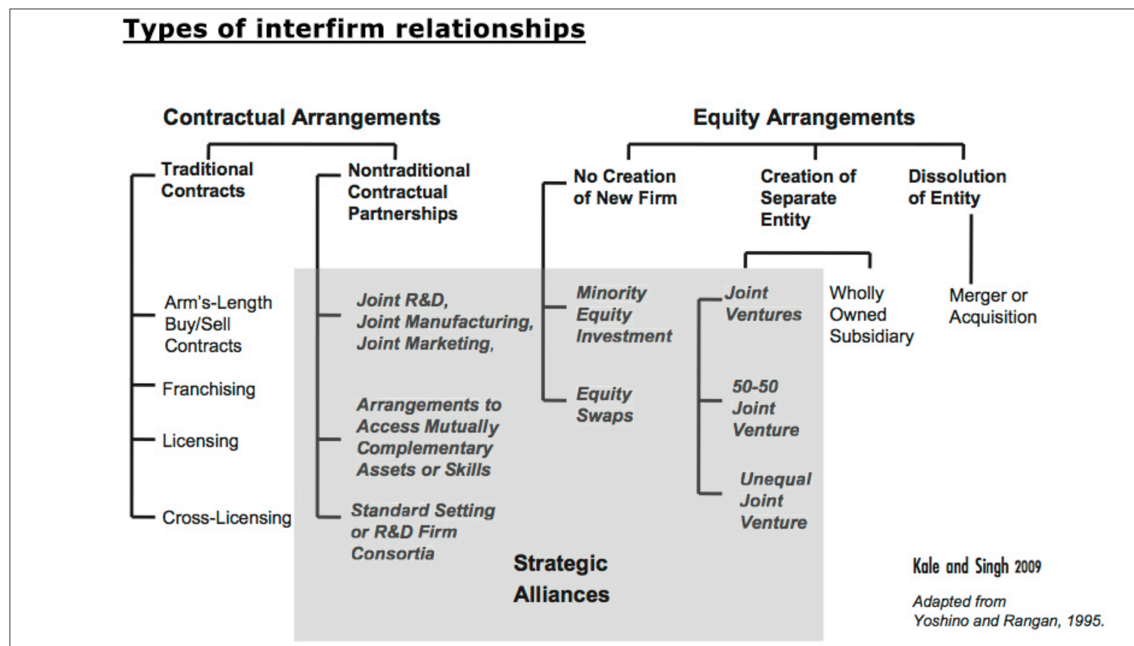



*Figure 1 - Types of interfirm relationships*

In Figure 1, two different panels are distinguishable. The first panel is the entire figure, which is the combination of the white and grey area. This area is the full spectrum of interfirm relationships available to organisations in order to cooperate with one another. This area is divided into two main types of relationships. On the left hand side we find the contractual arrangements. These agreements are based on fully prespecified expectations of both parties. Each firm knows what is expected of him and what he expects from his counterpart. The relationships on the right hand side are equity arrangements. These agreements are characterised by one or more firm(s) holding an equity stake in one form or another. These equity arrangements range from a minority participation to a merger or acquisition.

The second panel is the entire grey area, which represents the framework of strategic alliances. Because this thesis is mainly concerned with strategic alliances, this is the main area of interest. Within this framework both contractual and equity arrangements can be identified. It is within the equity arrangements part of the strategic alliances panel that joint ventures are situated. Precisely as our definition suggested since both parent companies jointly own the equity of the newly formed corporation.

**Different types of joint ventures**

As can be seen in Figure 1, a first factor that differentiates joint ventures is the ownership percentage of the parent corporations. A distinction is made between 50-50 joint ventures, in which the parent companies own equal equity shares in the new company, and between unequal joint ventures, in which one partner is the main equity shareholder. Another distinction that can be made between them is based on the type of joint venture.

Joint venture types

Three main types of joint ventures can be distinguished. I have made an overview of these three types in Figure 2, which is an excerpt and expansion of Figure 1.

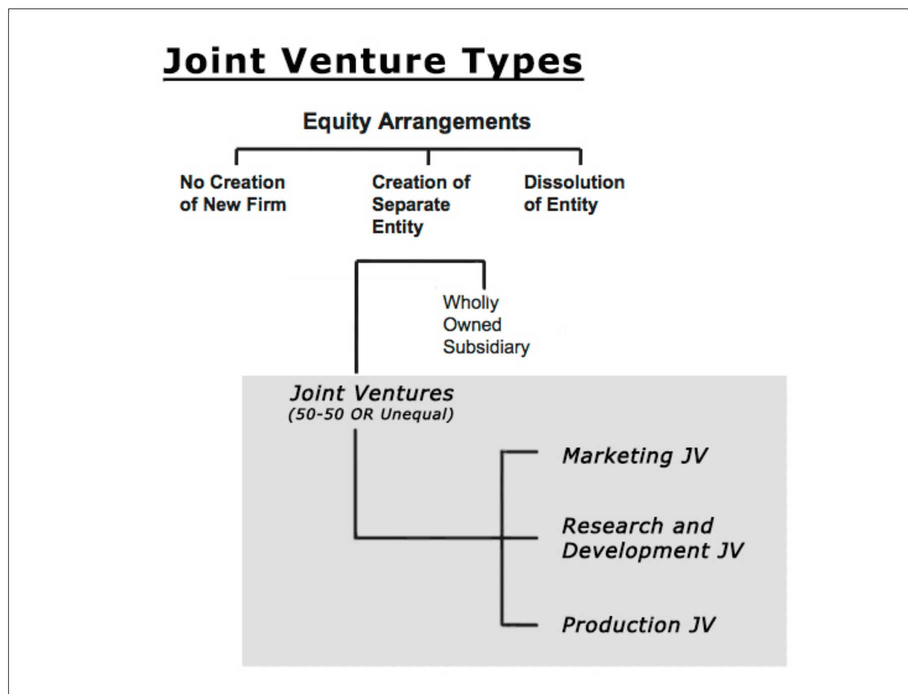



*Figure 2 - Joint venture types*

The grey area represents the different types of joint ventures, all of these can have either a 50-50 or an unequal division of equity. The three types that can be distinguished are: marketing, production, and research and development (R&D) joint ventures (Charles Roussel, 1998, in Mastering Alliance Strategy, 2003). A fourth option is possible as well, this entails the combination of any of the three different types above.

**Advantages**

Up to now, I have clearly defined both joint ventures and alliances, positioned joint ventures within their framework of strategic alliances, and presented the different types of joint ventures in existence. I will now continue with explaining why companies opt for joint ventures and what advantages this type of alliance has to offer within a company's strategic objectives.

Reasons companies choose for joint ventures

The motives why companies choose for joint ventures to reach their strategic objectives are abundant. The most common motives, however, can be divided into three main categories. These three categories are more specifically the fear motive, the profit motive and the learning motive (Bruce Kogut, 1989).

Usually labelled transaction cost theory, the fear motive consists of the fact that whenever two firms transact on a long-term basis, problems arise from the difficulty of settling future prices, guaranteeing quality and delivery, and safeguarding technological and strategic decisions, i.e. managing the open end of the contract. No matter how well contracts are designed, they may fail to provide effective guarantees. A supplier that initially gives a low price, for example, may claim unexpected costs in developing a new process. A joint venture is frequently seen as the best alternative. By requiring mutual commitment of investment, it provides incentives for both parties to perform according to their obligations.

Perhaps one of the strongest reasons for doing a joint venture is the pursuit of profit. Enhanced profitability can be derived from the reduction of costs or the creation of new products and technologies that can influence the competitive positioning of the partners in their industries. Of course, fear and profit are not mutually exclusive. If the cooperation entails the revelation of secrets, the transfer of technologies, or the sharing of brand labels, in order to increase profit, fear of the misuse of these assets will drive the partners to seek ways to enforce compliance with the agreement.

The third reason why companies choose for JV's is the learning motive. In this view a joint venture is used for the transfer of organizationally embedded knowledge that cannot be easily blueprinted or packaged through licensing or market transactions (Bruce Kogut, 1988). Sharing knowledge is especially important in joint ventures between firms from different industries who seek to pool their distinct competencies.

Joint venture advantages

According to David Ernst (1998, in Bamford et al., 2003) there are several advantages a joint venture has to offer. Namely, building new business, accessing new markets, acquiring skills, gaining scale, improving the supply chain, reducing costs and sharing risks. The driving force behind these reasons is, needless to say, the creation of value. I explain what these most significant advantages entail in Table 3.

| **Building new businesses** |
|---|
| Joint ventures can be a powerful tool for building a new business. As a general rule, alliances can be useful to build a new business when the risks are high, skills are incomplete, or speed is essential. |
| **Accessing new markets** |
| Joint ventures are also a powerful means to access new markets. Traditionally, such alliances have focused on accessing new geographic markets. But a new emerging trend is companies using joint ventures to access new markets. Done well, joint ventures can allow a company to remain focused on its core products or services while reaching a huge number of new customers. |
| **Acquiring skills and learning** |
| Joint ventures can be a wonderful way to access skills and to enhance organizational learning, the building blocks of future competitive advantage. |
| **Gaining scale** |
| Joint ventures can also be used to gain scale, much like traditional mergers and acquisitions. They allow partners to consolidate overlapping businesses, reduce costs, and increase scale. |
| **Improving supplier effectiveness** |
| Done well, alliances can transform the relationships between a company and its suppliers. Companies from a range of industries are taking part of their value chain and shifting it out to their suppliers to reduce costs and share risks while increasing innovation and quality. |
| **Reducing costs and sharing risks** |
| Joint ventures not only provide a way of sharing business risk with a venture partner. They also allow for a reduction in costs because the financial burdens can be allocated to more than one company, lowering the cost of the venture for each individual partner. |

*Table 3 - Joint venture advantages*

If all goes well, these significant advantages can be brought forth by a successful joint venture. However, establishing a successful joint venture is not a walk in the park. Several factors need to be taken into account. In the second sub research question I highlight these critical success factors.

## Chapter 2. Which factors are crucial to the success of a joint venture?

To answer this question I examined the literature in search of existing articles and books that provide insights into the key success factors of joint ventures. In answering this question, I give an overview of the factors deemed important by the literature for the success of a joint venture.

### Introduction

Companies form an alliance to create value either through technology transfer, competency, extending market reach, product innovation, superior processes, investment, marketing or management (Kumar 2012). Alliances may thus not be intended to fulfil standard financial objectives such as profit generation. Companies forging an alliance should clearly define the value they intend to create within and outside this relationship. Alliances that do not create significant value are bound to fail. So how alliance performance is defined is crucial in understanding the factors that drive their success.

### Alliance performance

Ben Gomes-Casseres (2004) concludes that being clear on how the alliance fits the business strategy is important when evaluating its performance. The true value of any alliance is usually not evident from the narrow costs and revenues of the collaboration itself, even when the alliance is a stand-alone joint venture. Because the alliance is part of a broader strategy, its effect must be measured in terms of its contribution to that strategy.

"The joint venture should fuel growth, close a gap in the portfolio or improve profitability" - Marisa Teh, PLI Revenue Manager West-Europe

Geringer and Hebert (1991) consider both objective and subjective measures, and the link between them, in assessing alliance performance. Simply put, an objective measure is a measure that can be used for almost any alliance. It is a performance measure of finances, duration, survival or stability of the alliance but it does not necessarily reflect the original intent of the alliance. It could be considered as a more quantitative measure of performance. A subjective measure does reflect this original intent. An objectively poor performing joint venture could well be perceived as a subjectively successful one by the parent companies

if it reaches the goals they established at the outset of the alliance. A subjective measure could therefore be considered as a more qualitative measure of performance. Conversely, an alliance may be viewed as unsuccessful despite good financial results or continued stability. Anderson (1990) takes this point further by arguing that parents should recognize that most alliances should be evaluated more subjectively and over a longer time horizon than is typically used. In high risk and uncertain settings, like alliances, short-term financial measures would tend to indicate poor performance, although the venture may be making satisfactory progress towards long-term goals, or is achieving current non-financial goals. Alliances thus require a more balanced and often subjective approach if their promise is to be realized.

According to Hill and Hellriegel (1994), an indicator of a good performing joint venture is when all parties like working with each other and would like to continue doing so. They describe said concept as having good partner relations.

"Most joint ventures collapse because of relationship issues, so duration is an important one. Also crucial is being able to demonstrate to both parties that the JV is faster and better than what they could have achieved on their own" - Didier Cumin, PLI Business Director South-East Europe

As Glaister and Buckley (1998) state, a somewhat contentious issue in the alliance performance literature is the extent to which termination signifies a failure on the part of the venture. As has been indicated by several authors (e.g. Geringer and Hebert 1991, Anderson 1990 & Gomes-Casseres 2004), termination does not necessarily mean that the venture has failed. Indeed the alliance may have been terminated because it has successfully achieved its objectives.

**Success factors**

To give a clear overview of which factors are critical at what stage in the alliance life cycle, I will use Figure 3 below as a guideline throughout this section. Three main phases can be distinguished in the alliance life cycle. Figure 3 below shows these different phases.

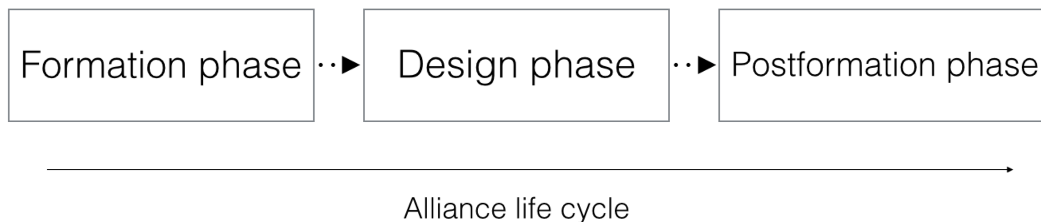



*Figure 3 - Alliance life cycle (Kale & Singh 2009)*

The first phase in the alliance life cycle is the formation phase. In this phase, the alliance is initiated, the strategy behind it is discussed and a partner for running the alliance with is selected.

The second phase is the design phase. In this phase the partners set up an appropriate governance system overseeing the alliance, set the goals, rationale and scope of the alliance. The structures and systems for sharing value and decision making in the alliance are also established in this phase.

Postformation is the third phase in the alliance life cycle. In this phase the alliance is managed on an on-going basis to realize value. Alliance management, relationship management and interorganizational trust are the critical factors in this phase.

Finally, alliance capability, a dedicated alliance function and general success factors will be discussed. These items cannot be attributed to a single stage but can be important at each of the different stages of the alliance life cycle.

### A. Formation phase

Following factors are critical for joint venture success during the formation phase.

1. Alliance strategy

According to Bamford et al. (2003), numerous studies have shown that between 30 and 70 per cent of alliances fail. They do not meet the goals of the parent companies. Popular among the reasons cited are unclear strategies, poor partner choice, weak or unbalanced alliance economics, dysfunctional governance, clashing corporate cultures and goals, and lack of sufficient operating staff skills and parent commitment. They argue that these explanations for alliance failure are expressions of a larger syndrome. Companies are taking too narrow a view of what it takes to make an alliance succeed. Instead of focusing on the strategic alliance, companies should develop a comprehensive alliance strategy. The term strategic alliance stands for a new deal, venture or organization. An alliance strategy represents much more than the deal. It is a logic that guides alliance decisions. A strategic alliance without an alliance strategy is doomed to fail.

"Charging the JV with a challenging task is crucial to its success" - Karel Vandamme, PLI Business Director Northern Europe

According to Gomes-Casseres (2004) an alliance strategy has four main elements:

- a business strategy that shapes the logic and design of an alliance
- a dynamic view to guide the management of each alliance
- a portfolio approach to manage the firm's constellation of alliances
- an organisational infrastructure to build and sustain the alliance capability

These four components of alliance strategy must be consistent with the broader strategy of the firm and with its organisational culture, as is illustrated in Figure 4 below in the Arc of Alliance Strategy.

