Global Marketing

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Global Market Entry Strategies: Licensing, Investment and Strategic Alliances

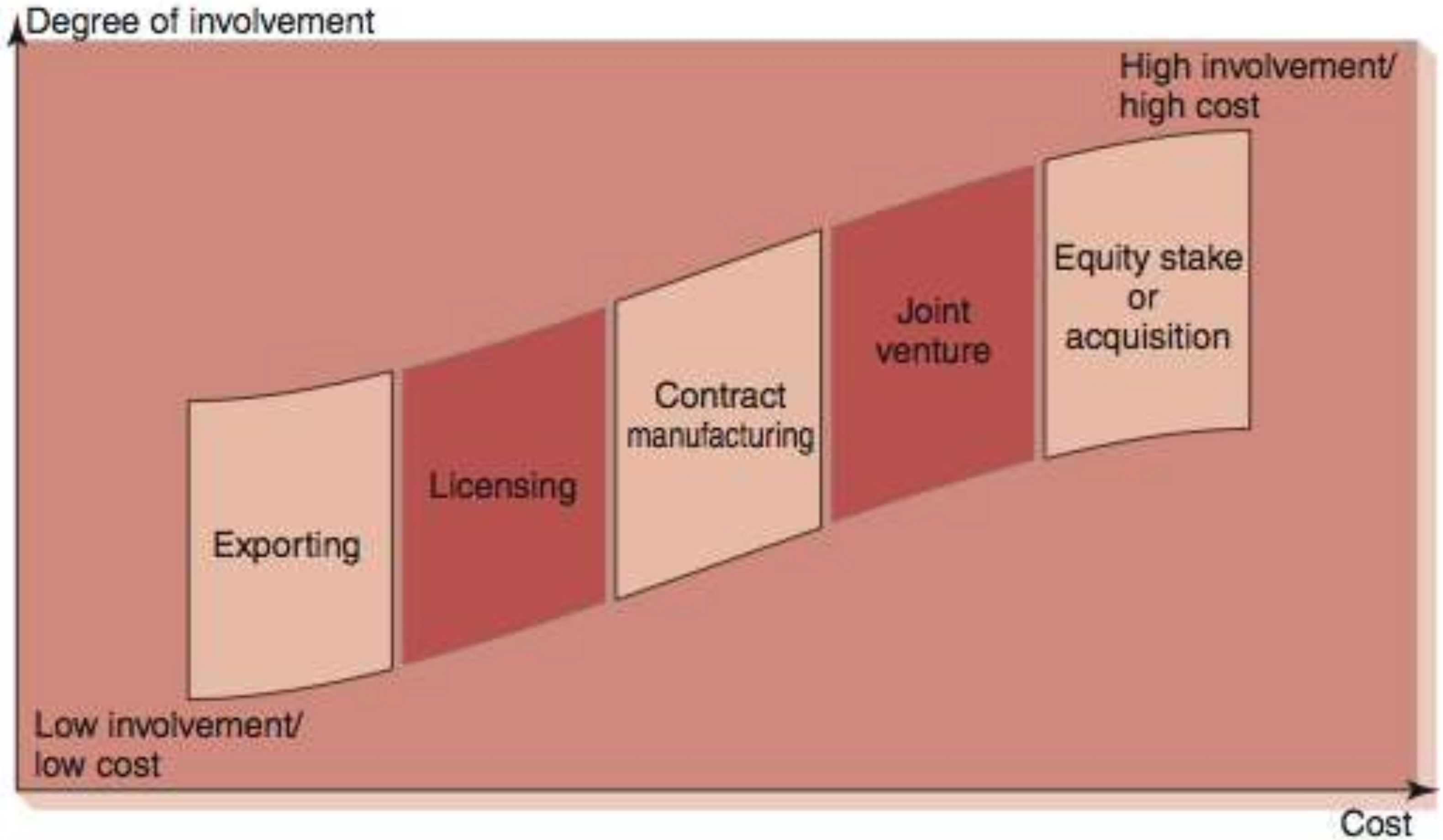
Chapter 9

Learning Objectives

- Trade barriers are falling around the world
- Companies need to have a strategy to enter world markets
- Starbucks has used direct ownership, licensing, and franchising for shops and products

