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

Global Marketing

Chapter 9
Introduction

- 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 2008, 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

- Exporting: Low involvement/low cost
- Licensing
- Contract manufacturing
- Joint venture
- Equity stake or acquisition: High involvement/high cost
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
## Worldwide Franchise Activity

<table>
<thead>
<tr>
<th>Company</th>
<th>Overseas Sites</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>7-Eleven</td>
<td>23,652</td>
<td>18</td>
</tr>
<tr>
<td>McDonald’s</td>
<td>22,571</td>
<td>110</td>
</tr>
<tr>
<td>Yum Brands</td>
<td>14,057</td>
<td>100</td>
</tr>
<tr>
<td>Doctor’s Associates (Subway)</td>
<td>5,962</td>
<td>85</td>
</tr>
<tr>
<td>Domino’s Pizza</td>
<td>3,038</td>
<td>55</td>
</tr>
<tr>
<td>Jani-King International (commercial cleaning)</td>
<td>2,210</td>
<td>20</td>
</tr>
</tbody>
</table>
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*

• Forms
  – Joint ventures
  – Minority or majority equity stakes
  – Outright acquisition

IKEA, with affordable furniture and housewares, spent $2 billion in Russia.
### Top Target Countries for U.S. Investment

1. United Kingdom  
2. Canada  
3. The Netherlands

2000 cumulative total by U.S. companies = $1.2 trillion

### Top Foreign Countries Investing in the U.S.

1. United Kingdom  
2. Japan  
3. The Netherlands

2000 investment by foreign companies in U.S. = $1.2 trillion
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)
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

- 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

- **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

- 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 Strategies 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
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

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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<thead>
<tr>
<th>COUNTRY</th>
<th>MARKET</th>
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<tbody>
<tr>
<td></td>
<td>Concentration</td>
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<td>1. Narrow Focus</td>
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