

Fahrenheit

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Consulting Group

## **Case Study – Growth Through JV**

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## **A manufacturing client wanted decide if it should enter a JV with key distributors or pursue alternative forward integration strategies**

### **KEY ISSUES**

- Does the industry have characteristics that make forward integration attractive?
- How is client positioned relative to competitors?
- What are the strategic alternatives?
- How will other distributors react?
- What are the potential benefits, costs and risks of each alternative?
- Which alternatives should the client pursue?
- Should the client pursue the existing JV opportunity under consideration?

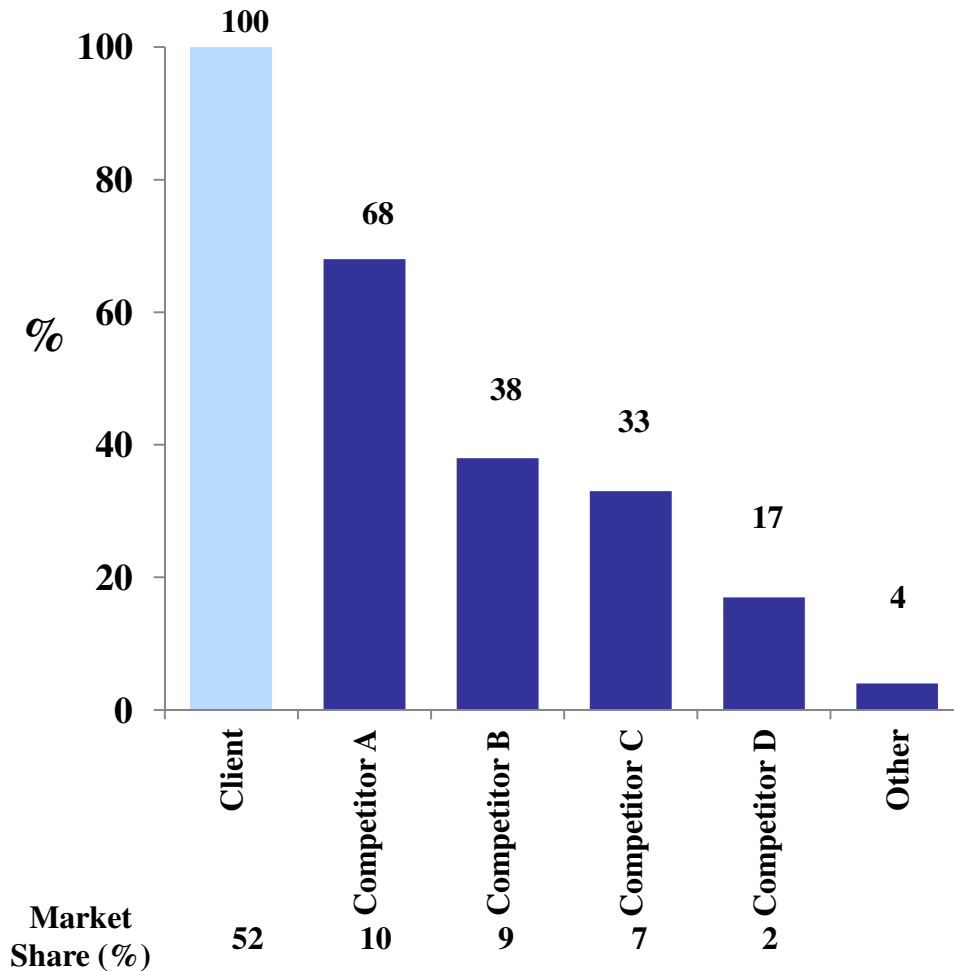
### **APPROACH**

- Completed one-on-one interviews to understand management's view of the market
- Conducted 35 external interviews with OEMs, distributors and dealers
- Synthesized primary and secondary research, creating a report of findings for management
- Conducted management workshop to review findings and discuss strategic alternatives
- Evaluated strategic alternatives and recommended a strategic course of action for the client