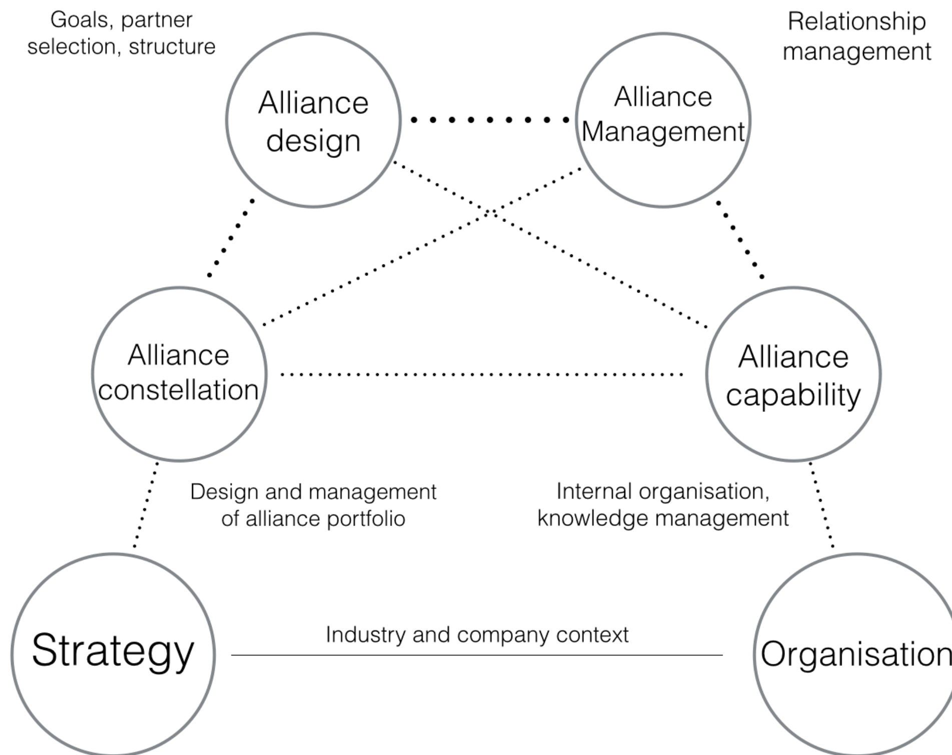



*Figure 4 - Arc of alliance strategy (Gomes-Casseres 2004)*

According to Bamford et al. (2003) the elements in the arc of alliance strategy represent an integrated view of what it takes to make an alliance succeed. Although mastery of these individual elements of alliance strategy is essential, it is the overall workings of the arc that drive success. Within the arc, the strongest links are between alliance design and management. The success of one clearly depends on the other. The design must set the stage for management, and management must strive to achieve the goals set at design. The other alliance elements shown, alliance constellation and alliance capability apply to the collection of alliances of the firm. Here too, there are important interdependencies. On the left side, constellation design often sets the stage for the design of individual alliances, because it influences goals and partner selection criteria. On the right side, the firm's alliance capability often determines how it will tackle alliance management. Finally, it is clear from this diagram that

the whole arc rests on two broad foundations, the strategy and organization of the firm. Alliances need to directly support the overall strategic goals of the company. Yet all too often alliances take on a life of their own, at best contributing peripheral value to the firm. To better link alliances to strategy, firms should start with a clear vision of where alliances fit within their business model. The business model of the firm, in other words, shapes the arc of alliance strategy.

Robinson et al. (2003) explain how to develop and implement an alliance strategy. The process must start with an assessment of the firm's external competitive environment, its internal capabilities, and its business goals. Only once these are meshed should the executives develop tactics and policies toward partner selection and alliance structure. Asking questions such as these is often useful:

1. What capabilities are required for any player to succeed in the competitive environment? Think broadly about the key success factors in the business.
2. Do we have these capabilities internally? If not, is it feasible for us to develop these capabilities in a timely manner and at reasonable cost?
3. If not, are these capabilities available in other firms? If so, how can we gain access to these external capabilities?
4. Is an alliance the only option? It usually isn't. So ask: Can we buy the skills? Should we acquire a firm? Is there some transaction that will give us access to the capabilities?

Going outside the firm to gain access to capabilities should thus be an integral part of the initial strategy.

In conclusion, Bamford et al. (2003) state that strategy must lie at the heart of every alliance. The business rationale for an alliance, the fit between partners, the incentives for cooperation and the governance mechanisms, like everything else about the alliance, depend critically on the alliance strategy behind the deal. Once the strategy is in place, and a clear need for an alliance has been identified, then a partner needs to be chosen and a structure crafted.

2. Partner selection

Das & Teng (1999) state that selecting a partner firm is not an easy decision because there are many different criteria for a good partner. Partner selection boils down to finding a fit between partner firms. Partner firms can have both

resource fit and strategic fit. Resource fit refers to the degree to which partners possess compatible resources, that is, resources that can be effectively integrated into a value-creating strategy. Strategic fit is the degree to which partners have compatible goals in the alliance. These two types of fit need to be achieved simultaneously for an alliance to be successful. Resource fit is important for alliance partners because resources and capabilities of alliance partners are ultimately responsible for alliance performance. Indeed, it is the need for critical resources that motivates firms to approach their potential partners. Resource fit means that partners' resources can either complement or supplement each other's resources. Complementary fit is needed when different resources of partner firms can be effectively combined to pursue a market opportunity. A supplementary fit is created when similar resources are brought into the alliance to achieve competitive advantage, such as for achieving economies of scale, economies of scope, or first mover advantage.

Bamford et al. (2003) find that partner selection typically happens in one of three ways: a company responds to an unsolicited proposal, executives call close industry contacts, or the choice is made based on some evaluation of who is market leader in a business. In many cases, these are insufficient ways to select a partner and more analytical rigor is required. Another factor often ignored in partner choice is the second-order and third order connections, that is, connections between the partner and third-party firms. For instance, a partner may look good separately, but may be tied to your competitors. Executives therefore need to take a broad view of who is connected to whom in their industry.

Managers should ask the usual questions when teaming up with another company: Can we get along with that particular firm? What is their management like? Do our cultures fit together? Have we had a successful relationship in the past?

"Culture match is the most important success factor to me. Joint ventures very often collapse when there is a difference in culture so strong that the people cannot work together." - Didier Cumin, PLI Business Director South-East Europe

These issues are important, though it is surprising how little time most companies devote to them. Table 4 below shows a set of criteria that can be used in partner selection.

| | Company A | Company B |
|---|---|---|
| **Complementary capabilities** | | |
| • Product and market<br>• Technology and capital<br>• Global network and local customers | | |
| **Conflicts of interest** | | |
| • Overlapping geographic markets<br>• Competing sources of production<br>• Transfer pricing across companies | | |
| **Compatible goals** | | |
| • Market access vs. product access<br>• Local knowledge vs. technology<br>• Time savings vs. cash generation | | |
| **Targets and missions** | | |
| • Common rivals<br>• New market<br>• New technology<br>• Time horizons<br>• Value | | |

*Table 4 - Partner selection criteria (Bamford et al. 2003)*

Kale & Singh (2009) summarize a study by Shah & Swaminathan (2008). They find that partner complementarity, partner commitment and partner compatibility have a positive influence on alliance performance. Partner complementarity is the extent to which a partner contributes non-overlapping resources to the relationship, such that one partner brings those value-chain resources or capabilities the other lacks and vice versa (Dyer & Singh (1998) and Harrigan (1988)). Resource-based theories suggest that the greater the complementarity between partners the greater the likelihood of alliance success, and many studies have found support for this (Das & Bing-Sheng 2000). However, partner complementarity alone is insufficient for alliance formation and success. A partner firm must be compatible with the focal firm (Beamish, 1987) and committed to the relationship. Partner compatibility refers to the fit between the partners' working styles and cultures, whereas partner commitment includes not only the willingness of a partner to make resource contributions required by the alliance, but also to make short-term sacrifices to realize the desired longer-term benefits (Gundlach, Achrol, & Mentzer, 1995). Bleeke and Ernst (1995) suggest that

alliances of strong equals are more likely to succeed.

"Both parties need to bring something equivalent to the table. It should be a marriage among equals." - Didier Cumin, PLI Business Director South-East Europe

Das & Teng (1999) conclude that identifying and signing on the right partner goes a long way toward ensuring effective alignment of interests in an alliance. If the partner match is fraught with conflicts of interest, no structure in the world is going to make a workable alliance. Having said that, structure does play an important role as it aligns incentive structures, establishes governance mechanisms, and allows for evolution over time.

Once the strategy behind the alliance has been defined and an appropriate partner has been chosen, the alliance moves to the design phase.

**B. Design phase**

In the design phase several steps need to be addressed in order to ensure the successful launch of the alliance.

1. Deal structure

Das and Teng (1999) argue that in the second stage of the alliance life cycle, partner firms negotiate the structure of the alliance. As noted earlier alliances can have various structures, each serving different needs. According to Bamford et al. (2003) most managers equate alliance deal structures with financial and legal arrangements like f.e. valuation of partner contributions, transfer pricing and exit provisions. Although these are essential elements of an alliance structure, three other elements are critical in creating a structure that produces success: incentive alignment, governance structures and evolution.

1.A. Incentive alignment

Das & Teng (1999) argue that in finding resource fit, partners often risk ignoring the question of compatibility of strategic objectives, or strategic fit. Strategic fit means that the partner firms know each other's real objectives in the alliance, and that these objectives can be accommodated in the alliance without harming the alliance or the partner firms. Many firms falsely assume that partner firms share objectives in an alliance. In fact, firms often harbour hidden agendas in

alliances. For instance, alliances are often used as a cover from eventual acquisition (Bleeke & Ernst 1995) or divestiture (Nanda & Williamson 1995). Even if hidden agendas are not present, an alliance may still serve vastly different purposes for the individual partners. Knowing each other's real objectives in an alliance is not an easy task. However, not knowing is dangerous, and often leaves a firm in a vulnerable position. Partners need not necessarily worry about having different objectives. The key is whether these objectives are compatible, that is, whether they can be achieved simultaneously.

Under incentives for cooperation Bamford et al. (2003) understand the value that a partner wishes to derive from an alliance. For example a marketing alliance would demand that the partners get a return in the field of marketing, for instance, an increase in market share. Figure 5 shows the different objectives companies can pursue with their alliances and the ways their progress can be measured. It is divided into two axis, the vertical axis shows the different incentives companies can have to team up with one another. The horizontal axis shows the time horizon of the different measuring tools. Even if some goals cannot be measured by a financial rate of return on investment, it is important to establish qualitative and quantitative targets and metrics. As Anderson (1990) argued, subjective measures are often more appropriate indicators of JV performance because goals vary and cannot always be measured. The question of how to measure performance is intimately tied to the strategy behind the alliance, as is everything else in the alliance design phase. The performance metrics must be tied to the alliance's strategic intent, be measurable, and be well communicated.

Learning
IP rights
Capability development
Business Development
Growth opportunities
New strategic options
Positioning
Market share
Brand loyalty
Supply
Cost savings
Component performance
Cash
ROI
Discounted ROI
Dynamic ROI
Short Run
Long Run

*Figure 5 - Alliance objectives and progress measures (Bamford et al. 2003)*

In summary, incentive alignment means that the objectives both companies want to derive from the alliance are aligned and clearly stated at the outset of the arrangement. In other words, the goals they want to achieve by teaming up together are compatible. If differences appear to exist at the beginning of the agreement it should be assessed whether or not these different objectives can be achieved simultaneously. If this is not the case, and both partners expect something entirely different out of the arrangement, their incentives are not aligned and the chances of success decrease dramatically.

1.B. Governance structures

Bamford et al. (2003) argue that in addition to incentives for cooperation, successful alliances need a governance process that enables joint decision-making. To see why this is critical, it's necessary to go back to fundamentals, in this instance, defining clearly what the term alliance means. Fundamentally, an alliance is a way of managing an open-ended agreement between two companies. If all the terms of an exchange between two companies can be specified and agreed at the outset, there is no need for an alliance, a contract will do. So the key to making alliances work is effective governance of that open end. It is the role of alliance governance to help determine information flows, establish decision-making rules and processes, delineate executive responsibilities, integrate partner operations, and so on. Done well, this has also has the potential to significantly smoothen the on-going management of the alliance later on.

Ernst & Bamford (2005) argue that the governance of joint ventures, which receive on-going operational resources from a few large shareholders, is much more complicated than that of public companies. In joint ventures, for example, board members and others involved in the governance system must manage what may be the divergent strategic and economic interests of the parent companies. The members of the boards of joint ventures, which are almost always employees of their parent companies will also have to overcome inherent conflicts between the specific interests of each of the parents and the overall interests and health of the venture. Beamish & Lupton (2009) agree and extend this notion saying that governance decisions become particularly relevant as the terms of a JV are negotiated. Decisions made during this period are critical, as it is usually more difficult to make major governance changes after the JV has been implemented. Partners have a number of issues to consider, including the level of equity ownership of each and the division of management responsibility.

Kale & Singh (2009) say that how a firm constructs alliance governance during the design phase of the alliance life cycle is crucial to alliance success. So what drives a successful alliance governance system? Literature has highlighted three primary mechanisms to address governance issues in an alliance.

First, transaction costs theory has proposed that equity ownership is an effective mechanism to govern alliances (Williamson, 1985). Equity has three governance properties to address the hazards involved: it aligns the mutual interests of the partners (Hennart, 1988), it facilitates hierarchical supervision to monitor day-to-day functioning of the alliance and address contingencies as they arise (Kogut, 1988), and the pro rata share of the returns from the alliance creates an incentive for partners to cooperate with one another (David & Han, 2004). Contractual provisions in the alliance agreement represent the second mechanism of effective governance (Mayer & Argyres 2004, Poppo & Zenger 2002, Reuer & Arino 2007). Contracts help manage exchange hazards in a variety of ways. A contract clearly sets forth mutual rights and obligations of partners by specifying each firm's inputs to the alliance, processes by which exchanges will occur and disputes will be resolved, and expected outputs from the relationship. Self-enforcing governance, relying on goodwill, trust, and reputation (Granovetter 1985, Gulati 1995, Uzzi 1997), is the third mechanism of effective alliance governance. This is referred to as relational governance. Relational governance enhances the likelihood of alliance success by reducing transaction costs in three ways: Contracting costs are minimized because firms trust their partners to behave fairly, monitoring costs are lower because external, third-party monitoring is not required, and costs of complex adaptation are lowered because partners are willing to be flexible in response to unforeseen circumstances.

Bamford et al. (2003) find that in equity-based alliances, such as joint ventures governance is usually in place in the form of a board of directors and corporate management structure. According to Glover, Babitz and Walha (2012) joint ventures are also increasingly establishing following governance structures: independent directors, committees, conflicts of interest policies and codes of conduct, and governing boards. Independent directors are being added to more and more joint venture boards, especially large joint ventures or JVs with multiple parties. The most important advantages an outside director can bring are: an independent perspective, expertise, representation of smaller partners' interests, and elevating the stature of the joint venture. Committees can take on many different forms. Joint ventures with large governing boards are establishing audit, compensation and other board committees, to make board decision-making

processes more efficient. Joint venture partners also may use committees to resolve conflicts of interest. Partners negotiating joint ventures are spending increasing amounts of time developing codes of conduct and policies regarding conflicts of interest. These codes and policies are intended to legislate how business dealings between the joint venture company and a venture partner or its affiliates will be conducted. The principal governance problem most ventures face is the need to mediate disputes among the owners and help them to reach appropriate compromises as necessary. The governing board typically serves that purpose. Independent directors, board committees and codes of conduct are vital tools that can help governing boards make informed and efficient decisions.

