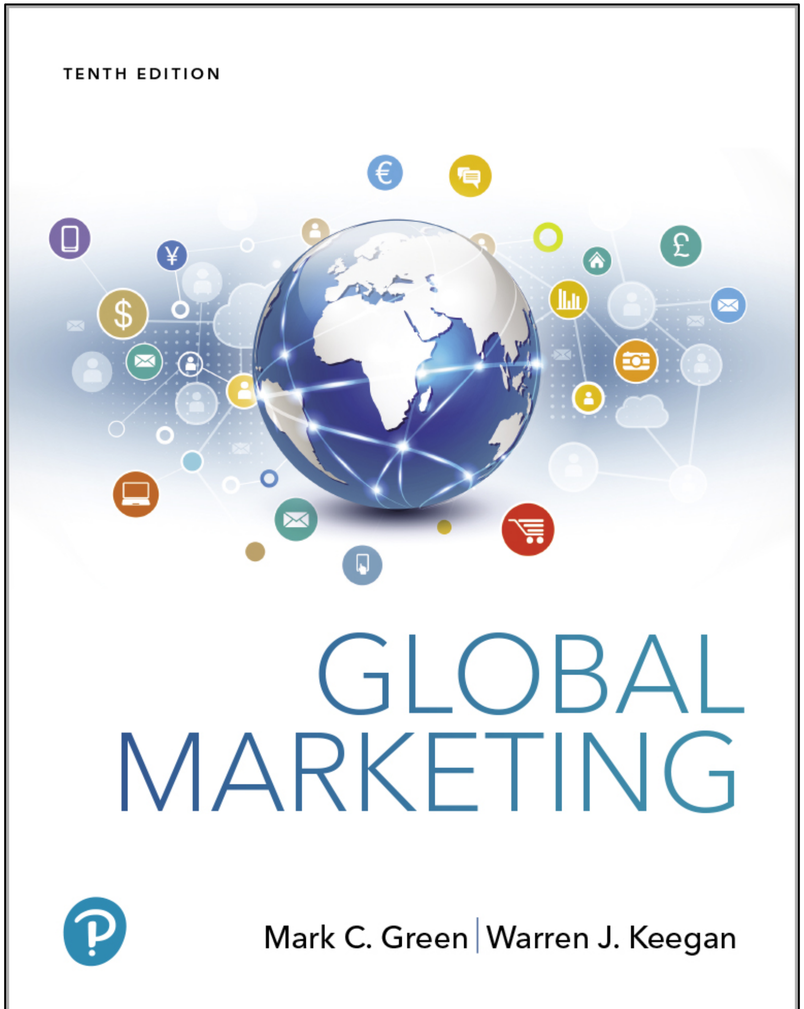
Global Marketing

Tenth Edition



Chapter 9

Global Market-Entry Strategies: Licensing, Investment, and Strategic Alliances

Learning Objectives (1 of 2)