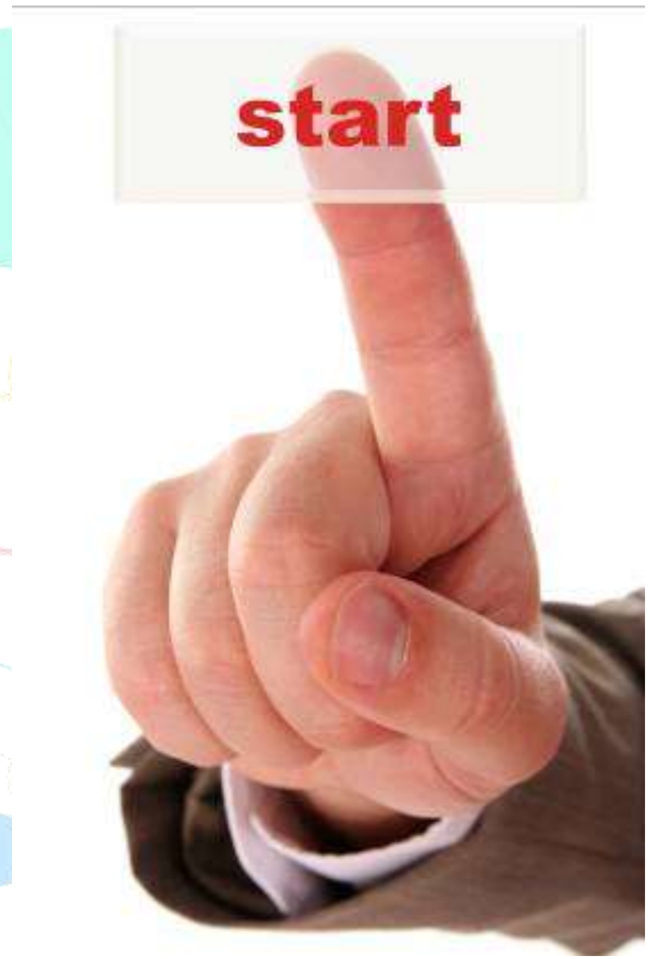
In 2010, Starbucks had 12,000 cafes in 35 countries and sales of $10.8 billion. Its goal is to reach 40,000 units worldwide.

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 inequities

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

Special Licensing Agreements

- **Contract Manufacturing** – Companies provide technical specifications to a subcontractor or local manufacturer. The subcontractor then oversees production. Such arrangements offer several advantages. The licensing firm can specialize in product design and marketing, while transferring responsibility for ownership of manufacturing facilities to contractors and subcontractors.

- **Franchising** is another variation of licensing strategy. A franchise is a contract between a parent company-franchiser and a franchisee that allows the franchisee to operate a business developed by the franchiser in return for a fee and adherence to franchise-wide policies and practices.

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)*

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

IKEA, with affordable furniture and housewares, spent $2 billion in Russia.

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 Russian government, Ericsson' s cell phones and Sony, 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)

Examples of Market Entry & Expansion by Joint Venture

TABLE 9-1 Market Entry and 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 $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 $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 $500 million).

Source: Compiled by authors.

Examples of Equity Stake

TABLE 9-2 Investment in Equity Stake

Investing Company (Home Country)	Investment (Share, Amount, Date)
Fiat (Italy)	Chrysler (United States, 30% 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)

Examples of Investment to Establish New Operations

TABLE 9-3 Investment to Establish New Operations

Investing Company (Headquarters Country)	Investment (Location)
Honda Motor (Japan)	$550 million auto assembly plant (Indiana, United States, 2006)
Hyundai (South Korea)	$1.1 billion auto assembly and manufacturing facility producing Sonata and Santa Fe models (Georgia, United States, 2005)
Bayerische Motoren Werke AG (Germany)	$400 million auto assembly plant (South Carolina, United States, 1995)
Mercedes-Benz AG (Germany)	$300 million auto assembly plant (Alabama, United States, 1993)
Toyota (Japan)	$3.4 billion manufacturing plant producing Camry, Avalon, and minivan models (Kentucky, United States); $400 million engine plant (West Virginia, United States)