According to Bamford et al. (2003) research on alliances has shown that poor governance has been a common cause of alliance failure. A McKinsey study found that roughly 50 per cent of alliance failures are related to governance.

"Governance is one of the most important factors driving the success of the joint venture" - James Mackay, Global Supply Chain & Operations Director PLI

In conclusion, Bamford et al. (2003) argue that good alliance governance is an essential element of alliance success. When companies understand what drives the need for formal governance structures, what elements make for solid structures, and how these structures may evolve over time, the chances of success rise markedly.

### 1.C. Evolution

The structure of an alliance cannot stand still, it must evolve to adapt to changing conditions and needs, advise Bamford et al. (2003). They continue with saying that as alliances evolve it is not uncommon to see one partner gain influence at the expense of the other. Companies can do three things to avoid losing their influence: keep an eye on their own strategy, monitor the value gained from the alliance, and continue to invest in themselves. An alliance often evolves to the point, where it no longer yields value to a partner that is commensurate with the contributions the firm must make to the venture. Restructuring the alliance to yield new benefits can sometimes turn around this situation, or the alliance can simply be dissolved. From the point of view of strategy, such a dissolution, or exit, is a perfectly reasonable outcome. But here again, an excessive focus on alliances as ends in themselves has lead to much concern with alliance divorce rates. Not a few academics and consultants have conducted statistical studies

using alliance stability as a measure of success. This focus on termination rates misses the central point: alliances are a means to an end, never an end in themselves. Alliance longevity by itself is thus of little relevance. Strategic success is what counts.

Das & Teng (1999) argue that since partners' objectives often shift with the passage of time, it is important—and difficult—to anticipate future conflicts. They advise that firms should employ scenario analyses to help assess how the alliance and the partner firms may evolve over time and how the evolution may change the relative positions of each partner.

**C. Postformation phase**

After the design of the alliance has been figured out, the alliance is launched and it moves to the postformation phase. In the postformation phase the alliance is managed on an on-going basis to realize value. The most important factors during this phase are the on-going management of the alliance, including relationship management, the interorganizational trust and the on-going governance of the alliance.

Kale & Singh (2009) and Bamford et al. (2003) conclude that appropriate decisions linked to partner selection and alliance governance positively affect the likelihood of success of every alliance. But even with the benefit of a good partner and alliance design, an alliance will never take care of itself. The partners must make continual efforts and adjust their relationship in response to new circumstances. To realize the expected benefits, firms must also proactively manage the evolving entity after it is up and running. Two factors are especially important during the postformation phase: managing coordination between partners and developing trust between them. The success of an alliance depends as much on the unfolding relationship between the partners, including personal relationships between managers, as on its initial design.

<u>1. Management</u>

Beamish and Lupton (2009) conclude that honesty, trust, and commitment for the success of the JV, settling disputes by focusing on what is best for the JV rather than individual partner objectives, and division of managerial responsibilities according to the functional expertise of each partner are the most important factors in the continuing success of a joint venture. Das & Teng (1999) elaborate that the challenge in managing the collaboration is having either

insufficient cooperation or too much. Sufficient cooperation is the foundation for a successful alliance as it is necessary for partner firms to work together for the realization of collaborative advantage. Cooperation means that firms pursue common interests in the alliances, so that they restrain their self-interested activities that may harm their partners. In the absence of sufficient cooperation, firms will tend to exploit the alliance and their partners for their private interests. By contrast, overemphasizing cooperation or ignoring the importance of competition in alliances is also fraught with danger. In fact, a certain level of competition is essential in alliances because private interests are inevitable. Competition implies that firms realize that their interests are not entirely similar or compatible, so they attempt to protect their own interests, even if it means undermining their partners. The difference between competition and opportunistic behaviour, however, is that competition is open and legitimate whereas opportunistic behaviour is self-interested with guile. Competition in alliances takes such forms as learning from partners, protecting one's own tacit knowledge and personnel, and preventing the alliance from becoming a direct competitor in one's core business.

As Anand & Khanna (2000) conclude, the reason why post-deal management is so important is because alliances can be viewed as incomplete contracts between firms. Detailed interactions between the alliance partners can rarely be fully prespecified. Alliances are therefore difficult to manage. Managing the open end of the agreement is crucial in making an alliance work. That is why success in alliances depends so much on governance structures and on the relationship between companies, including personal relationships between managers (Gomes-Casseres, 2004).

2. Relationship Management

Bamford et al. (2003) state that the strength of the relationship between partners is critical to the success of every alliance. How well the partners work together affects their ability to execute strategy, adapt to change, and innovate over time. Following recommendations can help in managing the alliance relationship. First, the relationship fit needs to be assessed. Focus not only on what each partner has to offer but, also explore and discuss what it will be like to work together over time. Second, the relationship is often seen as something that can be built or fixed after the negotiation. Instead, firms should develop a value-optimizing solution and a strong working relationship at the same time. Third, the relationship knowledge should be transferred from the negotiators to the

implementers. Negotiators often have crucial information about the new partner and should brief implementers on how to best work with the partner. Fourth, launch the relationship. The start of an alliance cannot be ad hoc. Partners should launch their relationship with the same discipline they would use in launching a new key initiative. Fifth, the relationship needs to be proactively managed. Partners need to define and employ a set of common relationship management methods, f.e. for conflict management or communication. Finally, the relationship needs to be audited. Partners should measure and monitor the quality of the relationship on a regular basis. It will help detect problems and new opportunities, while improving the way the relationship is managed. Bamford et al. (2003) conclude that these six strategies, employed systematically on a given alliance, provide the discipline required to maintain focus on the relationship and can therefore increase the returns on the alliance investment.

## 3. Interorganizational trust

Interorganizational trust is one of the key pillars that supports the relationship between the parent companies. It is both critically important while hammering out the initial agreement and while managing the alliance on an on-going basis. Krishnan, Martin & Noorderhaven (2006) define interorganizational trust as the expectation held by one firm that another would not exploit its vulnerabilities when faced with the opportunity to do so (Barney & Hansen 1994, Mayer et al. 2004, Sako 1991). This expectation is confirmed when parties demonstrate reliability by carrying out their promises, act fairly when dealing with each other, and exhibit goodwill when unforeseen contingencies arise. Reliability, fairness, and goodwill are the basic components of trust (Dyer & Chu, 2003).

According to Kale & Singh (2009) trust between partners is critical to alliance success since it facilitates alliance governance and helps partners to work more cooperatively. Kumar (2012) finds that developing trust during the postformation phase plays a crucial role for an alliance to achieve its objectives. Trust enables the participating companies to transparently share information (Dyer & Chu 2003), knowledge, technology and competences that impact the performance of an alliance. Trust has also been identified as a central component in the selection of alliance partners, the choice of governance contracts, the use of monitoring mechanisms, the willingness of partners to adapt the alliance to evolving contingencies (Doz, 1996) and in lowering the perceived risk of an alliance (Smith et al., 1995). Trust also enables partners to share valuable know-how with each other, and also protects against the opportunistic acquisition of proprietary

knowledge by the partner (Kale et al., 2000). Apart from these positive outcomes, studies show that trust also leads to increased partner satisfaction with the alliance, the achievement of joint action and goal fulfilment (Schreiner et al., 2009).

In continually and effectively governing a JV, forming and maintaining trust between the partners is critical (Beamish & Lupton, 2009). A comprehensive JV contract and cooperative relationship contributes substantially to the formation of trust between JV partners (Yan & Luo, 2001). Trust, in turn, enhances satisfaction and commitment to the JV (Cullen, Johnson, & Sakano, 1995). Madhok (1995) suggested that trust is so crucial for JV success that knowledge concerning how it is established and maintained is of central importance to JV managers.

4. On-going governance

The governance structure and systems for the alliance have been established during the design phase. During the postformation phase they are charged with overviewing and maintaining stability in the alliance on an on-going basis. Bamford and Ernst (2005) argue that a successful joint venture needs to take several things into account concerning on-going governance: designating lead directors, reviewing and rewarding the performance of board members, and letting the venture's CEO run the business.

Designate lead directors: ideally companies should adopt a highly specialized model of joint venture governance by appointing board members with individual expertise who can provide real oversight and guidance in important areas. Review and reward the performance of board members: board members should be evaluated by such criteria as their impact in shaping the joint venture's strategy, their success in fulfilling their risk management responsibilities, their track record in securing resources and attracting good people, and their ability to secure timely decisions from the corporate parents. Let the venture's CEO run the business: the board must empower a joint venture's CEO to operate as its true general manager, not only for the sake of fast and objective decisions, but also to attract and motivate strong leaders. All too often, CEOs of joint ventures lack the authority to run them, while board members act as quasi-operators who intervene haphazardly in tactical decisions.

Bleeke & Ernst (1995) agree that a high-powered board is important. Sometimes alliances slip from top management's attention, which may be understandable

since they are not really part of the parent companies' everyday operations. Lack of a strong board for the venture creates delays as key decisions are passed up and down the parent organizations' chains of command.

5. JV staffing

Bamford et al. (2003) find that many companies also find it valuable to create defined career paths for alliance managers and other alliance practitioners. When individuals understand where they can go after two or three years of successfully performing an alliance-related role, the firm has a higher chance of attracting top talent to the alliance. Getting the right talent in the joint venture goes a long way towards ensuring its continued success.

"Working in the JV is not seen as a punishment but as a critical step in ones career development" - Matthias Berger, Global R&D Director PLI & PLP

**D. Overlapping success factors**

The following items cannot be attributed to a single stage but can be important at each of the different stages of the alliance life cycle.

1. Alliance capability

Draulans, DeMan and Volberda (2003) argue that it may be that the most important success factor is not the fit between the partners or the characteristics of the alliance but the skills the alliance partners have with alliances. This skill is referred to in the literature on alliances as alliance capability or alliance skill. It is defined as the ability to create successful alliances, based on learning about alliance management and leveraging alliance knowledge inside the company. Like any other competency, alliance capability is a skill that can be built up and which can become a significant source of competitive advantage. According to Bamford, Gomes-Casseres and Robinson (2003) alliance capability has the potential to create substantial value and fundamentally alter the firm's alliance performance. Alliance capabilities can help managers tap into the accumulated wisdom of peers and predecessors, and so improve overall alliance success. They can promote a more cohesive corporate alliance strategy, as well as increase the speed and effectiveness of alliance formation. And they can help prevent portfolio conflicts, whether between different alliances or between alliances and internal units. Perhaps the most important benefit of an internal alliance capability is the

potential to improve the management of alliances - the process of governing and operating existing alliances.

According to Bamford et al. (2003) the essence of an alliance capability is that alliances are made part of the everyday functioning of the company. They ought not be treated as specials deals which only alliance experts are capable of handling. Rather, they should be shared within the company and across business units. A firm that truly values its alliance capability will seek ways to share best practices among its business units and to develop special expertise where it is needed. There are many ways to build an alliance capability. What works depends on a number of different factors. Amongst others, organizational culture, position of the alliance management responsibility (f.e. corporate level or across business units), and willingness to invest, influence firms in building an alliance capability. Kale & Singh (2007) find that academics and managers have become extremely interested in understanding factors that explain how firms build alliance capability and have greater alliance success (Lyles 1988, Simonin 1997, Anand and Khanna 2000). Earlier work on this topic suggested that having greater alliance experience helped firms develop alliance capability. But later work showed that having a dedicated alliance function to oversee and coordinate a firm's overall alliance activity perhaps plays a far more important role in explaining a firms' alliance capability and overall alliance success (Kale et al., 2002).

## 2. Dedicated alliance function

Dyer, Kale & Singh (2001) define a dedicated alliance function as a vice president or director who has his own staff and resources at his disposal. The dedicated function coordinates all alliance-related activity within the organization and is charged with institutionalizing processes and systems to teach, share and leverage prior alliance experience and know-how throughout the company. Dyer et al. (2001) conclude that companies with a dedicated alliance function have been more successful than their counterparts at finding ways to solve problems regarding knowledge management, external visibility, internal coordination, and accountability, the underpinnings of an alliance capability. Kale & Singh (2007) argue that a dedicated alliance function not only has a direct influence on firms' alliance capability and alliance success. According to them, it's also positively linked to the alliance learning process. An alliance learning process entails learning and accumulating alliance management know-how and best practices in firms. It's a process that involves articulation, codification, sharing and internalization of alliance management know-how within firms. The alliance

learning process seems to act as one of the main mechanisms through which the dedicated alliance function influences a firm's alliance success.

## 3. General Success factors

In conclusion of the literature review, following list provides ten general success factors that are important for making an alliance work. These factors cannot be attributed to a single stage of the alliance life cycle, rather, it is important to keep these in the back of mind during the entire cooperation.

10 general success factors by Gomes-Casseres (2004):

1. Have a clear strategic purpose - alliances are never an end in themselves, they are tools for achieving a business strategy
2. Find a fitting partner - a partner with compatible goals and complementary capabilities
3. Leverage specialties - allocate tasks and responsibilities in the alliance in a way that enables each party to do what they do best
4. Create incentives for cooperation - working together never happens automatically
5. Minimise conflicts between partners - the scope of the alliance and of partners' roles should avoid pitting one against the other in the market
6. Share information - continual communication develops trust and keeps joint projects on target
7. Exchange personnel - regardless of the form of the alliance, personal contact and site visits are essential for maintaining communication and trust
8. Operate with long time-horizons - mutual forbearance in solving short-run conflicts is enhanced by the expectation of long-term gains
9. Develop multiple joint projects - successful cooperation on one project can help partners weather the storm in another less successful joint project
10. Be flexible - alliances are open-ended and dynamic relationships that need to evolve in peace with their environment and in pursuit of new opportunities

# Part 3. Methodology

## Methodology

### Case study design

My research used a multiple embedded case study design (Yin, 2009). Multiple because I examined two cases, namely the PLI and BPW joint ventures. Embedded because I have not only researched these companies at the organizational level, but also at several sublevels. These sublevels ranged from different departments (e.g. HR, Marketing, R&D,...) to several individuals like for example the European General Manager (GM) of PLI. The context within which the cases are situated is joint ventures. Which itself is situated in the broader framework of alliance management theory.

#### Analysing data

Data analysis is the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process.

To process the data resulting from the interviews I first did a within-case data analysis (Eisenhardt, 1989) for each separate case. What this means is that I first analysed the data of each individual case before searching for patterns across them. The latter being known as cross case pattern searching (Eisenhardt, 1989). Cross-case pattern searching consists of searching for similarities, differences or patterns across the different cases. By following this roadmap, I was able to become acquainted with the idiosyncrasies of the different cases, before searching for patterns that existed between them. By doing so I limited the potential threat of death by data asphyxiation (Pettigrew, 1990), which is the danger of becoming overwhelmed by data when one starts processing, in a holistic manner, all the information resulting from the cases at once.

### Research design

Since I've compared the success of two joint ventures in the ready-to-drink tea market, the type of research I have conducted is a comparative case study.

According to Yin (2009) it is advised to make predictions, on what I expect to find during the interviews, after having conducted the literature review. After making these forecasts, I have conducted several interviews with various key people at the PLI and BPW joint ventures regarding the subject at hand. When I finished gathering the perspectives of these key people, I started analysing these findings.

Next, I used a phenomenon called 'pattern matching' (Yin, 2009) to compare the predictions I made after the literature review with the results following the empirical analysis. Finally, following this comparison, I discuss my findings in a general conclusion.

