WHITE PAPER

Entering Your Practice into Strategic Joint Ventures

A joint venture agreement is an agreement between two or more healthcare entities usually entered with a specific goal in mind. Each party is invested in terms of capital contribution, the time devoted to the project, and the effort put forth to complete the defined tasks. These business partners pool their resources and expertise to achieve a particular goal. The risks and rewards of the enterprise are also shared.

The reasons behind forming a joint venture include business expansion, development of new service lines, or moving into new markets. Each party who enters into a joint venture agreement will want to maintain their separate business/entity and enter into the business arrangement with a strategic goal in mind.

Overview

Your practice may have strong potential for growth, with innovative ideas and services. However, a joint venture could give you more resources, greater capacity, increased technical expertise, and access to established markets and marketing channels. In a very broad sense, joint venture formation should consider legal, tax, business, and cultural issues. Joint ventures may take the form of different legal structures, but beyond legal and tax considerations are a large number of broad business and cultural issues. As a start, you should carefully consider and/or define:

- The purpose of the joint venture
- Specific goals for the venture
- The resources and value to be dedicated to the venture by the participants
- The cultural "fit" between the participating entities
- The specific responsibilities of the participants
- Potential impact to your current practice’s reputation

• The control mechanisms in place

• How you will handle cash calls and personal guarantees if required

Assess Your Readiness

Setting up a joint venture can represent a major change to your practice. However beneficial it may be to your potential for growth, it needs to fit with your overall business strategy. Consequently, it is important to review your business strategy before committing to a joint venture. This should help you define what you can realistically expect. In fact, you might decide that there are better ways to achieve your business goals. You may also want to look at what other practices are doing, particularly those that operate in similar markets or specialties to yours. Seeing how they use joint ventures could help you choose the best approach for your business. At the same time, you could try to identify the skills they apply to partner successfully.

You can benefit from examining the business of your own practice. Be realistic about your strengths and weaknesses and consider performing an analysis to discover whether the potential joint venture entities are a good fit. You will almost certainly want to find a joint venture partner that complements your own practice's strengths and weaknesses. You should take into account your employees' attitudes and bear in mind that people can feel threatened by a joint venture. It can also be difficult to build effective working relationships if your future joint venture partner has a complete different way of doing things. If you do decide to form a joint venture, it may well help your business to grow faster, increase productivity and generate greater profits. Joint ventures often enable growth without having to borrow funds or look for outside investors.

Due Diligence

Conducting due diligence on any potential partner is a top priority for practices considering joint ventures. Before entering into agreements with another entity, check into the credentials of potential member(s), including the existence and availability of the resources, property, and human capital that potential partners bring to the joint venture. The ideal partner in a joint venture is one that has resources, skills and assets that complement your own. The joint venture has to work contractually, but there should also be a good fit between the cultures of the two organizations. Broadly, you need to consider:

• Do you share the same clinical and business objectives?

• Can you trust them?

• How well do they perform?

• What is their attitude to collaboration and do they share your level of commitment?

• What kind of reputation do they have?

• Do they already have joint venture partnerships with other entities?

• What kind of management team do they have in place?

• How are they performing in terms of clinical operations, marketing, personnel, etc.?

• Are they financially secure?

Consulting with the proper legal counsel prior to establishing the agreements is of course crucial when deciding whether to pursue a joint venture. Regardless of the length or breadth of the legal agreements you may use, if there is not a high degree of consensus and willingness to work through upcoming problems with your new joint venture partners, you may find yourself bogged down in unpleasant and costly disputes. Try to make sure your new partners are a good fit with you and define the business as much as possible ahead of time. An experienced consultant should be able to guide you.

Taking the time to fully understand the process, evaluating potential outcomes, and conducting due diligence on potential partners are three great first steps in moving forward with a joint venture. While all of this may seem overwhelming, joint ventures, if executed thoughtfully and correctly, can lead to new revenue streams, shared resources, and incredible results.

ABOUT ABISA

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