9.1 Explain the advantages and disadvantages of using licensing as a market-entry strategy.

9.2 Compare and contrast the different forms that a company's foreign investments can take.

9.3 Discuss the factors that contribute to the successful launch of a global strategic partnership.

9.4 Identify some of the challenges associated with partnerships in developing countries.

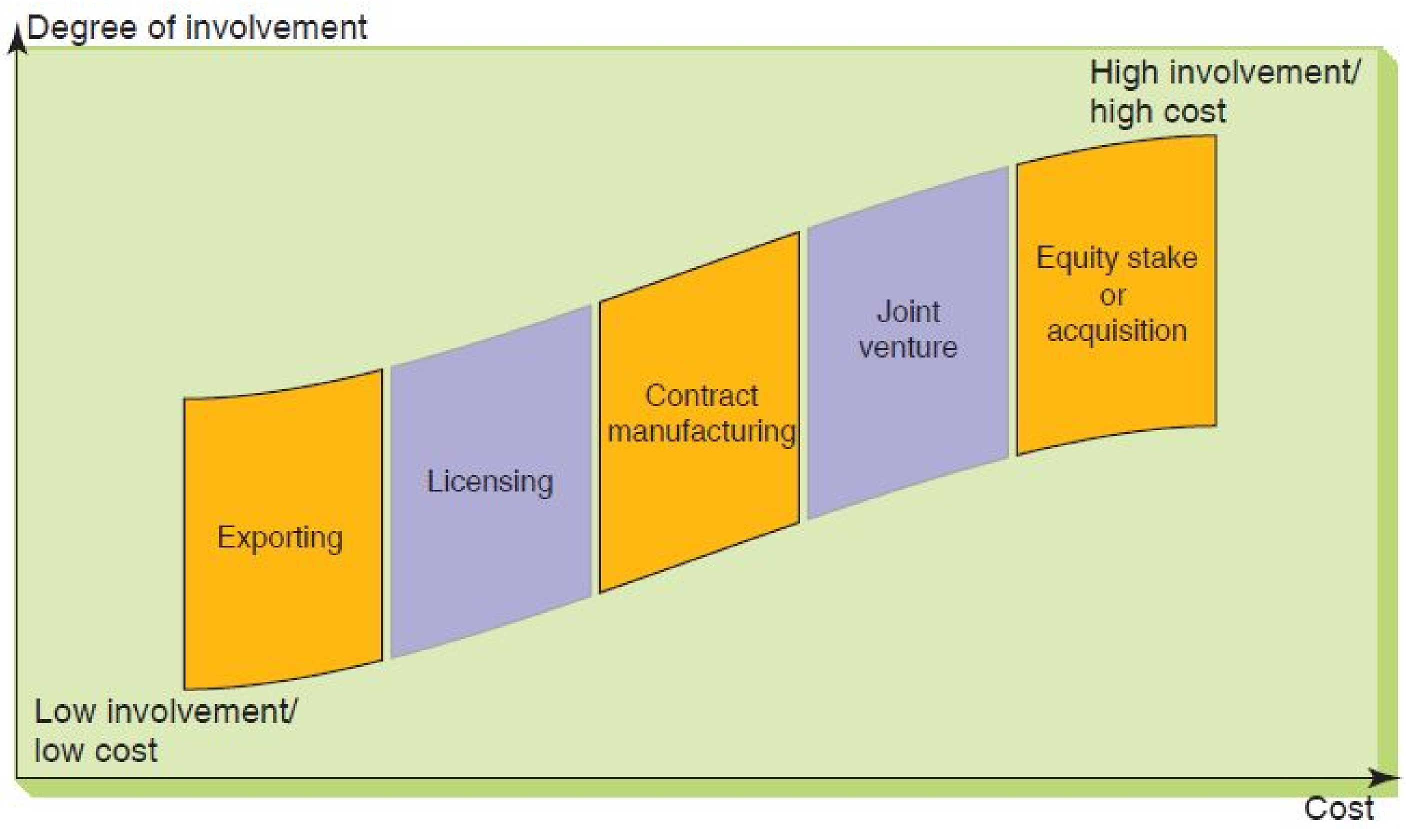
9.5 Describe the special forms of cooperative strategies found in Asia.

Learning Objectives (2 of 2)

9.6 Explain the evolution of cooperative strategies in the 21st century.

9.7 Use the market expansion strategies matrix to explain the strategies used by the world's biggest global companies.

Investment Cost of Marketing Entry Strategies



Which Strategy Should Be Used?

- **It depends on:**
  - Vision
  - Attitude toward risk
  - Available investment capital
  - How much control is desired

SAB was a local company that used joint ventures and acquisitions to become the world's largest brewer: SAB Miller's merger with Anheuser-Busch In Bev.

Licensing

- A contractual agreement whereby one company (the licensor) makes an asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation
  – Patent
  – Trade secret
  – Brand name
  – Product formulations
- Worldwide sales of licensed goods totaled $263 billion in 2016

Advantages to Licensing

- Provides additional profitability with little initial investment
- Provides method of circumventing tariffs, quotas, and other export barriers
- Attractive ROI
- Low costs to implement
- Licensees have autonomy to adapt products to local tastes

Disadvantages to Licensing

- Limited market control
- Returns may be lost
- The agreement may be short-lived
- Licensee may become competitor
- Licensee may exploit company resources