To structure my methodology, I have based myself on the research design as it is also structured by Sekaran et al. (2009). Yin (2009) defines a research design as (p.26) *a logical plan for getting from here to there*, where *here* may be defined as the initial set of questions to be answered, and *there* is some set of conclusions about these questions.

Type of business research

The type of business research in this study is known as basic research. This is defined by Sekaran et al. (2009) as (p.5) research undertaken to generate a body of knowledge by trying to comprehend how certain problems that occur in organizations can be solved. This is indeed the case, since I have attempted to uncover the key factors underlying the success/failure of joint ventures in the ready-to-drink tea business and, in extension, the success/failure factors of strategic alliances in general.

Purpose of the study

The type of research I have conducted is an exploratory study. This is defined by Sekaran et al. (2009) as (p.103) research that is undertaken when not much is known about the situation at hand. This is indeed the case, since I wanted to find out which drivers caused the PLI joint venture to do so well and which drivers caused the BPW joint venture to collapse and there had not yet been anything written about this subject.

The main data I used was of a primary and qualitative nature. I was mainly interested in the opinions and experiences of the key people at PLI and BPW. Since I directly interacted with these key people, interviews were the preferred method of data collection, semi-structured interviews to be precise. I opted for this combination of structured and unstructured interviews to allow for flexibility during the interviews.

I have also used secondary qualitative data. I have mainly used this type of data in preparation of the interviews. The main sources I used to collect this data were scientific articles, textbooks, press releases and newspaper excerpts.

Type of investigation

The type of investigation in my research is causal. A causal investigation is described by Sekaran et al. (2009) as (p.110) a study in which the researcher wants to delineate the cause of one or more problems. In this instance I attempted to uncover the key factors leading up to the respective success and failure of the PLI and BPW joint ventures.

Extent of researcher interference

The research has known moderate researcher interference. Since I used semi-structured interviews, it is probable that I influenced the answers of the interviewees by merely being present, resulting in a moderate interference of the reality by the researcher.

Unit of analysis

The unit of analysis was both at the micro and meso level. I started on the micro level by conducting interviews with the key individuals of the PLI and BPW joint ventures. After having conducted these interviews, I analysed the answers and extrapolated these findings to the meso level. This is the level at which organisations are studied.

Time horizon

The time horizon of the research is cross-sectional. Sekaran et al. (2009) defines a cross-sectional study as (p.119) a study in which the data are gathered just once, this could be a period of days, weeks or months, in order to answer the research question. Since I did the interviews in the first quarter of 2014 and haven't done more than one interview with each contact, this research used a cross-sectional time horizon.

**Interview account**

Dr. Matthias Berger selected the contacts I interviewed at PLI. Dr. Berger is the Global R&D Director of PLI & PLP and is a member of the joint venture Global Leadership team. Although it would have sufficed to get PLI employees' views only, I preferred to also interview several key people at BPW. Apart from these

sources, I also discussed my findings with an industry analyst, which I have found key in increasing the objectivity of this paper.

The interviews took place during the first quarter of 2014. Since PLI is an international company and the employees are scattered across the globe, most interviews happened using a telephone conference. I have not found this to be a hindrance for the research. The interviews took about one hour each and I'm very satisfied with the professionalism of the interviewees.

Since my research is of an explorative nature, I did not have an idea which factors were important for PLI and BPW respectively. It genuinely was trial and error for me in order to obtain the answers to these research questions. Apart from this trial and error, I also used a technique called flexible data collection. Since some questions got the same answer over and over again, it was not necessary to ask them during every interview. Consequently, these questions were erased from subsequent questionnaires. In contrast, there were also several questions that needed attention but were not included in the earlier versions of the questionnaire, which I then added in subsequent versions. In total I have revised the questionnaire six times for PLI. Since the interviews at BPW happened after the PLI interviews I already had a decent questionnaire in place and it was consequently not necessary to adapt this one as frequently.

During the interviews I have enquired after three distinct items. First I asked the interviewees whether they agreed on the success factors I found in the literature. Second, I enquired after the factors that drive the success of PLI according to them. Finally, I asked them which factors they found to have caused the downscaling of BPW.

Table 5 gives a chronologic overview of the people I have interviewed at PLI, BPW and Mintel during the course of my research.

| Name | Function |
|---|---|
| Dr. Matthias Berger | Global R&D Director PLI & PLP |
| Didier Cumin | Business Director South East Europe PLI |
| Karel Vandamme | Business Director Northern Europe PLI |
| Marisa Teh | Revenue Manager Western Europe PLI |
| Paul Andersen | General Manager Europe PLI |
| Uday Sinha | Managing Director AMEA PLI |
| Nuno Pena | Ex-Marketing Manager EMEA BPW |
| James Mackay | Global Supply Chain & Operations Director PLI & PLP |
| Rainer Schmidt | Ex-Marketing Director EMEA BPW |
| Antonio Egido | Ex-Finance Director EMEA BPW |
| Catarina Silva | Strategic Planning Director PLI |
| Jerry Savage | Ex-Mintel beverage industry analyst |

*Table 5 - List of interviewees*

# Part 4. Case study

## Chapter 1. What are the critical factors driving the success of the Unilever and PepsiCo joint venture, PLI?

The success of PLI is not attributable to one single factor. Rather, it is a combination of several items that need to come together in order for the joint venture to be successful. These items are: internal management - identity, culture and autonomy - parent company cultures - equally important and complementary capabilities - brand equity - marketing strategy - supply chain - innovation and R&D - first mover advantage - parent company commitment - objective alignment - alliance strategy - interorganizational trust - relative brand importance.

### Internal management

Internal management is a critical factor driving the success of the joint venture. Several items can be attributed to internal management, each with differing degrees of influence. The most important items with regard to internal management are: governance structures, CEO, Board of Directors, Top Management Team and JV staffing.

Governance structures are very important for any organisation. These are needed to solve conflicts and protect the interests of the joint venture. Nevertheless it is a hygiene factor. If this is not in place it will go wrong, but it does not actively contribute to the success of PLI. Some of the most important governance items are intellectual property rights (IPR), patents and information sharing. They are needed in order to have free, easy and open communication between the parent companies. One of the most important factors for internal management is the CEO. It is critically important to have a senior level president that has influence in both parent companies. He needs to make the joint venture a top priority for them. The board of directors is also critical to the success of PLI. The board is composed of four PepsiCo and four Unilever employees with equal voting rights. These board members were selected from a similar hierarchical level within the parent companies.

"You need managers of the same level in the JV board." - Rainer Schmidt, Ex-BPW Marketing Director EMEA

The top management team is also important. It's absolutely critical that there is a good relationship between the top management team, the JV CEO and the CEO's

of the parent companies. Joint venture staffing is also a critical success factor. Getting the top talents from both parent companies into the joint venture is crucial. The trust between the parent companies enables the joint venture to get the best talents from them.

"The fact that PLI is very successful obviously helps us in attracting those key people." - Karel Vandamme, PLI Business Director Northern Europe

Identity, culture and autonomy

This success factor entails several items. First, the JV employees are not seen as either PepsiCo or Unilever employees, but rather as PLI employees. Second, the JV is allowed to operate autonomously and with its own identity. Third, there is a distinct culture within the joint venture.

"The parent companies don't try to pollute the joint venture with their own interests." - Didier Cumin, PLI Business Director South East Europe

What's important with regard to this item is that the culture at PLI was completely designed from scratch, without any interference from the parent companies. It does however not necessarily have to be drastically different from that of the parent companies. The JV can take the best of both parent companies and leverage those capabilities inside the JV. Having a separate name and a distinct culture can go a long way in creating a new identity for the joint venture.

Within PLI there is a very flexible, efficient and entrepreneurial culture. This is one of the main benefits of having a joint venture. It allows for this kind of culture by leaving a lot of the administration and bureaucracy back at the parent companies. Both parent companies encourage the joint venture to take some risk and to try and perform.

"Risk-taking and performance is rewarded at PLI." - Marisa Teh, PLI Revenue Manager Western Europe

Parent company cultures

PepsiCo and Unilever don't have similar cultures but this is not seen as a problem. The important factor in this respect is that the cultures between the two parent companies match and that they can bring something valuable to the JV. There is value in diversity in that the joint venture can use the best of both

worlds. Unilever is a more marketing focused company while PepsiCo is more sales driven. PepsiCo is really good at doing things quick and then adjusting in the process.

One of the credos at PepsiCo is "Ready, Shoot, Aim". - Matthias Berger, Global R&D Director PLI & PLP

Unilever is a marketing driven culture and there is a lot of processing and fine-tuning before an actual launch. Both approaches have their merit and the joint venture has the advantage that it can choose which approach to follow.

Equally important and complementary capabilities

This is one of the most critical factors driving the success of PLI. Not only do the parent companies have complementary capabilities, they are also of equal weight and importance to the joint venture. This makes the division of decision power a lot easier, especially seeing as PLI is a 50/50 joint venture. The capabilities that both parent companies bring are very distinct and complementary. Unilever is the owner of the Lipton brand. They provide the marketing and R&D strength and drive the Lipton brand by doing so. Lipton is a tea company and as such provides the tea processing and buying expertise. PepsiCo provides the go to market capabilities, the bottling service and the distribution network, which is a vital part in the FMCG industry. RTD Tea is an impulse driven category and being available wherever and whenever the consumer wants to buy your product is incredibly important. PepsiCo also does part of the marketing and R&D of Lipton Ice Tea.

"A marriage among equals is crucial in making a joint venture succeed." - Didier Cumin, PLI Business Director South East Europe

Lipton Brand Equity

Before entering the RTD tea market Lipton was already a well-known hot tea brand. This brand equity was an important factor in convincing a formidable partner like PepsiCo to team up with them and start the joint venture. Consequently, the brand equity was a critical factor in establishing the RTD tea business Lipton Ice Tea has today.

"The brand awareness allowed us to convince the trade and consumers much faster." - Didier Cumin, PLI Business Director South East Europe

An interesting finding in this regard is that hot tea is not a catalyst for drinking cold tea. Hot tea consumers are not more inclined to drink iced tea. The reason being that consumers are looking for very different attributes in both categories. There is however no clear-cut conclusion to be made. In some countries there is a negative link between hot and cold tea. In the UK for example, RTD tea is a very difficult product to manage because of their distinct hot tea culture. They see RTD tea as hot tea gone cold, which they find distasteful. In other countries like for example Russia there is a high consumption of hot tea per capita. At the same time there is also a high consumption of RTD tea per capita.

## Marketing Strategy

The marketing strategy is a very important factor in making the joint venture succeed but it needs to go hand in hand with the go-to-market capabilities and the supply chain. The strength of the selling system is a vital part of success and helps determine who is market leader in which countries. In some countries Nestea has a higher market share because they have a stronger selling system, despite Lipton Ice Tea being the stronger brand. In the FMCG business, the selling and distribution system is as important as the marketing and the brand.

"All the marketing in the world isn't going to make a difference if you don't have a good sales and distribution network." - James Mackay, Global Supply Chain & Operations Director PLI & PLP

Nestlé, Unilever, The Coca-Cola Company and PepsiCo are all formidable marketing companies. Good marketing is an important factor for the individual partnerships. Comparatively seen however, it's not a strength for one and a weakness for the other.

## Supply Chain

The supply chain is one of the most critical success factors. Having a good upstream can guarantee that your components are steadily available. A good downstream and go to market assures that your product is available and visible to the end consumers. Physical availability is crucial in an impulse driven category such as RTD tea. The PepsiCo network, however, is inferior to the Coca-Cola Company's network in most places. You would thus expect Nestea and not Lipton Ice Tea to be the market leader in most places. The reason why this is not the case is because there is a flipside to having a very strong distribution network

and that is attention in the system. Adding a new brand can create a lot of distraction and if the system is working well under the current configuration, the question why they should add another brand will arise.

"If you have a big and powerful machine, adding a new brand is always going to be difficult." - Matthias Berger, Global R&D Director PLI & PLP

In contrast, in a system that is not so strong, a new brand can actually be a catalyst for growth and improvement and therefore get more attention. In Western Europe for example this is the case with Lipton Ice Tea, where it is the strongest brand in the PepsiCo system, including Pepsi Cola. Therefore it gets attention that is proportionally higher than it would get in the other system. Nevertheless, absolute system strength is crucial, but attention to that one brand in the system is what makes the difference.

"Lipton Ice Tea competes with the internal PepsiCo brands. It needs to make itself a high priority in the portfolio to get the focus it requires." - James Mackay, Global Supply Chain & Operations Director PLI & PLP

Innovation and R&D

Innovation and R&D is one of the most important key success factors of PLI. Having a product, a proposition and a taste that people like, allows Lipton Ice Tea to differentiate itself from its competitors. If you are able to combine this with a good R&D system that produces a product that can't be copied, that gives you the competitive advantage you need.

"The competition will always catch up with and try to copy you. But nobody can copy the Lipton brand or tea expertise and that makes the difference." - James Mackay, Global Supply Chain & Operations Director PLI & PLP

First mover advantage

This is one of the most important success factors. The markets where PLI entered first are still characterized by a stronger share of market compared to markets where they weren't first. Since PLI was first in many markets, this could explain their global market leader position. This actually applies to the entire FMCG industry, not just PLI. A classic example of the first mover advantage is the story of Coca-Cola and Pepsi Cola.

"The one that enters the market first usually is the market leader and it is extremely difficult to turn this around." - Paul Andersen, PLI General Manager of Europe

Parent company commitment

It is impossible to stipulate every single contingency in the joint venture contract so it's important that both parent companies are fully committed to making the joint venture work, even if some unforeseen circumstances arise. Commitment to investing in the joint venture is critical in this respect. The PLI joint venture was seen as a priority and not as a hobby by Unilever and PepsiCo.

"Appetite for investment with patience for reaching the breakeven point is critical." - Uday Sinha, Managing Director AMEA

Objective alignment

The objectives both parent companies wanted to derive from the alliance were clearly stated at the outset of the agreement. It's important that these objectives are compatible. They don't need to be exactly the same but it is imperative they can be achieved simultaneously. It therefore is important that both parties clearly communicate what they expect from the joint venture while forming it. The issue is that it's not always clear what both companies expect to derive from the alliance and a lot of alliances have failed due to this misalignment of objectives.

"The objectives need to be fully aligned, agreed upon and shared. There needs to be a benefit for both parties." - Matthias Berger, Global R&D Director PLI & PLP

In essence, the success of this factor goes back to the strategy behind the alliance.

Alliance strategy

The strategy behind the PLI joint venture is one of the most important factors underlying the success. Getting together and creating the joint venture was actually quite a logical thing to do. Both companies had something valuable and they wanted to leverage those assets.

PepsiCo needed to play in the ice tea category, since it was, and still is, one of the fastest growing and biggest categories worldwide. The soft drinks category

was experiencing increased pressure and sales were falling because of the consumer's increasing focus on health. PepsiCo consequently needed a change in its portfolio. They needed to go from a 'fun for you' to a healthier 'good for you' and even 'better for you' proposition. PepsiCo, however, didn't have the brand to do that on a global scale. They either had to create a brand, which is very costly, or use an existing brand, which they did with Lipton. Besides the formidable tea brand, Unilever also offered a lot of the necessary marketing and R&D capabilities.

Unilever had a jewel in their hands with the Lipton brand and they wanted to maximize this asset. They knew that the future value of the tea category was more into cold RTD tea and they wanted to gain access to this market. It was however risky, costly and slow to do this on their own. Although they had the go to market capabilities in Europe, Unilever knew that they could not scale the business worldwide on their own. PepsiCo had formidable expertise in the category and possessed the global go to market capabilities Unilever needed.

