Global Marketing

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Global Market Entry Strategies: Licensing, Investment and Strategic Alliances

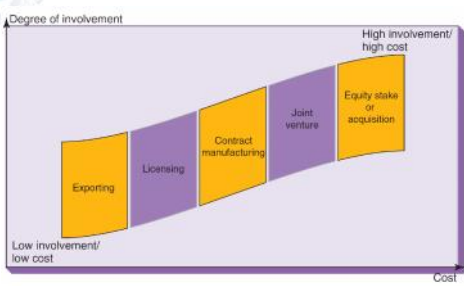
Chapter 9

Learning Objectives

- Licensing and forms of foreign investments
- Global strategic partnerships
- Asian cooperatives
- Virtual corporation
- Market expansion strategies

In 2012, Starbucks had 18,000 cafes in 62 countries and sales of $13.3 billion. Its goal is to reach 40,000 units worldwide.

Investment Cost of Marketing Entry Strategies

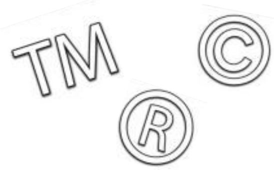


Which Strategy Should Be Used?

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

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



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
- License agreements should have cross-technology agreements to share developments and create competitive advantage for each party

Disadvantages to Licensing

- Limited participation
- Returns may be lost
- Lack of control
- 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
- **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

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?

Investment

- Partial or full ownership of operations outside of home country
  - *Foreign Direct Investment (FDI)*

IKEA spent $2 billion to enter Russia.

- Forms
  - Joint ventures
  - Minority or majority equity stakes
  - Outright acquisition

Joint Ventures

- 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: Budweiser and Kirin (Japan), GM and Toyota, GM and Daewoo in S. Korea, Ford and Mazda, Chrysler and BMW

Joint Ventures

- 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 Direct Foreign Investment

- Start-up of new operations
  - *Greenfield operations* or
  - *Greenfield investment*
- Merger with an existing enterprise
- Acquisition of an existing enterprise
- Examples: Volkswagen, 70% stake in Skoda Motors, Czech Republic (equity), Honda, $550 million auto assembly plant in Indiana (new operations)

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Examples of Market Entry & Expansion by Joint Venture

Companies Involved	Purpose of Joint Venture
GM (United States), Toyota (Japan)	NUMMI, a jointly operated plant in Freemont, California (venture was terminated in 2009).
GM (United States), 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 (United States), Hindustan Motors (India)	A joint venture to build up to 20,000 Opel Astras annually (GM's investment was $100 million).
GM (United States), 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 (United States), Mazda (Japan)	AutoAlliance International 50-50 joint operation of a plant in Flat Rock, Michigan.
Ford (United States), 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 (United States), 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).

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Examples of 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 (United States)	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)
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)

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Examples of Acquisitions

Acquiring Company	Target (Country, Amount, Date)
Tata Motors (India)	Jaguar and Land Rover (UK, $2.3 billion, 2008)
Volkswagen AG (Germany)	Sociedad Española de Automóviles de Turismo (SEAT, Spain, $600 million, purchase completed in 1990)
Zhejiang Geely (China)	Volvo car unit (Sweden, $1.3 billion, 2010)
Paccar (USA)	DAF Trucks (Netherlands, $543 million, 1996)

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Global Strategic Partnerships

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

The Star Alliance is a GSP made up of six airlines.

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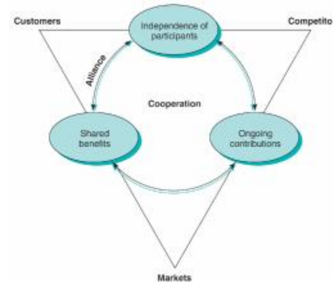
The Nature of Global Strategic Partnerships



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The Nature 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

- ***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 (Con't)

- ***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.

Examples of Global Strategic Alliances

Name of Alliance or Product	Major Participants	Purpose of Alliance
Fiat/Chrysler	Fiat (Italy), Chrysler (United States)	Chrysler gains access to fuel-efficient small-car platforms (e.g., Dodge Dart); Fiat nameplate reintroduced into the U.S. market, starting with 500 subcompact.
S-LCD	Sony Corp., Samsung Electronics Co.	Produce flat-panel LCD screens for high-definition televisions
Beverage Partners Worldwide	Coca-Cola and Nestlé	Offer new coffee, tea, and herbal beverage products in "rejuvenation" category
Star Alliance	Adria, Aegean, Air Canada, Air China, Air New Zealand, ANA, Asiana Airlines, Austrian, Avianca Taca, Brussels Airlines, Copa Airlines, Croatia Airlines, EGYPTAIR, Ethiopian Airlines, LOT Polish Airways, Lufthansa, Scandinavian Airlines, Shenzhen Airlines, Singapore Airlines, South African Airways, SWISS, TAM, TAP Portugal, THAI, Turkish Airlines, United, US Airways	Create a global travel network by linking 27 airlines and providing improved service for international travelers

Alliances with Asian Competitors

- 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

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Keretsui

- Vertical keretsui: 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 keretsui: vertical hierarchical alliances between automakers suppliers, and component manufacturers

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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

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21st Century Cooperative Strategies: Targeting the Digital Future

- Alliances between companies in several industries that are undergoing transformation and convergence
  - Computers
  - Communications
  - Consumer electronics
  - Entertainment

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Beyond Strategic Alliances

- 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*

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Market Expansion Strategies

		MARKET	
		Concentration	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

Looking Ahead to Chapter 10

The Global Marketing Mix–Product and Brand Decisions