Special Licensing Arrangements

- **Contract manufacturing**
  - Company provides technical specifications to a subcontractor or local manufacturer
  - Allows company to specialize in product design while contractors accept responsibility for manufacturing facilities
  - May open the firm to criticism if manufacturers operate with harsh working conditions or have low wages
- **Franchising**
  - Contract between a parent company-franchisor and a franchisee that allows the franchisee to operate a business developed by the franchisor in return for a fee and adherence to franchise-wide policies
  - Used by the specialty retailing & fast-food industries

Franchising Questions

- Will local consumers buy your product?
- How tough is the local competition?
- Does the government respect trademark and franchiser rights?
- Can your profits be easily repatriated?
- Can you buy all the supplies you need locally?
- Is commercial space available and are rents affordable?
- Are your local partners financially sound and do they understand the basics of franchising?

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Investment

- Partial or full ownership of operations outside of home country
  - **Foreign Direct Investment (FDI)**
- **Forms**
  - Joint ventures
  - Minority or majority equity stakes
  - Outright acquisition

Fiskars acquired WWRD, including Waterford and Wedgewood, via investment.

Joint Ventures (1 of 2)

- Entry strategy for a single target country in which the partners share ownership of a newly-created business entity
- Builds upon each partner's strengths
- Examples: GM and Toyota, GM and Daewoo in S. Korea, Ford and Mazda, Chrysler and BMW

Joint Ventures (2 of 2)

- **Advantages**
  - Allows for risk sharing- financial and political
  - Provides opportunity to learn new environment
  - Provides opportunity to achieve synergy by combining strengths of partners
  - May be the only way to enter market given barriers to entry
- **Disadvantages**
  - Requires more investment than a licensing agreement
  - Must share rewards as well as risks
  - Requires strong coordination
  - Potential for conflict among partners
  - Partner may become a competitor

Investment via Equity Stake or Full Ownership

- Equity stakes is an investment
  - Minority < 50%, Majority> 50%
  - Full ownership =100%
- Start-up of new operations
  - Greenfield operations or
  - Greenfield investment
- Merger with an existing enterprise
- Acquisition of an existing enterprise
  - Examples: Roche acquired Genentech in 2008 for $43 billion

Examples of Market Entry & Expansion by Joint Venture (1 of 2)

Table 9-1 Market Entry and Expansion by Joint Venture

Companies Involved	Purpose of Joint Venture
GM (USA), Toyota (Japan)	NUMMI, a jointly operated plant in Freemont, California (venture was terminated in 2009).
GM (USA), Shanghai Automotive Industry (China)	A 50-50 joint venture to build an assembly plant to produce 100,000 mid-sized sedans for the Chinese market beginning in 1997 (total investment of $1 billion).
GM (USA), Hindustan Motors (India)	A joint venture to build as many as 20,000 Opel Astras annually (GM's investment was $100 million).

Examples of Market Entry & Expansion by Joint Venture (2 of 2)

Table 9-1 [continued]

Companies Involved	Purpose of Joint Venture
GM (USA), governments of Russia and Tatarstan	A 25-75 joint venture to assemble Blazers from imported parts and, by 1998, to build a full assembly line for 45,000 vehicles (total investment of $250 million).
Ford (USA), Mazda (Japan)	AutoAlliance International 50-50 joint operation of a plant in Flat Rock, Michigan.
Ford (USA), Mahindra & Mahindra Ltd. (India)	A 50-50 joint venture to build Ford Fiestas in the Indian state of Tamil Nadu (total investment of $800 million).
Chrysler (USA), BMW (Germany)	A 50-50 joint venture to build a plant in South America to produce small-displacement, 4-cylinder engines (total investment of $500 million).