"They didn't have to start from scratch, they could jointly build an entity and kick it off." - Marisa Teh, PLI Revenue Manager Western Europe

Interorganizational trust

Trust is crucial to the success of any joint venture, not just PLI. The thing with trust is that it needs to be proven and reaffirmed continuously. The joint venture may not always work exactly how the partners would want, but on the whole they need to be totally committed and be convinced that their partner is the best partner within the constraints they have. Because of the success PLI is having there is a lot of trust between the parent companies. Both of them are seeing the benefits from the joint venture. The trust this creates has resulted in a very good relationship between them. There is a lot of openness, partnership and sharing of information beyond what is stipulated in the original contract.

Communication is also very important in this respect. It is a crucial element in reinforcing the critical assumption held by both partners that the other partner will not exploit its vulnerabilities when face with the opportunity to do so.

"Knowing how to build trust and getting to the point where you know you are getting a fair share of the value is crucial." - Rainer Schmidt, Ex-BPW Marketing Director EMEA

Relative brand importance

Lipton is one of the top brands at both Unilever and PepsiCo. Since Lipton hot and cold tea combined is the second best selling beverage in the world, right after Coca-Cola, this is no surprise. As a result, Lipton receives the best care both companies can provide, such as top management attention, the best talents and extensive resources. This allows the joint venture to continue to thrive.

"Lipton is one of the top brands of Unilever. Nestea is not one of the top brands, by a far margin, of Nestlé." - Matthias Berger, Global R&D Director PLI & PLP

**PLI Conclusion**

The success of PLI is the result of the abovementioned factors. Although all of them are crucial in making the joint venture thrive, some only contribute from the periphery. A challenge for the joint venture in the future is going to be the increased focus on health from consumers and regulators. Since Lipton Ice Tea is close to a CSD it will need to act on this faster than other healthier options, like f.e. Arizona or Nestea. Investing in R&D will definitely be worth the while seeing as the RTD tea category will continue to expand during the years to come.

"RTD tea will be the fastest growing category for many years to come, which continues the rapid growth trend from the past 5 years." - Richard Haffner, Head of Beverages Research at Euromonitor

## Chapter 2. What are the main reasons behind the collapse of the Nestlé and The Coca-Cola Company joint venture, BPW?

Like the success of PLI, there are several critical factors that are important in this respect and have contributed to the downscaling of BPW. These items are: marriage of unequals and partner redundancy - culture mismatch and objective misalignment - alliance openness - relative brand importance - alliance structure change - corporate politics, downscale stages and mistrust - communication breakdown - joint venture cannibalization and lack of commitment.

### Marriage of unequals and partner redundancy

Nestea has known a lot of success and is, to this day, still market leader in several geographies. Obviously, Coca-Cola and Nestlé were a good fit to some extent. They were able to properly run the joint venture and be successful with it. Although their input was complementary, it may be argued that it was not complementary, of equal weight, thorough and unique enough.

"The issue was that the joint venture was not properly balanced between the two parent companies." - Didier Cumin, PLI Zone Director South East Europe

Nestlé did not bring a lot to the joint venture. They could be seen as a glorified supplier in many respects. They provided the tea and the brand name to Coca-Cola, while Coca-Cola did all the heavy lifting. Nestea wasn't really a big global brand and Nestlé sourced the tea from a third party, since they didn't really have any tea expertise. Coca-Cola realized after a while that they could do it all on their own. When either partner thinks the other one is not doing their share that leads to a feeling of partner redundancy.

"The Nestea brand that Nestlé brought to the table was pretty weak. " - Paul Andersen, PLI General Manager Europe

From the standpoint of Nestlé the input of Coca-Cola was not unique enough. They brought the distribution network but Nestlé also has manufacturing and distribution capabilities because of their water business. On top of that both companies were also active in the same bottled water business, so there was a potential conflict of interest. When sparked this would definitely have had catastrophic consequences for the joint venture.

Culture mismatch and objective misalignment

The cultures of both parent companies were too different to really create a joint effort atmosphere within the joint venture. In this respect, Nestlé truly is a Swiss company. They keep trying until it works, it might take ages but they will never change the objective. In contrast, at Coca-Cola, when something doesn't work within a year, they will probably scratch it.

"When you have nothing in common, you have nothing to do together. You need to have something that you both can pursue." - Antonio Egido, Ex-BPW Finance Director EMEA

The objectives also weren't very clear at the beginning. An example of this is that at first the joint venture was created for running both the RTD tea and RTD coffee business. The RTD coffee business, Nescafé, was however taken out of the joint venture pretty quickly due to a lack of focus.

"There was mistrust between Coca-Cola and Nestlé and that was putting pressure on the joint venture. As a result of all that the common objective was lost." - Antonio Egido, BPW Finance Director EMEA

Alliance openness

Coca-Cola has a history of unsuccessful partnerships. They have had failed partnerships with Danone, Nestlé,... They are not open to doing things in a different way. Coca-Cola usually wants to fit their entire model onto a business.

"Coca-Cola wants to be the dominant force in any and all markets they enter." - Rainer Schmidt, Ex-BPW Marketing Director EMEA

Since the strength in a joint venture comes from leveraging the best of both parent companies, this approach did not work well. Coca-Cola brought a great distribution system and a good marketing team to BPW. Nestlé also brought a good marketing team but they also brought extensive R&D knowledge that was far beyond what Coca-Cola could do. This did not fit the whole model of Coca-Cola very well and again a misalignment was created. Nestlé was very strong in setting the general direction and pointing out the way to handle things but Coca-Cola, being the monster sized company they are, also wanted to be a dominant force in the joint venture.

"It's complicated for Coca-Cola to be together with another company. They are too big and they don't like sharing." - Antonio Egido, Ex-BPW Finance Director EMEA

Another example of Coca-Cola not having a very cooperative nature is Innocent. It was supposed to be a joint venture but in the end Coca-Cola bought Innocent.

"In the past, the moment Coca-Cola had a better opportunity, they terminated the alliance." - Karel Vandamme, PLI Business Director Northern Europe

Relative joint venture importance

Since Nestea wasn't a high priority within the respective portfolios of the parent companies, the brand received much less attention, talent, resources and management focus than if it were among the top 5 brands of the parent companies.

"Nestea is not one of the top brands, by a far margin, of Nestlé. Neither is it a huge priority for Coca-Cola." - Matthias Berger, Global R&D Director PLI & PLP

As you can imagine the best resources, talents and focus at the Coca-Cola Company go toward Coca-Cola, their flagship product.

"In the US, Coca-Cola and Nestlé dissolved their partnership because Lipton Ice Tea had greater brand recognition than Nestea, leveraged successfully by PepsiCo to gain distribution. Given the size of Nestea, it just wasn't a big focus for Coca-Cola and its bottlers to distribute. They're competing against people where it is the main focus for them, or it's a much bigger brand, as in Lipton's case." - Richard Haffner, Head of Beverages Research at Euromonitor

Alliance structure change

Before the joint venture started, there was already a strategic alliance between Nestlé and Coca-Cola. Coca-Cola was allowed to produce and sell Nestea under a licensing agreement. When the joint venture came in place it put a lot more focus on Nestea and this changed a couple of things. Nestea was now being run globally through the joint venture. This meant that the local Coca-Cola organisations lost a lot of their decision power and had to subdue to the decisions made within the joint venture.

There is however no clear-cut reason as to why the parent companies changed the structure of the alliance. One possible explanation is that the strategic alliance they had before wasn't really leading anywhere. Nestea was still really small. They probably looked at the Cereal Partners Worldwide (CPW) joint venture as a success model and agreed to try this for iced tea.

"If you combine the marketing and distribution capabilities of Coca-Cola and the R&D culture of Nestlé, on paper, it would be a massive success, but it wasn't. We weren't really able to leverage it. We ended up with an organisation that tried to survive between the two monsters." - Antonio Egido, Ex-BPW Finance Director EMEA

Corporate politics, downscale stages and mistrust

The downscaling happened in a number of stages and the one in 2012 marked the end of the global character of the joint venture. The first market where the JV structure changed was in the US based on the fact that Coca-Cola felt they weren't making enough progress. They were starting to debate whether Nestea was the right brand.

The driving force of the downscaling, however, was when there was a new Global CMO in place in Coca-Cola, a lady, who had ambitions to become the CEO of Coca-Cola. This was around 2005-2006. Coca-Cola was struggling to show good results outside of their core business of carbonated soft drinks (CSD). Coca-Cola saw that RTD tea was a category with tremendous growth potential and was on the verge of becoming a massive category. The newly appointed CMO needed to show good numbers and growth and turned to the joint venture to achieve this goal. She argued that there was no need for splitting the profit of this category between Nestlé and Coca-Cola. Since they were already doing a lot of the heavy lifting there was a clear motivation on the Coca-Cola side to do it all themselves and keep all the proceeds as well. When this standpoint was made clear to Nestlé, a discussion started at the board level about whether they should split Nestea into Green Tea and Black tea. Next to this discussion, there was another discussion going on. Theoretically seen, the joint venture was a 50/50 equity joint venture. In practice however this was not the case. The only revenue showing up in the books of BPW was the one generated from Coca-Cola selling the beverage base to the bottlers. When the Coca-Cola bottler then sells the finished product to the end consumer that also generates a profit. This profit was, however, not showing up in the books although it was directly linked to the joint venture.

Nestlé logically wanted a piece of that profit and felt that Coca-Cola was cheating them.

"Nestlé was not happy about the profit split and Coca-Cola wasn't happy about splitting anything at all. That's when they started slicing and dicing the joint venture." - Rainer Schmidt, Ex-BPW Marketing Director EMEA

They took the US out of the joint venture first because that's where the biggest debate was and it's where the top management looked at it first since it's closest to the Coca-Cola Company's global headquarters. After taking out the US, Nestlé decided to take Nescafé Xpress out of the joint venture. They argued that Coca-Cola wasn't putting enough focus on it.

As a result of the complete mistrust at both sides it was very complicated for the joint venture employees to properly do their jobs. Communication is critically important in building trust and making a joint venture operate smoothly.

Communication breakdown

Good communication between the partners is a critical driver in the success of any joint venture. This is one of the factors Coca-Cola and Nestlé failed to properly achieve. A prime example of this lacking communication is when the Coca-Cola Company and BPW were funding the same line twice. Since the production of Nestea requires aseptic production lines, the joint venture was funding the construction of these. The Coca-Cola bottlers were however also using these same lines for the production of other Coca-Cola beverages like PowerAde. For those products, they had a financial agreement with the Coca-Cola Company for funding those lines. The Coca-Cola bottlers were thus getting twice the funding for establishing the exact same lines! This lack of communication is another important driving force behind the downscaling of BPW.

"Good communication is key to ensure the strategic alignment of the joint venture with the parent companies." - Marisa Teh, PLI Revenue Manager Western Europe

Joint venture cannibalization and lack of commitment

Very soon into the joint venture, the parent companies were allowed to compete with their own tea, next to the joint venture. They were allowed to buy other tea companies within the constraints of their agreement. That was sort of a built in

error into the joint venture agreement. Coca-Cola was buying other tea and coffee companies in Asia when they had the JV in place. The biggest reason they did that was that they felt Nestea was not a big and strong tea brand like Lipton is. Another reason was the inability of Coca-Cola to acquire Nestea. Joint ventures have a temporary character. The finite end date could be 99 years from now, but the assumption is that one of the parent companies will eventually acquire the joint venture company or that it will go to a third party. Given the nature of Coca-Cola they saw the joint venture as an option to acquire but after a while figured out that they were never going to be able to obtain Nestea as a wholly owned subsidiary. Nestlé, quite simply, will never let a NES brand go. Coca-Cola having the objective of obtaining a global tea brand realized Nestea was not an option for doing so. That's when they started searching for alternative routes to capture the RTD tea market as illustrated by their purchase of Fuze Tea. This dramatically decreased Coca-Cola's focus and commitment to make BPW continue to thrive.

**BPW Conclusion**

The downscaling of BPW is the result of the abovementioned factors. Although all of these factors have played an important part in the downscaling, it was the combination of them that resulted in the downscaling of BPW. The future of BPW at this point is very uncertain. The projections of ex-BPW employees are rather variable. Some say that the BPW JV is doing fine and that it will continue to thrive for a long time. Others say that the BPW JV at this stage doesn't even exist anymore. That it's now just a loose network of bottler-manufacturer collaboration agreements. What will happen to BPW remains to be seen and only time will tell the final outcome of this joint venture.

# Chapter 3. Implications for alliance management theory

## Additions to the existing literature

During the interviews I checked whether the findings from the literature review held up in practice. Most of the items that are deemed critical in the literature are considered to be important in practice. There are, however, some interesting factors the interviewees did not consider being critical.

### JV success & alliance capability

As opposed to what is suggested in the literature, alliance capability is not considered to be an important success factor for joint ventures. At best, having an alliance capability can be an enabler, but it does not actively contribute to success.

"The fact that a company has got previous alliance experience will create a positive mind-set for partnerships. Other factors are, however, more important for making a joint venture succeed." - Matthias Berger, Global R&D Director PLI & PLP

If you think about this for a minute it's kind of logical. The number of previous alliances does not indicate whether a future alliance is going to be success or not. If you have had no previous experience in alliances, this doesn't necessarily imply that your first joint venture is bound to fail.

### JV success & dedicated alliance function

Although some interviewees found it critical, the majority of them did not consider having a dedicated alliance function as being critical for joint venture success. A dedicated alliance function can, however, still facilitate things. Though it is important that, if this function assists in the running of the alliance related activities, this interference does not lead to difficulties or increased complexity.

"Forming a joint venture and keeping it alive, is not due to that function." - Matthias Berger, Global R&D Director PLI & PLP

What is considered to be more important in this respect is the top-to-top alignment of the senior management dedicated to the joint venture. The board of

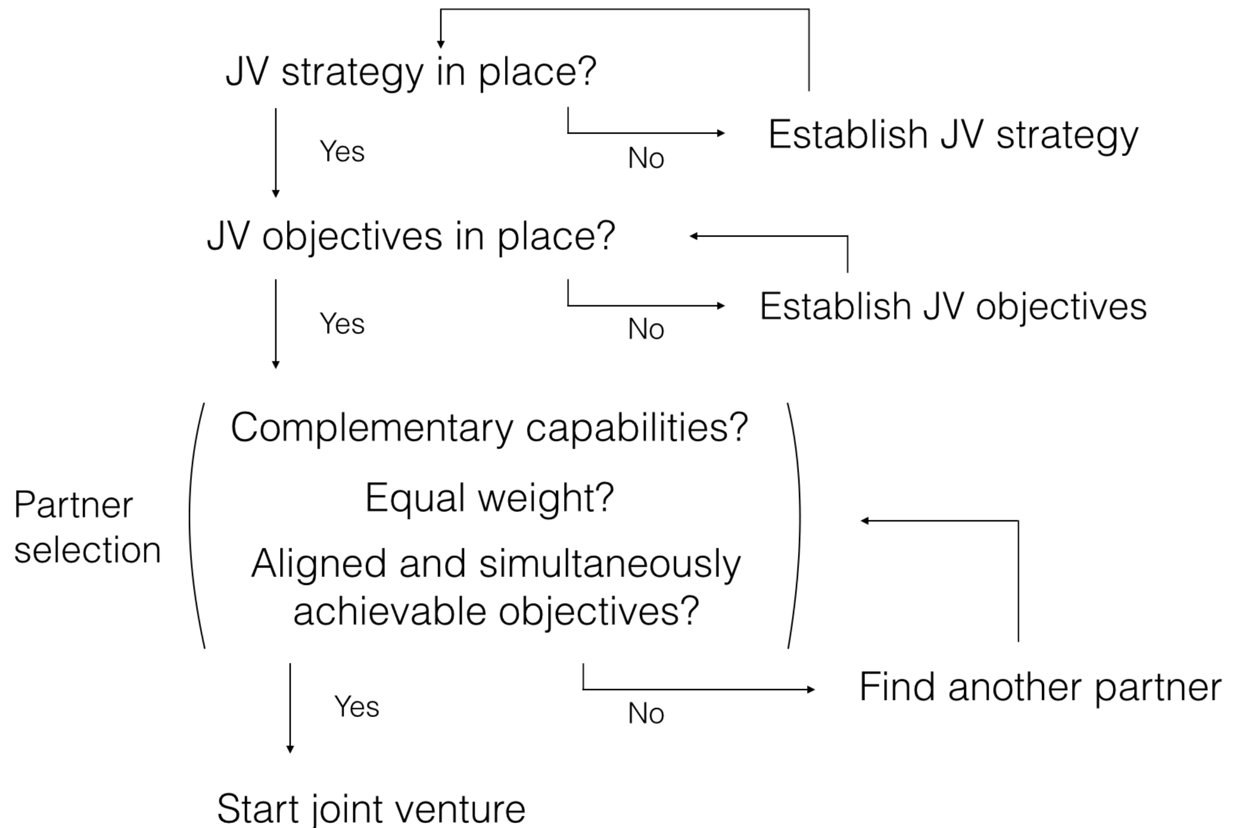
directors needs to come from both parent companies and needs to build trust and manage with the best interest of the joint venture in mind.

