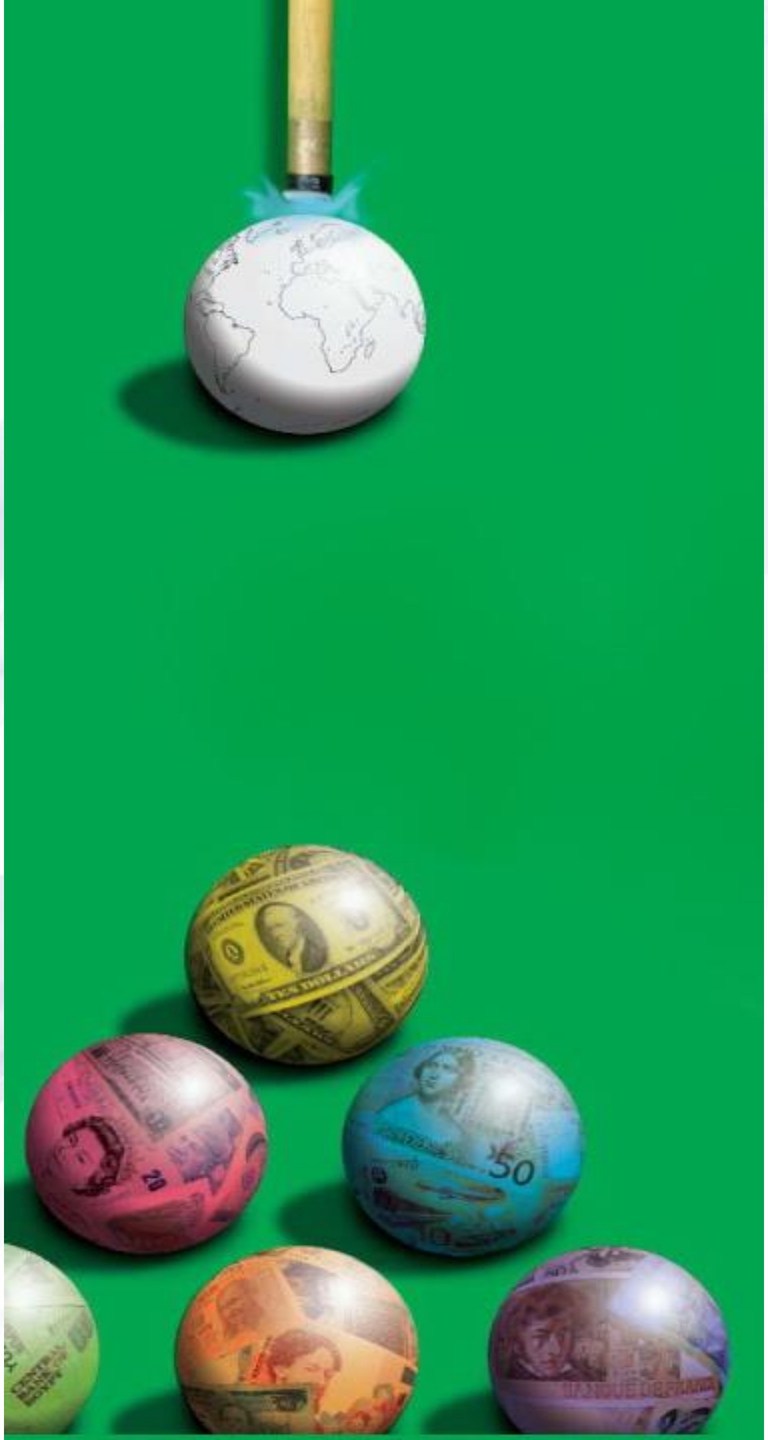


Global Market Entry Strategies: Licensing, Investment, and Strategic Alliances

Global Marketing

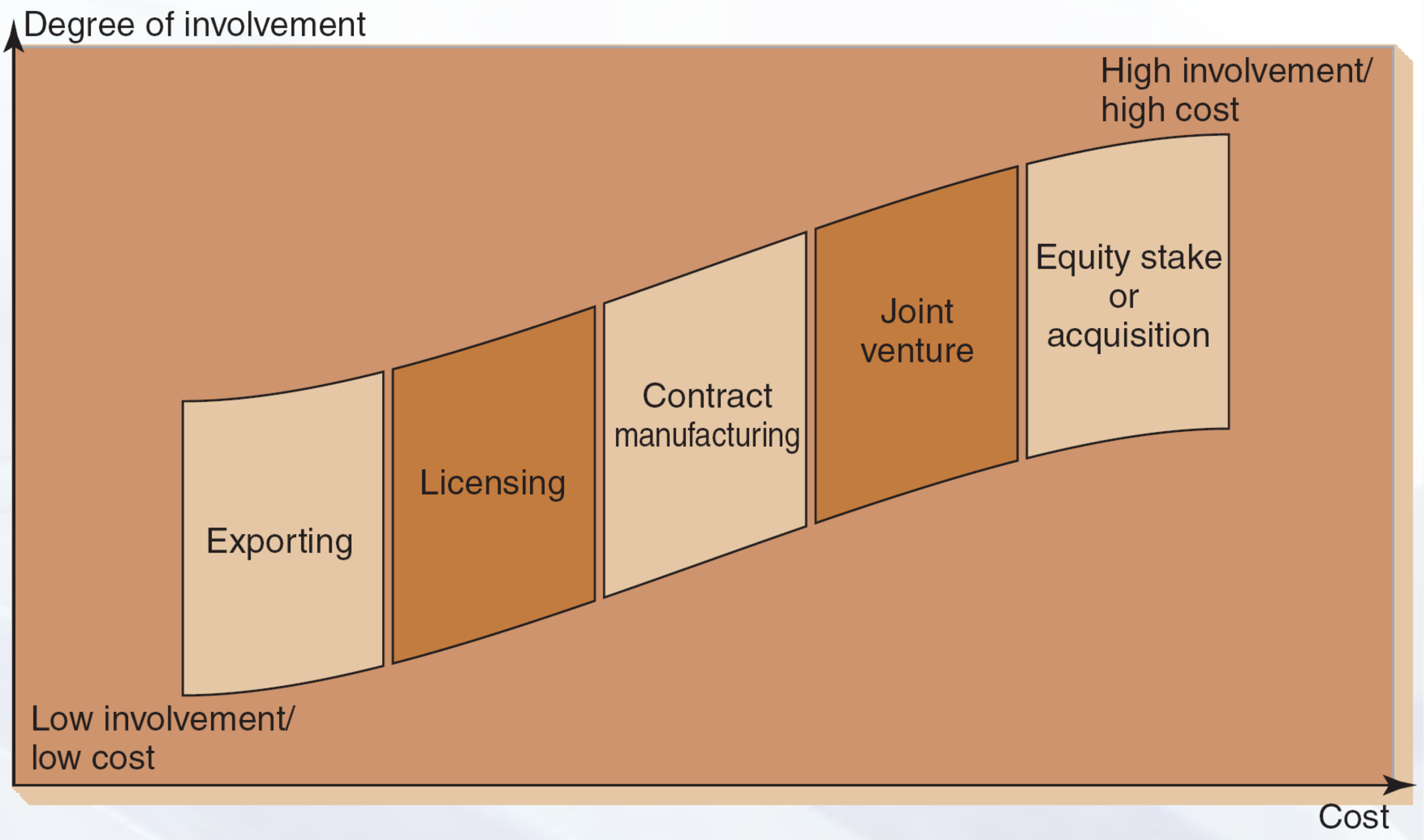
Chapter 9

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



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

Company	Overseas Sites	Countries
7-Eleven	23,652	18
McDonald's	22,571	110
Yum Brands	14,057	100
Doctor's Associates (Subway)	5,962	85
Domino's Pizza	3,038	55
Jani-King International (commercial cleaning)	2,210	20

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.

Direct Foreign Investment and the U.S.