Examples of Equity Stake (1 of 2)

Table 9-2 Investment in Equity Stake

Investing Company (Home Country)	Investment (Share, Amount, Date)
Fiat (Italy)	Chrysler (United States, initial 20% stake, 2009; Fiat took Chrysler out of bankruptcy)
General Motors (USA)	Fuji Heavy Industries (Japan, 20% stake, $1.4 billion, 1999); Saab Automobiles AB (Sweden, 50% stake, $500 million, 1990; remaining 50%, 2000; following bankruptcy filing, sold Saab to Swedish consortium in 2009)

Examples of Equity Stake (2 of 2)

Table 9-2 [continued]

Investing Company (Home Country)	Investment (Share, Amount, Date)
Volkswagen AG (Germany)	Skoda (Czech Republic, 31% stake, $6 billion, 1991; increased to 50.5%, 1994; currently owns 70% stake)
Ford (USA)	Mazda Motor Corp. (Japan, 25% stake, 1979; increased to 33.4%, $408 million, 1996; decreased stake to 13%, 2008; reduced to 3.5%, 2010)
Renault SA (France)	AvtoVAZ (Russia, 25% stake, $1.3 billion, 2008); Nissan Motors (Japan, 35% stake, $5 billion, 2000)

Issues in Acquisitions

- Globalization is driving acquisitions; smaller firms cannot expand without a partner
  - "It was very clear to us that Helene Curtis did not have the capacity to project itself in emerging markets around the world. As markets get larger, that forces the smaller players to take action."

  Ronald Gidwitz, CEO Unilever, on acquiring Helene Curtis

- Ownership circumvents tariffs & quota barriers, gets new markets, allows technology transfers and gain new manufacturing methods.

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Alternatives for Market Entry

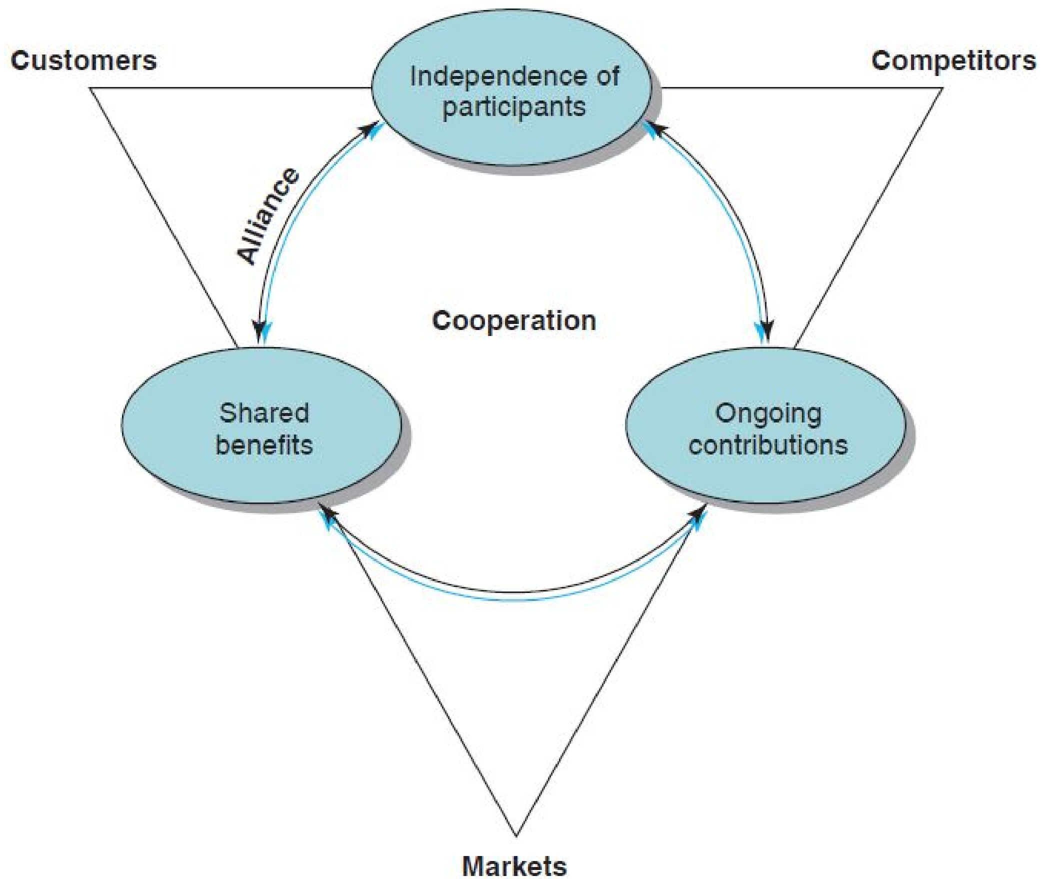
- Licensing, joint ventures, minority or majority equity stake, and ownership-are points along a continuum of alternative strategies for global market entry and expansion.
- Companies may use a combination
  - Ex. Borden Foods stopped licensing for branded food products in Japan and set up its own production, distribution, & marketing but kept JVs in non-food products