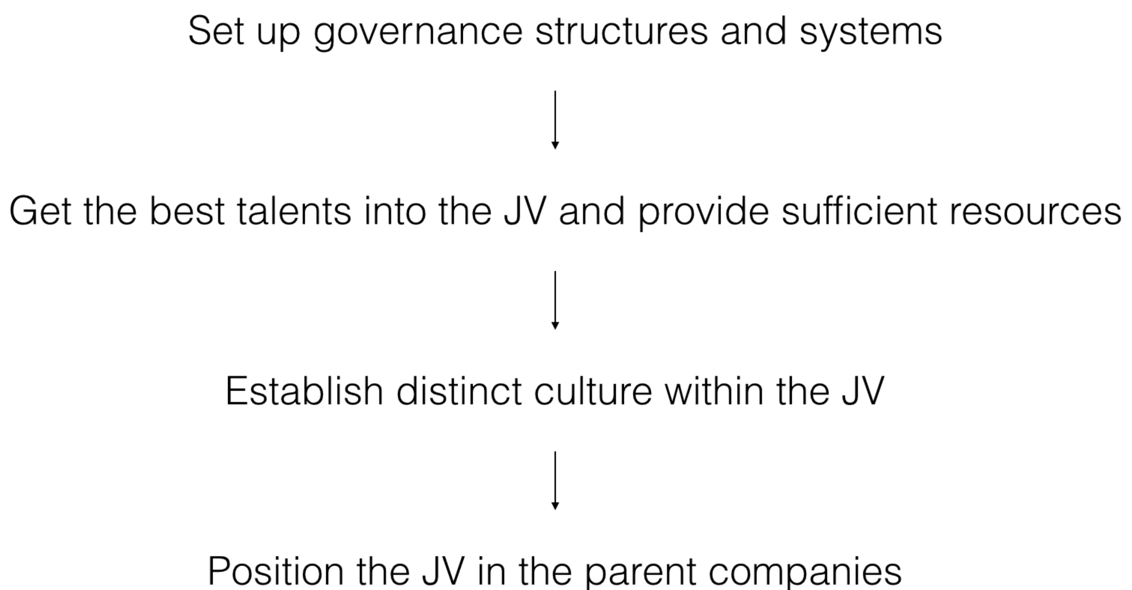
"In the end it's the board that needs to manage the JV." - Rainer Schmidt, Ex-BPW Marketing Director EMEA

JV success & evolution

An interesting finding in this respect is that evolution is actually not a driver of success. Rather, it is a consequence of being successful. The structure of an alliance will only evolve when there is a need to increase the scope or expand the joint venture.

**Checklist and guidelines**



Postformation Phase

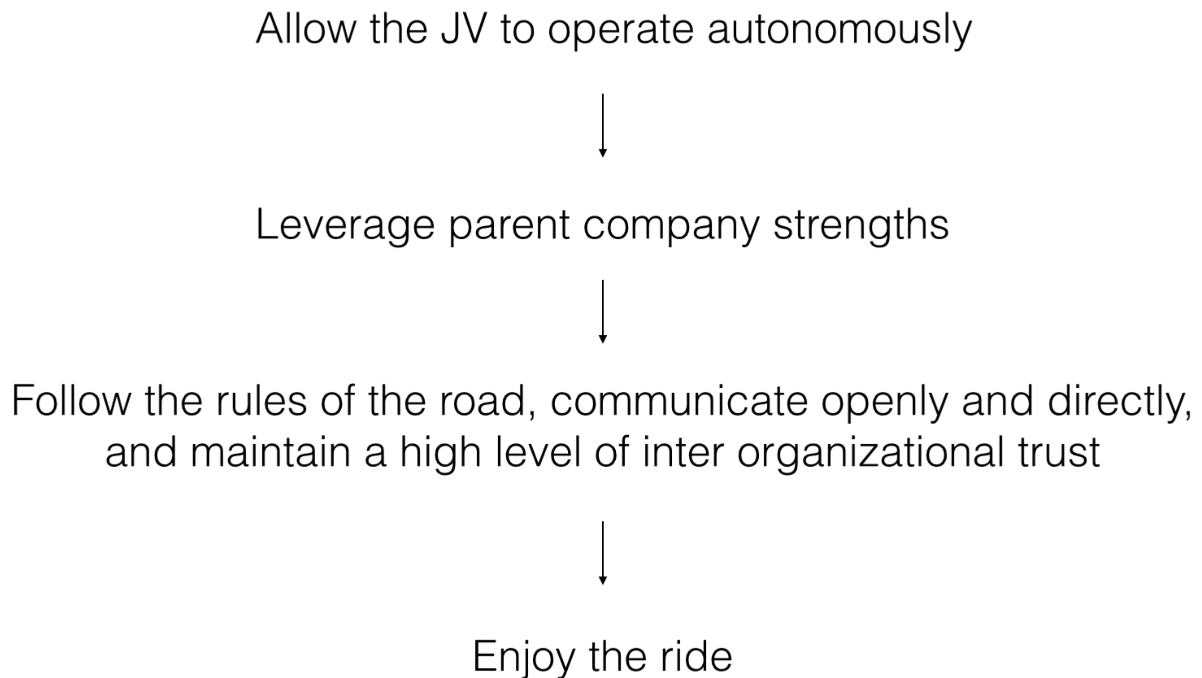



*Figure 6 - Joint venture checklist*

Figure 6 lays out the factors that are considered to be most important for a joint venture. The checklist is the result of combining the findings from the literature review with those from the case study. The factors in the checklist are divided along the different stages of the alliance life cycle. There are many factors that contribute to the success of a joint venture. Analogous to hygiene and motivator factors, a distinction needs to be made between factors that enable joint ventures and factors that actively contribute to their success. The division of weight among these factors is also a critical item that is often overlooked. I have ranked the critically important success factors in descending order of importance in my guidelines on how to best set up a joint venture to maximize the chances of success.

Strategy and objectives

Having a solid strategy in place behind the alliance is crucial for making an alliance succeed. Starting a joint venture should be a deliberate choice, not an opportunistic gamble. Don't start a joint venture just on a win or because it is a nice thing to do. Really think about whether you truly need one and think it

through before making the final decision. Scenario and contingency analysis can be helpful tools in establishing whether it will be sustainable or not.

Make sure the objectives both parent companies want to achieve with the joint venture are known, aligned and can be achieved simultaneously. In other words, make sure you know the strategic agenda of your partner as good as possible.

### Partner selection

Selecting a partner with complementary capabilities is a good start but it does not suffice. I cannot stress the importance of having equality in partnerships enough. Both partners can bring something valuable to the table but it's critically important that these capabilities are of equal weight and importance. If this is not the case, feelings of inequality are eventually going to bubble up. This is detrimental to trust and will consequently obstruct the smoothness of the collaboration.

Also ask yourself why the other party would want to work with you. Look past the initial agreement and find out if the partner may have other intentions for the collaboration, like f.e. acquisition.

### Commitment and positioning

The parent companies need to be committed to making the joint venture work. Commitment for investing and playing it out until breakeven is reached is crucial.

The joint venture needs to be positioned in both parent companies. It needs to have the support from both the employees working inside the joint venture as well as the support from the employees working in the parent companies. If it's not properly positioned then you will get a group of people trying to do a good job but not getting anywhere.

### Identity and autonomy

Joint ventures are a part of the parent companies but it is important that they have the freedom to operate independently and with their own culture. The power of a joint venture lies precisely in its ability to operate more effectively, swiftly, openly and dynamically than their corporate parents, whilst maintaining their global character. An additional joint venture strength comes from its ability to leverage the parent company's capabilities in their own organization. Because of

these abilities, risk-taking should be rewarded and integrated into the joint venture culture.

Communication and trust

Joint ventures can be complex entities to work for. Following the rules of the road that have been established by the governance structures and systems is therefore crucial. Ideally they should allow for open and direct communication between all involved parties. Having open, direct and easy communication channels and both parties respecting the rules can go a long way towards building and maintaining the trust between them. The trust that is so critically important for the joint venture to thrive over a sustained period of time.

**Recommendations for future research**

I think the literature needs to make a more profound distinction between joint ventures and alliances. The term alliance allows for too much grey areas and I don't think the literature is benefiting from this at all. Alliances cover anything from licensing deals to joint ventures and it doesn't take a lot of insight to realize that these two cooperation forms are worlds apart. Consequently I don't think it is beneficial for practitioners or researchers to keep using these classifications. Because of the intricacies a joint venture has and the large distance that sometimes exists between general alliance recommendations and JV recommendations it would be best to focus on JV's as an entirely separate research subject and not consolidate them with general alliance research.

Future research could build on this research in terms of providing an even more holistic approach to joint ventures. I have focused on joint ventures as being separate entities and on the factors it takes to set them up and manage them. There is however an additional aspect that can be integrated in the study of joint ventures and that is the aspect of standard business management. The existing joint venture literature focuses on aspects that are only attributable to joint ventures and alliances in general. Since joint ventures are stand-alone entities, it stands to reason that the standards of good business conduct apply to them as well. Integrating these standards into the existing recommendations for joint ventures will allow for an even better holistic and pragmatic approach to what it takes for these collaborative entities to succeed.

There are a lot of recommendations made in the literature. The thing with these recommendations is that they all get an equal weight in their contribution to

success. A distinction has to be made between absolutely crucial factors and factors that only peripherally contribute to success.

# Conclusion

Several interesting conclusions can be made based on the literature review and the interviews. The answer to the first sub research question shows that there isn't a clear definition of what exactly a joint venture is. Several different definitions exist and this certainly does not help improve clarity on the subject. To facilitate this paper I provided a consolidated joint venture definition before making a deep dive into the intricacies of this alliance form. Apart from the variability of joint ventures definitions, the different interpretations of success can also make the study of alliances a hassle. An important distinction in this respect can be made between objective and subjective measure of alliance performance. Objective performance metrics are easily interpretable since they are similar to regular business performance metrics such as revenue, growth, profit, etc. Subjective measures are a tad more difficult to grasp since the alliance strategy comes into play here. A lot of discussion has gone on and is still going on in the literature on how to properly judge an alliance's performance. There are two general sides that can be chosen. There are the ones that regard the termination of an alliance as an outright failure and there are the ones that look past the divorce rates and look at whether or not the alliance has achieved the objectives it was created for in the first place. After researching alliances this past year, I myself am part of that second group. Judging an alliance as a success or failure should depend solely on what the partners' goals were in the first place and whether the JV was capable of achieving those goals.

Although a lot of recommendations for success are made in the according literature, there still is an abundance of alliances that fail to achieve their objectives. In my literature review I have tried to summarize these recommendations to the best of my abilities and have split them up along the different stages of the alliance life cycle. The most important phase in any alliance is the design phase. Done well, this can substantially increase the chances of success for any alliance. Just like the saying goes, having a good start is half the battle.

Following items are seen as critically important in the literature during each phase of the alliance life cycle. During the formation phase it is important that the strategy behind the alliance is clearly defined and well thought out. Apart from the strategy it is of utmost importance to position the alliance in the respective parent companies. This is necessary to provide the much-needed capabilities that reside outside of the joint venture organization but on which its success crucially

depends. It is in other words important to not only motivate the joint venture employees but also the employees of the parent companies that come into contact with the joint venture. Although critically important, this positioning is often overlooked. During the design phase, it is advised to analyse the different scenarios and contingencies that can occur and to establish the mechanisms to handle these. Appropriate governance structures and systems and decision-making protocols need to be set up in this phase in order to avoid future conflicts. During the last phase of the alliance life cycle, the postformation phase, the joint venture is managed on an on-going basis to realize value for the parent companies. In this phase it is absolutely important to have open, effective and clear communication channels within the joint venture but also between the parent companies. Being open and honest is a critical driver in building trust, which is key in establishing a successful long-term relationship.

During the interviews I have checked whether the items recommended in the literature also hold in practice. Several interesting findings have resulted from this. For starters having an alliance capability is not thought of as being crucial in creating a successful joint venture. Second, although the interviewees generally agreed that having a dedicated alliance function could facilitate things, they did not agree upon the fact that having a dedicated alliance function actively contributes to success. Third, evolution was not seen as a driver of success. Rather, it was seen as a consequence of having a successful joint venture.

By doing an in-depth case study, I have tried to obtain an answer to the central research question of this final paper: '*What are the critical factors driving the success of the Unilever and PepsiCo joint venture, PLI, and what are the main reasons behind the collapse of the Nestlé and The Coca-Cola Company joint venture, BPW?".* It appears that the relative success and failure of the joint ventures is attributable to several similar items. The same factors that drive success can also cause failure since the counterpart of a success factor usually is a failure factor. One of the most important of these factors is relative joint venture importance. Since Lipton is one of the top 5 brands within both parent companies, the best resources and attention is given to that brand. Since Lipton Ice Tea became the second best selling beverage in the world, this propensity has only enforced itself even further. In contrast, Nestea is not a very important brand for either parent company. As a result there is a lot less attention devoted to the JV and a lot less resources are at its disposal. Consequently, there is also a sort of self enforcing mechanism in that BPW isn't be able to operate to the best of its abilities under the current setup and thus, given the current payoff, there is

no incentive for the parent companies to devote additional attention and resources to said organisation.

The success of PLI is mainly attributable to the following factors. PLI was the first to arrive in many markets and was therefore able to exploit the first mover advantage in the majority of them. Lipton also had great brand equity and this aided Unilever in finding a formidable soft drinks and complementary partner such as PepsiCo. They provided a strong global supply chain, but fortunately their supply chain was not so strong in the sense that there was a lot of tension in the system. As a result Lipton Ice Tea got the attention and focus it needed to thrive within that system.

The downscaling of BPW is mainly attributable to the following items. The parent companies lacked the commitment to keep providing the resources and attention the brand needed to thrive. This was largely attributable to the fact that Nestea was a relatively unimportant brand to them. The partner fit wasn't bad but it was not like two jigsaw puzzle pieces either. Coca-Cola being the goliath company they are just isn't very open to doing alliances with other companies. They already have a lot of tension in their system and they generally want to be the dominant force in any and all markets they enter. Seeing as The Coca-Cola Company's core business is beverages, this is where they needed most growth. Their partner, Nestlé, provided the Nestea brand to the joint venture and Coca-Cola basically did the remainder of the work. Because they were doing most of the hard work, they were questioning the fifty-fifty profit split as an appropriate payoff. Another factor is that Coca-Cola probably sees joint ventures as an option to acquire and realized after a while that Nestlé was never going to let a Nes-brand go. This lowered their commitment to the joint venture even further. The fact that both parent companies were allowed to, and did, buy other tea companies as direct competitors to their joint venture, certainly didn't help this commitment either.

