Talking business: How to get the most out of joint ventures

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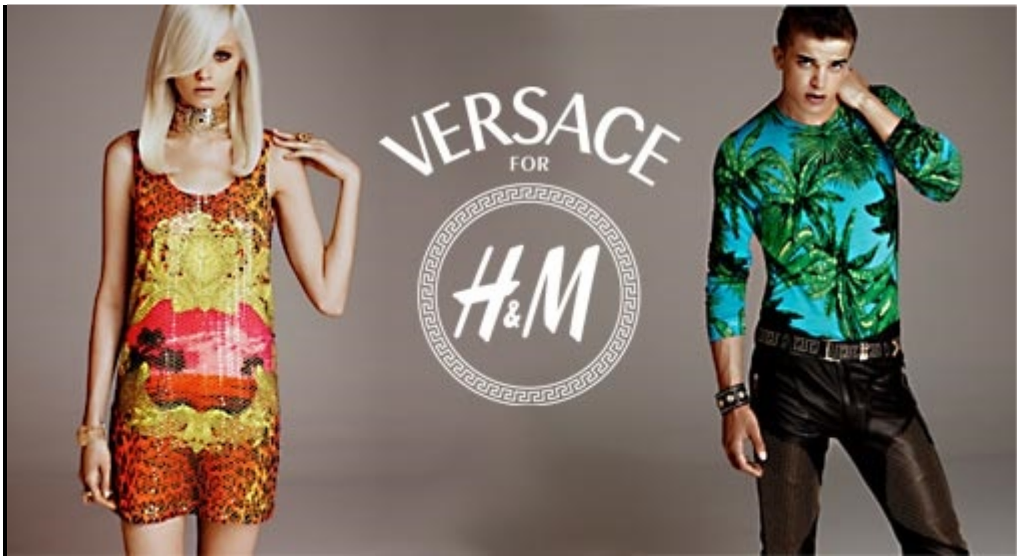
COMMENT
Fashion is all about making the old new again, and the well-established concept of a joint venture as a mechanism to extend a brand's global reach is currently on trend *explains Carol Osborne*

What is new about the latest retail joint ventures is the pairing of high street with luxury brands. **H&M** has been very successful in partnering with high fashion labels such as Alexander Wang, **Jimmy Choo** and Versace in a bid to bring luxury into its high street stores: long queues of young customers at every launch event are a testament to the success of the strategy.



Successful collaboration: H&M's range with Versace was a hit

In the latest example, **perfume giant Coty Inc has announced** it is entering into a strategic partnership with **Burberry** that includes a long-term licence of Burberry's brand for cosmetics and fragrance, and the acquisition of the assets of Burberry's existing beauty business. This new deal for Coty adds Burberry to Coty's existing stable of luxury brands including **Gucci**, **Alexander McQueen**, Marc Jacobs, **Calvin Klein** and **Hugo Boss**.

The advantages of a joint venture or strategic partnership for a luxury brand are threefold. First, the luxury brand is able to expand its name and reputation beyond its original core product line into new and usually very differentiated products at a variety of price points. For all luxury brands, attracting younger customers who will become loyal purchasers is a critical part of their long-term growth strategy. However, younger customers usually require lower price points. A joint venture that can expand a luxury brand's reach into the high street without sacrificing brand identity is an ideal solution.

The second benefit is that the luxury brand can accomplish brand expansion and younger customer engagement without suffering the associated distractions for its design team and management. A joint venture can also shift the burden of investing in a new business line from the luxury brand's own balance sheet to that of the strategic partner, or to a new joint venture entity.

Finally, unlike a pure licensing arrangement, joint ventures typically include deeper oversight or control over design and product development – there is collaboration between the luxury brand's design team and the joint venture partner.

Both parties share in the benefit of growth, but also share the risk of failure
There is no single formula for a joint venture or strategic partnership, and the arrangements can be highly customised but, broadly, there are two approaches. In its purest form, a joint venture would involve both parties contributing some aspect of their own business to a newly created joint venture entity, wherein both parties own a share and exercise control over those aspects of the business most aligned with their own strengths.

Because both parties are owners of the business, they share in the benefit of its growth, but also share the risk of failure. The principal advantages for a luxury brand in using an entirely new joint venture vehicle are the high degree of control that it gives the brand, as well as the opportunity to share in more of the upside growth of the business than might ordinarily be achieved with royalties under a license deal. The downside, however, is that the brand still needs to find the management talent to run the new business venture and may often need to find financing for the new venture as well.

The alternative is for both parties to the strategic partnership to keep their businesses entirely separate and use contractual agreements and long-term licences to create mutually beneficial outcomes. In these circumstances, the luxury brand will primarily be licensing its brand to the strategic partner in exchange for a royalty and perhaps an additional share of the profits, while the strategic partner shoulders most of the burden for manufacturing, marketing and distribution of the products developed under licence.

Getting it right

There are several issues to address before embarking on a joint venture – regardless of the form it takes. The most critical of these is the selection of the right joint venture partner: one who can bring the right skills and experience. For Burberry, for example, Coty offered several important credentials: a shared focus on innovation, a history of successfully developing luxury products, a well-regarded expertise in beauty and fragrance, and the global reach needed for both product development and distribution.

Clear governance rules allow the parties to quickly identify and resolve business issues
The second issue is reaching a mutual understanding on how key decisions relevant to the business are going to be made and by whom. Clear governance rules for the business of the joint venture can allow the parties to quickly identify and resolve business issues – from design decisions to selection of new markets – and will also hopefully avoid misunderstandings or disagreements.

The third issue may be the hardest to confront when the parties are enthusiastic about their new venture: how to manage the end of the relationship. Joint ventures can fail on a number of levels – financially, strategically and operationally – and it is a sobering truth that most joint ventures or strategic partnerships fail.

Nonetheless, joint ventures are on trend for a reason and with careful selection, good governance and forethought, the benefits are tangible. The latest example of Coty and Burberry finding a better way to bring beauty to the market will not be the last.

Carol Osborne is London managing partner and partner in the retail team at international law firm Bryan Cave LLP