Global Strategic Partnerships

- Possible terms:
  - Collaborative agreements
  - Strategic alliances
  - Strategic international alliances
  - Global strategic partnerships

Oneworld is a GSP made up of American Airlines and other airlines around the world.

The Nature of Global Strategic Partnerships



Characteristics of Global Strategic Partnerships

- Participants remain independent following formation of the alliance
- Participants share benefits of alliance as well as control over performance of assigned tasks
- Participants make ongoing contributions in technology, products, and other key strategic areas

Five Attributes of True Global Strategic Partnerships

- Two or more companies develop a joint long-term strategy
- Relationship is reciprocal
- Partners' vision and efforts are global
- Relationship is organized along horizontal lines (not vertical)
- When competing in markets not covered by alliance, participants retain national and ideological identities

Success Factors of Alliances (1 of 2)

- **Mission:** Successful GSPs create win-win situations, where participants pursue objectives on the basis of mutual need or advantage.
- **Strategy:** A company may establish separate GSPs with different partners; strategy must be thought out up front to avoid conflicts.
- **Governance:** Discussion and consensus must be the norms. Partners must be viewed as equals.

Success Factors of Alliances (2 of 2)

- **Culture:** Personal chemistry is important, as is the successful development of a shared set of values.
- **Organization:** Innovative structures and designs may be needed to offset the complexity of multi-country management.
- **Management:** Potentially divisive issues must be identified in advance and clear, unitary lines of authority established that will result in commitment by all partners.

Alliances with Asian Competitors

- Western companies must learn from Asian firms' excellence in manufacturing, overcome NIH syndrome, become students, not teachers
- Four common problem areas
  - Each partner had a different dream
  - Each must contribute to the alliance and each must depend on the other to a degree that justifies the alliance
  - Differences in management philosophy, expectations, and approaches
  - No corporate memory

Cooperative Alliance in Japan: Keiretsu

- Inter-business alliance or enterprise groups in which business families join together to fight for market share
- Often cemented by bank ownership of large blocks of stock and by cross-ownership of stock between a company and its buyers and non-financial suppliers
- Keiretsu executives can legally sit on each other's boards, share information, and coordinate prices

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Horizontal Keiretsu

- Big Six: Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, DKB Groups
- Horizontal keiretsu: intragroup relationships involve shared stock holdings and trading relations
- Large, powerful with revenues in hundreds of billions
- Can block foreign suppliers causing higher prices
- Promotes corporate stability, risk sharing, long-term employment

Keiretsu

- Vertical keiretsu: Hierarchical alliances between manufacturers and retailers
  - Matshusita sells its products through its chain of National stores; 50-80% of products are Matshusita brands Panasonic, Technics, and Quasar
- Manufacturing keiretsu: Vertical hierarchical alliances between automakers, suppliers, and component manufacturers

Cooperative Strategies in South Korea: Chaebol

- Composed of dozens of companies, centered around a bank or holding company, and dominated by a founding family
  - Samsung
  - LG
  - Hyundai
  - Daewoo

21st Century Cooperative Strategies

- Semantech: Consortium of 14 tech companies tasked with saving the U.S. chip-making industry
- Relationship enterprise: groupings of firms from different industries and countries with common goals and act as one entity
- Next stage of evolution of the strategic alliance
  - **Super-alliance**
  - **Virtual corporation**

Table 9-6 Market Expansion Strategies

		Market Concentration	Market Diversification
Country	**Concentration**	1. Narrow focus	2. Country focus
	Diversification	3. Country diversification	4. Global diversification

- **Companies must decide to expand by**:
  - Seeking new markets in existing countries
  - Seeking new country markets for already identified and served market segments

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