The downscaling of BPW goes back to the question whether joint ventures are established to last forever. As discussed under the second sub question it all depends on the objective the joint venture needs to achieve. A diminished scope therefore does not necessarily have to reflect a failed joint venture. The stability of the joint venture is of little relevance if it fails to achieve the alliance strategy set out by the parent companies. In the case of BPW, however, this diminished scope does reflect a significant failure of the joint venture. The joint venture did

know a lot of success but not being able to sustain this success could be seen as the alliance failing to achieve the parent companies' long-term goals.

The future of BPW is very uncertain at this point. The projections of ex-BPW employees are rather variable. Some say that the BPW JV is doing fine and that it will continue to thrive for a long time. That they only downscaled their JV in North America because both parent companies wanted to pursue the RTD-market opportunities with their own respective brands. Others say that the BPW JV at this stage doesn't even exist anymore. That it's now just a loose network of bottler-manufacturer collaboration agreements. What will happen to BPW remains to be seen and only time will tell the final outcome of this joint venture.

The key to making a successful joint venture is to make it feel as if it not a joint venture. It needs to be an independent organization with the power to operate autonomously and the ability to leverage the strengths of the parent companies. The joint venture needs to have common objectives, the best resources at its disposal and be positioned in both parent organisations. If it's not positioned then you will get a group of people trying to do a good job but not getting anywhere. Joint ventures can be powerful tools and they will continue to matter.

The RTD tea industry will continue to be an important industry in the years to come. There still is a lot of growth potential in this industry which continues its past growth trend. However, some significant changes are going to occur as well. Most important of which is the increased health concern of both consumers and governments. Sugar is going to be one of the ingredients that will be thoroughly scrutinized in the future. It is therefore advised for RTD tea companies to take this health concern into account and already think about taking some appropriate actions. Especially for PLI this would be advisable since Lipton Ice Tea has more soft drinks characteristics than f.e. Nestea. RTD tea brands with healthier credentials, like f.e. Arizona, are going to creep in and put pressure on these traditional RTD tea brands.

# Review

A challenge with comparing PLI to BPW has been the Belgian lens I looked through to study these two joint ventures. Since Lipton Ice Tea is a brand of Unilever, a Dutch-English company, they have a lot more traction in the western European countries, like f.e. Belgium. Because if this, to me, it seemed that Lipton Ice Tea is a whole lot bigger and better than Nestea. Lipton Ice Tea is more successful than Nestea but the difference doesn't appear to be as large as I thought at first.

During my research I got to know a lot of very interesting and helpful people. I would like to take the opportunity to thank them very much for their time and cooperation. Without them this thesis would never have been possible. I would like to thank Dr. Matthias Berger, Prof. Dr. Wim Vanhaverbeke, Prof. Dr. Nadine Roijakkers, Marisa Teh, Rainer Schmidt, Didier Cumin, Antonio Egido, Paul Andersen, Karel Vandamme, Nuno Pena, Uday Sinha, James Mackay, Catarina Silva and Jerry Savage.

**Personal conclusion**

What I have learned from all this is that the alliance strategy and the fit between the alliance partners is most important. It really needs to be a marriage between two strong equals. Apart from that it is crucial to have the right people in the joint venture and to make sure they can cooperate and function properly. Giving the JV autonomy, a separate identity and its own distinct culture ensures that it can deliver the advantages this organizational form has to offer. Most important of which are flexibility, efficiency, speediness and entrepreneurialism. Managed the right way, joint ventures can be powerful tools.

*"Nothing will ever be attempted, if all possible objections must first be overcome."* - Samuel Johnson, Rasselas, 1759

## Glossary

**Strategic alliance:** is a purposive relationship between two or more independent firms that involves the exchange, sharing, or co-development of resources or capabilities to achieve mutually relevant benefits (Gulati, 1995).

**Alliance strategy:** is much broader than a strategic alliance. It is an intent, a dynamic process, and a logic that guides alliance decisions. A strategic alliance without an alliance strategy is doomed to fail (Bamford, Gomes-Casseres & Robinson, 2003).

**Alliance capability or alliance skill:** the ability to create successful alliances, based on learning about alliance management and leveraging alliance knowledge inside the company (Draulans et al., 2003).

**Equity alliances:** these types of alliances can take one of two forms. They can either be organized as an equity joint venture, which involves the creation of a new and independent jointly owned entity. They can also come about when one of the partners takes a minority equity position in the other partner or partners (Gulati, 1995).

**Joint ventures:** a joint venture is a type of equity alliance. It basically involves the creation of an independent organisation that is jointly owned by both parent companies (Gulati, 1995).

**International joint ventures:** as described by (Robson, Leonidou & Katsikeas (2002)) an international joint venture (IJV) is defined by three characteristics. First, it is a separate corporate entity, where two or more legally distinct organizations contribute assets, own the venture to some degree, and share associated business risks (Harrigan, 1988). Second, each partner participates deliberately because of a need to take advantage of the skills, resources, and strategies of the other member(s) (Singh, 1997). Third, and this is the most important characteristic of an IJV, at least one parent is headquartered outside the venture's country of operation (Geringer & Frayne, 1993), or the venture is owned by two or more parents of a different nationality (Beamish & Inkpen, 1995).

**Network resources:** external resources embedded in the firm's alliance network that provide strategic opportunities and affect firm behaviour and value (Lavie, 2006).

# Sources of wisdom


**Handbooks**

Robert K. Yin (2009), **Case Study Research: Design and Methods**

Benjamin Gomes-Casseres, James D. Bamford, Michael S. Robinson (2003), **Mastering Alliance Strategy: a comprehensive guide to design, management, and organization**, *Wiley: Jossey Bass*

U. Sekaran & R. Bougie (2009), **Research Methods for Business: A skill building approach**

Morris, Joseph M. (1998) **Joint Ventures: business strategies for accountants**, *New York*

Shiva Ramu, S. (1997) **Strategic alliances: building network relationships for mutual gain**, *New Delhi*

A. Yan & Y. Luo (2001), **International Joint Ventures : Theory & Practice**

Mohr J. & Speckman R. (1994) **Characteristics of partnership success**, *SMJ*

Farok Contractor & Peter Lorange (1988) **Why should firms co-operate? The strategic and economics basis for cooperative Ventures**, *Co-operative strategies in international business*

Yoshino, M. & Rangan, S. (1995) **Strategic alliances, an entrepreneurial approach to globalization**, *Harvard Business School Press*

**Internet sources**

http://www.nestle.be/nl/hetbedrijfnestlebelgie

http://www.coca-colacompany.com/our-company/infographic-coca-cola-at-a-glance#TCCC

http://www.nestle.com/media/pressreleases/allpressreleases/beverage-partners-worldwide-jointventure

http://www.nestea-usa.com/#products

http://www.unilever.com/aboutus/introductiontounilever/

http://www.pepsico.com/Company

http://www.unilever.be/nl/merken-in-actie/detail/Lipton/317530/

http://www.ft.com/intl/cms/s/0/b1d22234-38af-11e1-9d07-00144feabdc0.html#axzz2hKM0oWb6

http://www.beveragedaily.com/Markets/Nestle-and-Coke-scale-down-Beverage-Partners-Worldwide-JV

http://www.beverage-digest.com/editorial/archive12.php#120113

http://www.unilever.com/mediacentre/pressreleases/2007/UnileverPepsicotoexpand.aspx

http://www.ukessays.com/essays/marketing/product-and-market-analysis-of-lipton-iced-tea-marketing-essay.php

**Articles**

Paul W. Beamish & Nathaniel C. Lupton (2009), **Managing joint ventures**, *Academy of Management Perspectives, vol. 23, p. 75-94*

David Ernst & James Bamford (2005), **Your alliances are too stable**, *Harvard Business Review, vol. 83, p. 133-141*

Sikander Shaukat (2011), **Making joint ventures a strategic success**, *Business Strategy Review, vol. 22, p. 82-83*

Prashant Kale & Harbir Singh (2009), **Managing strategic alliances: What do we know now, and where do we go from here?**, *Academy of Management Perspectives, vol. 23, p. 45-62*

T.P. Pavan Kumar (2012), **Collaborative Strategy - The way forward in alliances and joint ventures: a concept note**, *IUP Journal of Business Strategy, vol. 9, p.31-43*

Johan Draulans, Ard-Pieter deMan & Henk W. Volberda (2003), **Building alliance capability: Management techniques for superiour alliance performance,** *Long Range Planning, vol. 36, p. 151-166*

Jeffrey H. Dyer, Prashant Kale & Harbir Singh (2001), **How to make strategic alliances work**, *MIT Sloan Management Review, vol. 42, p. 37-43*

Ranjay Gulati (1995), **Does familiarity breed trust? The implications of repeated ties for contractual choice in alliances**, *Academy of Management Journal, vol. 38, p. 85-112*

Benjamin Gomes-Casseres (1989), **Joint ventures in the face of global competition**, *Sloan Management Review, vol. 30, p.17-26*

Kathleen M. Eisenhardt (1989), **Building theories from case study research**, *Academy of Management Review, vol. 14, p. 532-550*

James Bamford & David Ernst (2005), **Governing joint ventures**, *McKinsey Quarterly, Special Edition, p.62-69*

Barney, J. B., & Hansen, M. H. (1994), **Trustworthiness as a source of competitive advantage**, *Strategic Management Journal, vol. 15, p. 175–190.*

Sako, M. (1991), **The role of "trust" in Japanese buyer-supplier relationships**, *Economic Research Journal, vol. 45, p. 449 – 474.*

Anderson, E. (1990), **Two firms, one frontier: On assessing joint venture performance.** Sloan Management Review, 31: 19-33.

Andrew M. Pettigrew (1990), **Longitudinal field research on change: theory and practice**, *Organization Science, vol. 1, p. 267-292*

Bruce Kogut (1991), **Joint ventures and the option to expand and acquire**, *Management Science, vol. 37, p. 19–34*

David Ernst (1998) in Gomes-Casseres et al. (2003), **Mastering Alliance Strategy: a comprehensive guide to design, management, and organization**, *Wiley: Jossey Bass*

Matthew J. Robson, Leonidas C. Leonidou & Constantine S. Katsikeas (2002) . **Factors influencing international joint venture performance: theoretical perspectives, assessment, and future directions**, *Management International Review, vol. 42, p. 385-418*

Gautam Ahuja (2000) **Collaboration networks, structural holes and innovation: a longitudinal study**, *Administrative Science Quarterly, vol. 45, p. 425–456*

T.K. Das & Teng Bing-Sheng (2000), **A resource-based theory of strategic alliances**, *Journal of Management, vol. 36, p.31-61*

T.K. Das & Bing-Sheng Teng (1999), **Managing risks in strategic alliances**, *Academy of Management Executive, vol.13, p.50-62*

Rothaermel, F., & Boeker, W. (2008) **Old technology meets new technology: complementarities, similarities and alliance formation**, *Strategic Management Journal, vol. 29, p. 47–77*

Robert Hill & Don Hellriegel (1994)), **Critical contingencies in Joint Venture management: some lessons from managers**, *Organization Science, vol.5, p.594-607*

Garcia-Canal, E., Duarte, C., Criado, J., & Llaneza, A. (2002) **Accelerating international expansion through global alliances**, *Journal of World*

*Business, vol. 37, p. 91– 107*

Lunnan, R., & Haugland, S. (2008) **Predicting and measuring alliance performance: A multidimensional analysis**, *Strategic Management Journal, vol. 29, p. 545–556*

Kale & Singh (2007), **Building firm capabilities through learning: the role of the alliance learning process in alliance capability and firm-level alliance success**, *Strategic Management Journal, vol. 28, p.981-1000*

Kale, P., Dyer, J., & Singh, H. (2002) **Alliance capability, stock market response and long-term alliance success: The role of the alliance function**, *Strategic Management Journal, vol. 23, p. 747–767*

Harrigan, K. R. (1988) **Joint ventures and competitive strategy**, *Strategic Management Journal, vol. 9, p. 141-158*

Singh, K. (1997) **The impact of technology complexity and interfirm cooperation on business survival**, *Academy of Management Journal, vol. 40, p.339-367*

Geringer, J. M. and Frayne, C. A. (1993) **Self-Efficacy, outcome expectancy, and performance of international joint venture general managers**, *Canadian Journal of Administrative Sciences, vol. 10, p. 322-333*

Michael Geringer and Louis Hebert (1991) **Measuring performance of international joint ventures**, *Journal of International Business Studies, vol.22, p.249-263*

Beamish, P. W. and Inkpen, A. C. (1995) **Keeping international joint ventures stable and profitable**, *Long Range Planning, vol. 28, p. 26-36*

Dovev Lavie (2006), **The competitive advantage of interconnected firms**, *Academy of Management Review, vol. 31, p. 638-658*

Borys, B. and Jemison, D.B. (1989) **Hybrid Arrangements as Strategic Alliances: Theoretical Issues in Organizational Combinations,** *Academy of Management Review, vol.14, p.234–249.*

Kale, Prashant, Singh, Harbir and Perlmutter, Howard (2000) **Learning and protection of proprietary assets in strategic alliances: building relational capital**, *Strategic Management Journal, vol.21, p.217-237.*

Bharat Anand & Tarun Khanna (2000), **Do firms learn to create value? The case of alliances**, *Strategic Management Journal, vol. 21, p.295-315*

Anoop Madhok (1995), **Revisiting multinational firms' tolerance for joint ventures: a trust-based approach**, *Journal of International Business Studies, vol.26, p.117-137*

Stephen Glover, Alisa Babitz & Kulbir Walha (2012), **Recent trends in joint**

**venture governance**, *Insights: The corporate & securities law advisor, vol.26, p.9-11*

Teece, D. J. (1992) **Competition, cooperation, and innovation: Organizational arrangements for regimes of rapid technological progress**, *Journal of Economic Behavior and Organization, vol.* 18, p.1–25

Dyer, J. H., & Chu, W. (2003) **The role of trustworthiness in reducing transaction costs and improving performance**, *Organization Science, vol. 14, p.57–68.*

Doz, Y. L. (1996) **The evolution of cooperation in strategic alliances: Initial conditions or learning processes**, *Strategic Management Journal, vol. 17, p. 55–83.*

Smith, K. G., Carroll, S. J., & Ashford, S. J. (1995), **Intra- and inter-organizational cooperation: Toward a research agenda**, *Academy of Management Journal, vol. 38, p.7–23.*

Cullen, J. B., Johnson, J. L., & Sakano, T. (1995) **Japanese and local partner commitment to IJVs: Psychological consequences of outcomes and investments in the IJV relationship**, *Journal of International Business Studies, vol. 26, p.91–115.*

Lyles MA. (1988) **Learning among joint venture sophisticated firms.** *Management International Review, Special Issue vol. 28, p.85–98.*

Simonin BL. (1997) **The importance of collaborative know-how: an empirical test of the learning organization.** *Academy of Management Journal, vol. 40(5), p.1150 – 1174.*

Gomes-Casseres (2004) **Alliance strategy: managing beyond the alliance**, *Critical Eye (website article)*

Shah, R., & Swaminathan, V. (2008) **Factors influencing partner selection in strategic alliances: The moderating role of alliance context.** *Strategic Management Journal, vol. 29(5), p.471–494.*

Jeffrey Dyer & Harbir Singh (1998), **The relational view, cooperative strategy and sources of interorganizational competitive advantage**. *Academy of Management Review, vol.23, p.660-679*

Beamish, P. (1987) **Joint ventures in LDCs: Partner selection and performance** *Management International Review, vol. 27*(1), p.23–27.