Examples of Acquisitions

TABLE 9-4 Market Entry and Expansion by Acquisition

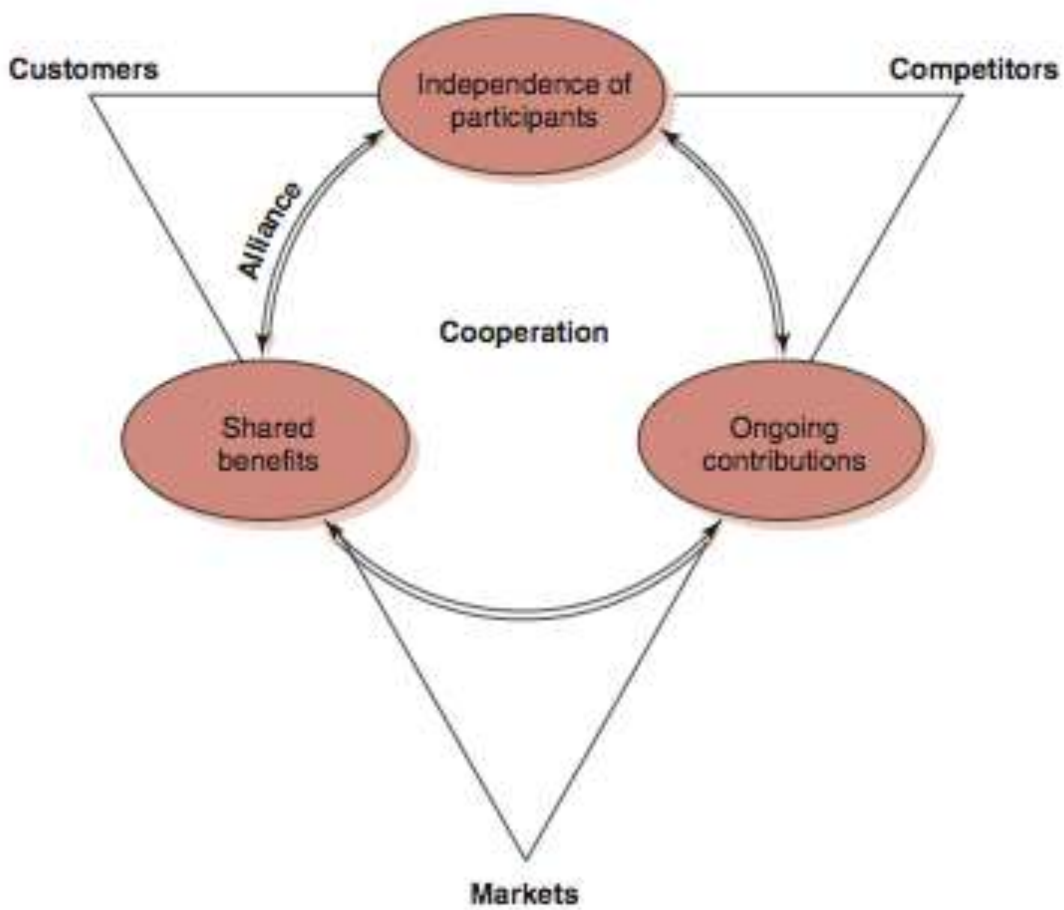
Acquiring Company	Target (Country, Date, Amount)
Tata Motors (India)	Jaguar and Land Rover (UK, $2.3 billion 2008)
Volkswagen AG (Germany)	Sociedad Española de Automoviles de Turisme (SEAT, Spain, $600 million, purchase completed in 1990)
Zhejiang Geely (China) Geele	Volvo car unit (Sweden, $1.3 billion,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

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.

The Nature of Global Strategic Partnerships



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

TABLE 9-5 Examples of Global Strategic Partnerships

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; Fiat nameplate has been 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, Blue 1, bmi, Brussels Airlines, Continental, EGYPTAIR, LOT Polish Airways, Lufthansa, Scandinavian Airlines, Singapore Airlines, South African Airways, Spanair, 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

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: Targeting the Digital Future

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

Beyond Strategic Alliances

- Next stage of evolution of the strategic alliance
  - *Super-alliance*
  - *Virtual corporation*

Market Expansion Strategies

TABLE 9-6 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