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

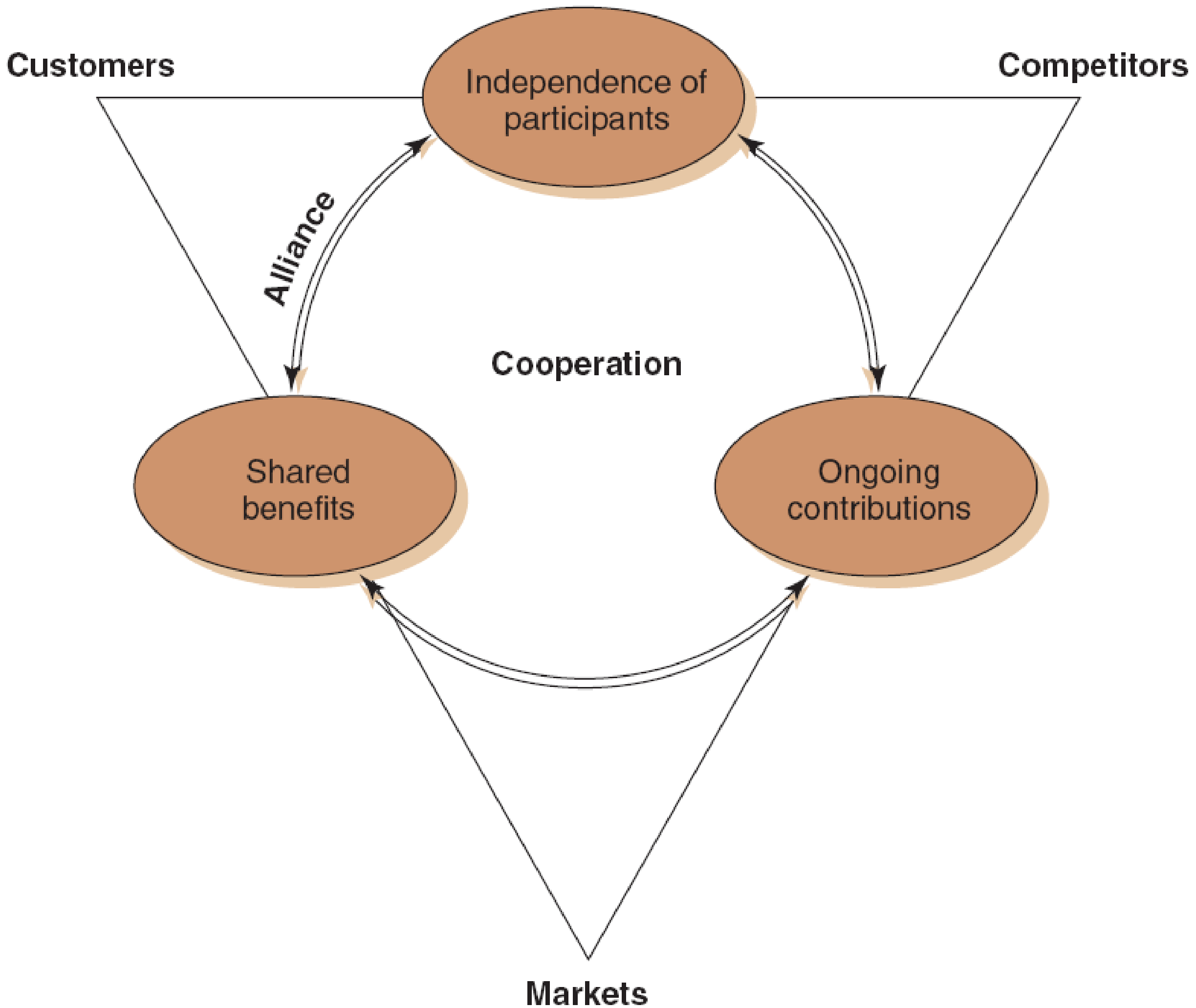
- Start-up of new operations
  - *Greenfield operations* or
  - *Greenfield investment*
- Merger with an existing enterprise
- Acquisition of an existing enterprise
- Examples: Volkswagen, 70% stake in Skoda Motors, Czech Republic (equity), Honda, $550 million auto assembly plant in Indiana (new operations)

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



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

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

		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