Gundlach, G., Achrol, R., & Mentzer, J. (1995) **The structure of commitment in exchange.** *Journal of Marketing, vol. 59(1), p.78–92.*

Bleeke, J., & Ernst, D. (1995) **Is your strategic alliance really a sale?** *Harvard Business Review, vol.* 73(1), p.97-105.

Nanda, A., & Williamson, P. J. (1995) **Use joint ventures to ease the pain of restructuring.** *Harvard Business Review, vol. 73(6), p.119-128.*

Jean-Francois Hennart (1988), **A transaction costs theory of equity joint ventures.** *Strategic Management Journal, vol.9, p.361-374*

Kogut, B. (1988) **A Study of the Life Cycle of Joint Ventures,** *in Contractor, F. J./Lorange, P. (eds.), Cooperative Strategies in International Business, Lexington, MA: Lexington Press 1988*

Kogut, B. (1989), **The stability of joint ventures: reciprocity and competitive rivalry**, *The Journal of Industrial Economics, vol. 38, p.183-198*

Bruce Kogut (1988), **Joint ventures, theoretical and empirical perspectives**, *Strategic Management Journal, vol.9, p.319-332*

Keith Glaister & Peter Buckley (1998)), **Measures of performance in UK international alliances**, *Organization studies, vol.19, p.89-118*

Keith Glaister & Peter Buckley (1996) **Strategic motives for international alliance formation**, *Journal of Management Studies, vol.33, p.301-332*

Williamson, O. (1985) **The economic institutions of capitalism: Firms, markets, relational contracting***, New York: Free Press.*

David, R. J., & Han, S. K. (2004) **A systematic assessment of the empirical support for transaction cost economics.** *Strategic Management Journal, vol. 25*(1), p. 39–58.

Mayer, K., & Argyres, C. (2004) **Learning to contract: Evidence from the personal computer industry.** *Organization Science, 15*(4), 394–410.

Poppo, L., & Zenger, T. (2002) **Do formal contracts and relational governance function as substitutes or complements?** *Strategic Management Journal, 23*(8), 707–725.

Krishnan, Martin & Noorderhaven (2006), **When does trust matter to alliance performance**, *Academy of Management Journal, vol. 49, p.894-917*

Schreiner, Kale, Corsten (2009), **What really is alliance management capability and how does it impact alliance outcomes and success**, *Strategic Management Journal, vol. 30, p.1395-1419*

Reuer, J., & Arino, A. (2007) **Strategic alliance contracts: Dimensions and determinants of contractual complexity.** *Strategic Management Journal, 28*(3), 313–330.

Granovetter, M. (1985) **Economic actions and social structure: A theory**

**of embeddedness.** *American Journal of Sociology, 91*(3), 481–510.

Uzzi, B. (1997) **Social structure and competition in inter- firm networks: The paradox of embeddedness.** *Administrative Science Quarterly, 42*(1), 35–67.

# Attachments

- Attachment 1: Questions PLI
- Attachment 2: Questions BPW
- Attachment 3: Questions Industry Analyst

**Attachment 1: Questions PLI**

General Research Questions

1. What is your function at Unilever/PepsiCo/PLI?
2. Can you define, in your own words, what a joint venture entails?
3. What are according to you the benefits of this organizational form?
4. Can you describe what you would consider to be a successful joint venture?
5. Which of the following items do you think are critical success factors for a joint venture in general?
    - (I) JV success & alliance capability

      Alliance capability is the ability to create successful alliances, based on learning about alliance management and leveraging alliance knowledge (f.e. experience from previous alliances) inside the company.
    - (I) JV success & dedicated alliance function

      A dedicated alliance function consists of a director who has his own staff and resources. He coordinates all alliance activity and is charged with setting up the systems to share and leverage alliance experience and know-how (= alliance capability) throughout the company.
    - (I) JV success & alliance strategy

      A strategic direction a company pursues with its alliances. The logic that guides alliance decisions.
    - (I) JV success & incentive alignment

      The objectives both companies want to derive from the alliance are shared and clearly stated at the outset of the arrangement.
    - (I) JV success & governance structures

      In equity-based alliances, such as joint ventures, governance is usually in place in the form of a board of directors and corporate management structure.
    - (I) JV success & interorganizational trust

      Expectation held by one firm that the other firm will not exploit its vulnerabilities when faced with the opportunity to do so. This expectation is confirmed when parties demonstrate reliability by carrying out their promises, act fairly when dealing with each other, and exhibit goodwill when unforeseen contingencies arise.

PLI

6. What motives drove the decision to start working with Unilever/PepsiCo and create PLI?
7. Could you position Lipton Ice Tea in the broader strategic objectives of the parent companies?
8. How is performance measured at PLI?
9. Which of the following items are the critical factors driving the success of PLI according to you?
   a. (I) Internal management

      O Agree / O Disagree

      - Governance structures and systems
      - CEO's
      - Board of Directors composition
      - Top Management Team
      - Daily Management
      - JV staffing

   b. (I) Identity, culture and autonomy

      O Agree / O Disagree

      - The JV employees are not seen as either "Pepsi or Unilever employees", but rather as "PLI employees".
      - The JV is allowed to operate autonomously and with its own identity.

   c. (I) Parent company cultures

      O Agree / O Disagree

      - Do PepsiCo and Unilever have complementary cultures?
      - Do you think the different cultures are an important factor of success?

   d. (I) Partner selection: Equally important and complementary capabilities

      O Agree / O Disagree

      - Unilever: marketing and R&D strength: driving the Lipton brand
      - Lipton: tea processing & buying expertise that is superior to that of Nestlé
      - PepsiCo: Go-to-market capabilities & marketing

   e. (E) Brand equity

      O Agree / O Disagree

      - Is the Lipton brand equity a critical factor in the success of the PLI joint venture?
      - Is hot tea a catalyst for drinking iced tea?

- Do consumers that prefer Lipton as a hot tea brand, choose Lipton Ice Tea over Nestea?

f. (I) Marketing strategy

O Agree / O Disagree

- Do you consider the marketing strategy of PLI to be an important differentiating factor when compared to BPW? Is the one with a superior marketing strategy also the market leader?

g. (E) Supply chain

O Agree / O Disagree

- Do certain elements in the supply chain enhance the chances of success? Are there, for example, certain suppliers/distributors that are crucial and/or superior?

h. (I) Innovation and R&D

O Agree / O Disagree

- Is PLI proactively managing innovation? Are innovation and R&D to be considered success factors of the JV?

i. (E) JV success & first mover advantage

O Agree / O Disagree

- It appears that Lipton Ice Tea is the market leader in the markets where they were the first ones to arrive. Is this a big factor in the success when compared to Nestea? Was PLI simply faster in entering the markets and therefore market leader in most?

j. Apart from the items listed above, are there other factors you deem critical to the success of PLI?

10. Which of these factors are most important according to you? Could you rank them in descending order of importance?
11. What were the biggest obstacles while creating and developing the joint venture in the past two decades?
12. Were there ever any conflicts within the joint venture or between the parent corporations? If so, what took place?
13. What will be the biggest challenges for the joint venture and the industry in the years to come?

BPW

14. As a competitor of Nestea, could you give your view on the relationship between Lipton Ice Tea and Nestea?

15. Which of the following items are the main reasons behind the collapse of BPW according to you?

   a. (I) Partner selection: marriage of unequals

      O Agree / O Disagree

      - Do you consider Nestlé and The Coca-Cola Company to be a good fit? Was the input of both companies important, complementary and unique enough?

   b. (I) Joint venture cannibalization

      O Agree / O Disagree

      - Both parent companies were allowed to compete with their own joint venture in the RTD tea category. Coca-Cola independently and successfully launched Fuze Tea while Nestlé bought Sweet Leaf Tea.

   c. (I) Relative brand importance

      O Agree / O Disagree

      - Since the Nestea brand is not a high priority within the respective portfolios of the parent companies, the brand receives much less attention than if f.e. it were among the top 5 brands of the companies. Do you agree with this statement and do you consider this to be an important driver of the downscaling of the Nestea joint venture?

   d. (I) Branding

      O Agree / O Disagree

      - Do you consider the brand name to be an important detrimental factor of the Nestea joint venture performance? Since is sounds the same as 'Nasty' phonetically.

   e. Apart from the items listed above, are there any other factors you deem critical in the downscaling of Nestea?

<u>Conclusion</u>

16. In conclusion, what advice would you give to managers about to enter into a JV partnership?

**Attachment 2: Questions BPW**

General Research Questions

1. What is your function at Coca-Cola/Nestlé/BPW?
2. Can you define, in your own words, what a joint venture entails?
3. What are according to you the benefits of this organizational form?
4. Can you describe what you would consider to be a successful joint venture?
5. Which factors do you think are most influential to the success of a general joint venture?

   Do you agree or disagree with the following items and if possible could you elaborate?

   - (I) JV success & alliance capability

     Alliance capability is the ability to create successful alliances, based on learning about alliance management and leveraging alliance knowledge (f.e. experience from previous alliances) inside the company.
   - (I) JV success & dedicated alliance function

     A dedicated alliance function consists of a director who has his own staff and resources. He coordinates all alliance activity and is charged with setting up the systems to share and leverage alliance experience and know-how (= alliance capability) throughout the company.
   - (I) JV success & alliance strategy

     A strategic direction a company pursues with its alliances. The logic that guides alliance decisions.
   - (I) JV success & incentive alignment

     The objectives both companies want to derive from the alliance are shared and clearly stated at the outset of the arrangement.
   - (I) JV success & governance structures

     In equity-based alliances, such as joint ventures, governance is usually in place in the form of a board of directors and corporate management structure.
   - (I) JV success & interorganizational trust

     Expectation held by one firm that the other firm will not exploit its vulnerabilities when faced with the opportunity to do so. This expectation is confirmed when parties demonstrate reliability by carrying out their promises, act fairly when dealing with each other, and exhibit goodwill when unforeseen contingencies arise.

BPW

6. What motives drove the decision to start working with Coca-Cola/Nestlé and create BPW?
7. Could you position Nestea in the broader strategic objectives of the parent company/companies?
8. How is performance measured at BPW?
9. What are, according to you, the main reasons behind the downscaling of BPW?

   Do you agree or disagree with the following items and if possible could you elaborate?

   a. (I) Partner selection: marriage of unequals
      - Do you consider Nestlé and The Coca-Cola Company to be a good fit? Was the input of both companies important, complementary and unique enough?

   b. (I) Joint venture cannibalization
      - Both parent companies were allowed to compete with their own joint venture in the RTD tea category. Coca-Cola independently and successfully launched Fuze Tea while Nestlé bought Sweet Leaf Tea.

   c. (I) Relative brand importance
      - Since Nestea is not a high priority within the respective portfolios of the parent companies, the brand receives much less attention than if f.e. it were among the top 5 brands of the companies. Do you agree with this statement and do you consider this to be an important driver of the downscaling of BPW?

   d. (I) Branding
      - Do you consider the brand name to be an important detrimental factor of the Nestea joint venture performance? Since is sounds the same as 'Nasty' phonetically.

   e. Apart from the items listed above, are there any other factors you deem critical in the downscaling of Nestea?
10. What were the biggest obstacles while creating and developing the joint venture in the past two decades?
11. Were there ever any conflicts within the joint venture or between the parent corporations? If so, what took place?
12. What will be the biggest challenges for the joint venture and the industry in the years to come?

13. Is the beverage industry more suitable for joint ventures than other industries?

PLI

14. What are the critical factors driving the success of PLI according to you?
    Do you agree or disagree with the following items and if possible could you elaborate?

    a. (I) Partner selection: Equally important and complementary capabilities
        - Unilever: marketing and R&D strength: driving the Lipton brand
        - Lipton: tea processing & buying expertise
        - PepsiCo: go-to-market & marketing
    b. (E) Historical background/Brand equity
        - Is the Lipton brand equity a critical factor in the success of PLI?
        - Is hot tea a catalyst for drinking iced tea?
        - Do consumers that prefer Lipton as a hot tea brand, choose Lipton Ice Tea over the other brands?
    c. (I) Marketing strategy
        - Do you consider the marketing strategy to be an important differentiating factor? Is the one with a superior marketing strategy also the market leader?
    d. (E) Supply chain
        - Do certain elements in the supply chain enhance the chances of success? Are there, for example, certain suppliers/distributors that are crucial and/or superior?
    e. (I) Innovation and R&D
        - Are innovation and R&D to be considered success factors of the JV?
    f. (E) JV success & first mover advantage
        - It appears that Lipton Ice Tea is the market leader in the markets where they were the first ones to arrive. Is this a big factor in the success when compared to Nestea? Was Lipton Ice Tea faster in entering the markets and therefore market leader in more of them?
    g. Apart from the items listed above, are there other factors you deem critical to the success of PLI?

Conclusion

15. In conclusion, what advice would you give to managers about to enter into a JV partnership?

**Attachment 3: Questions Industry Analyst**

1. What were some of the critical events that transpired in the RTD tea industry in the past two decades?
2. What are some of the critical factors driving the success of the market leaders in the ready-to-drink tea category?
3. Are certain markets more susceptible to RTD tea than others?
4. Would you describe it as a rather impulse driven category? Why?
5. Was the first mover advantage a critical factor in establishing a leadership position in the respective markets?
6. Is the RTD tea industry a competitive environment? Do the different brands actively and aggressively compete with one another?
7. Is the beverage industry more suitable for joint ventures than other industries?
8. What projections do you make for this category in the future?
9. What are going to be the biggest challenges for this industry in the years to come?
10. Apart from these items, are there any other interesting trends or idiosyncrasies in the RTD tea market?

PLI

11. What are the critical factors driving the success of PLI according to you?
    Do you agree or disagree with the following items and if possible could you elaborate?

    a. (I) Partner selection: Equally important and complementary capabilities
        - Unilever: marketing and R&D strength: driving the Lipton brand
        - Lipton: tea processing & buying expertise that is superior to that of Nestlé
        - PepsiCo: go-to-market & marketing

    b. (E) Historical background/Brand equity
        - Is the Lipton brand equity a critical factor in the success of PLI?
        - Is hot tea a catalyst for drinking iced tea?
        - Do consumers that prefer Lipton as a hot tea brand, choose Lipton Ice Tea over Nestea?

c. (I) Marketing strategy

- Do you consider the marketing strategy of Lipton to be an important differentiating factor when compared to Nestea?
- Is the one with a superior marketing strategy the market leader in the RTD tea category?

d. (E) Supply chain

- Do certain elements in the supply chain enhance the chances of success? F.e. are there certain suppliers/distributors that are crucial and/or superior?

e. (I) Innovation and R&D

- Are innovation and R&D to be considered success factors of the JV?

BPW

12. What are, according to you, the main reasons behind the collapse of the Nestlé/The Coca-Cola Company's joint venture, BPW?

    Also do you agree or disagree with the following items and if possible could you elaborate?

a. (I) Partner selection: marriage of unequals

- Do you consider Nestlé and The Coca-Cola Company to be a good fit? Was the input of both companies important, complementary and unique enough?

b. (I) Joint venture cannibalization

- Both parent companies were allowed to compete with their own joint venture in the RTD tea category. Coca-Cola independently and successfully launched Fuze Tea while Nestlé bought Sweet Leaf Tea.

c. (I) Relative brand importance

- Since Nestea is not a high priority within the respective portfolios of the parent companies, the brand receives much less attention than if f.e. it were among the top 5 brands of the companies. Do you agree with this statement and do you consider this to be an important driver in the downscaling of BPW?