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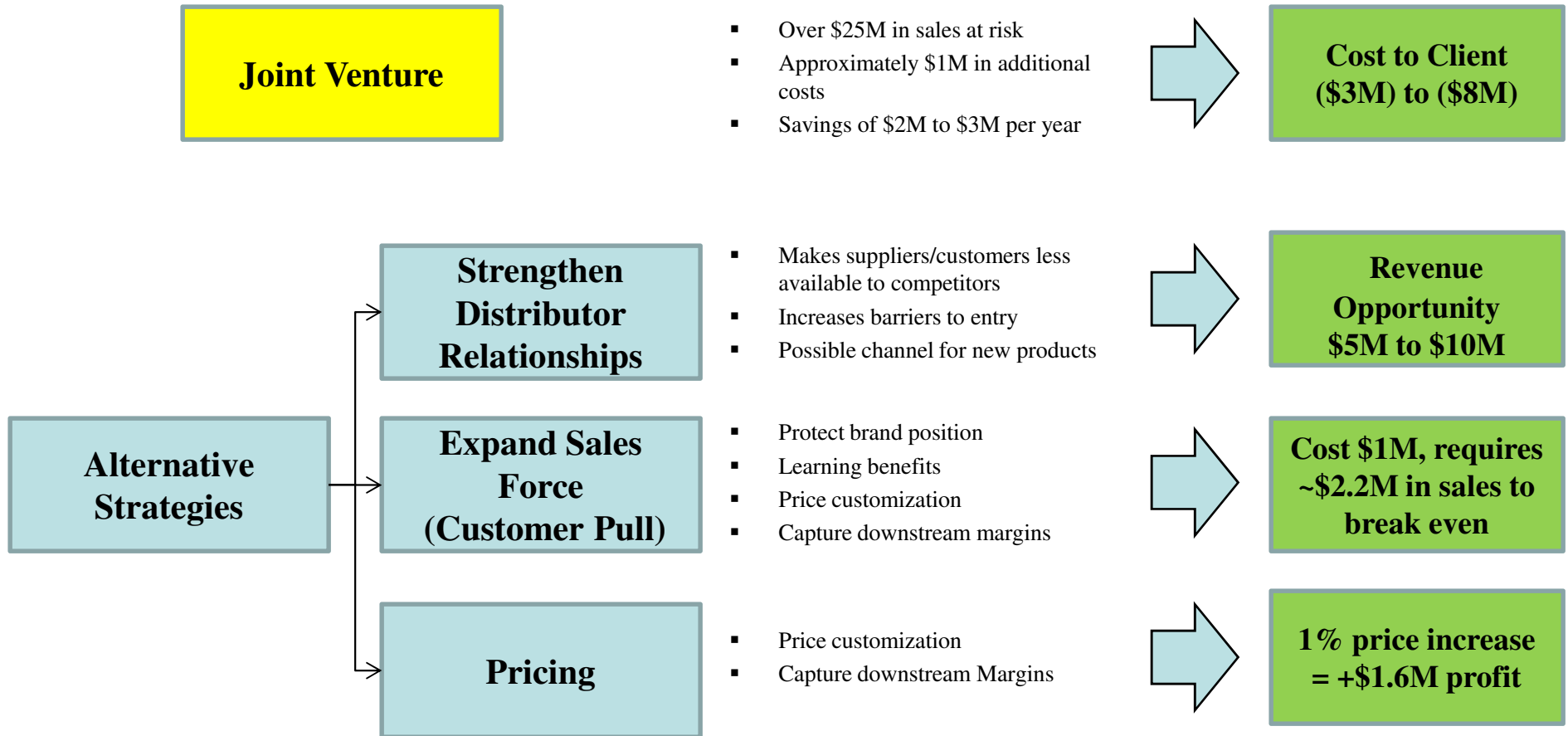
## This Client dominates a relatively slow growth market

### Brand Awareness



- The market is expected to grow at 11% over the next four years driven by a run-up to replenish inventories
- Client has a 52% market share with the next largest competitors having less than a 10% share
- 65% of interviews identified Client's product as the most critical component in the final equipment
- 93% of interviews identified this Client as the top brand

# Several alternatives would allow this client to capture the benefits of forward integration without pursuing a risky, value destroying JV



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## **Significant opportunities exist to improve performance by executing a forward integration strategy without pursuing a formal JV**

- Forward integration strategies range from greater collaboration and special programs to a formal JV
- The biggest identified opportunities include:
  - Strengthen distributor relationships through joint selling, OEM direct shipping, training and sales events
  - Expand the current sales force to protect market position and maintain customer “pull through”
  - Execute price customization strategy to maintain margins
- Under the current ownership structure, the Client is in a position to capitalize on a number of these changes by creating tangible “win-win” opportunities with its distributors
- This Client needs to take more of a leadership role with distributors
  - Client appears to be overly sensitive to distributors’ apparent reservations and mistrust
  - Client should start with discrete/tangible options first (low hanging fruit where Client makes an up-front “trust-me” investment) before considering ideas with more upside but that will be more difficult to implement (e.g., new product introductions)
- At this point, the additional upside associated with a formal joint venture does not appear to offset the added costs and risks associated with this combination
- **Therefore, the best option to increase the value of the business is to strengthen the organization’s route to market under the current ownership structure**