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

Chapter 9

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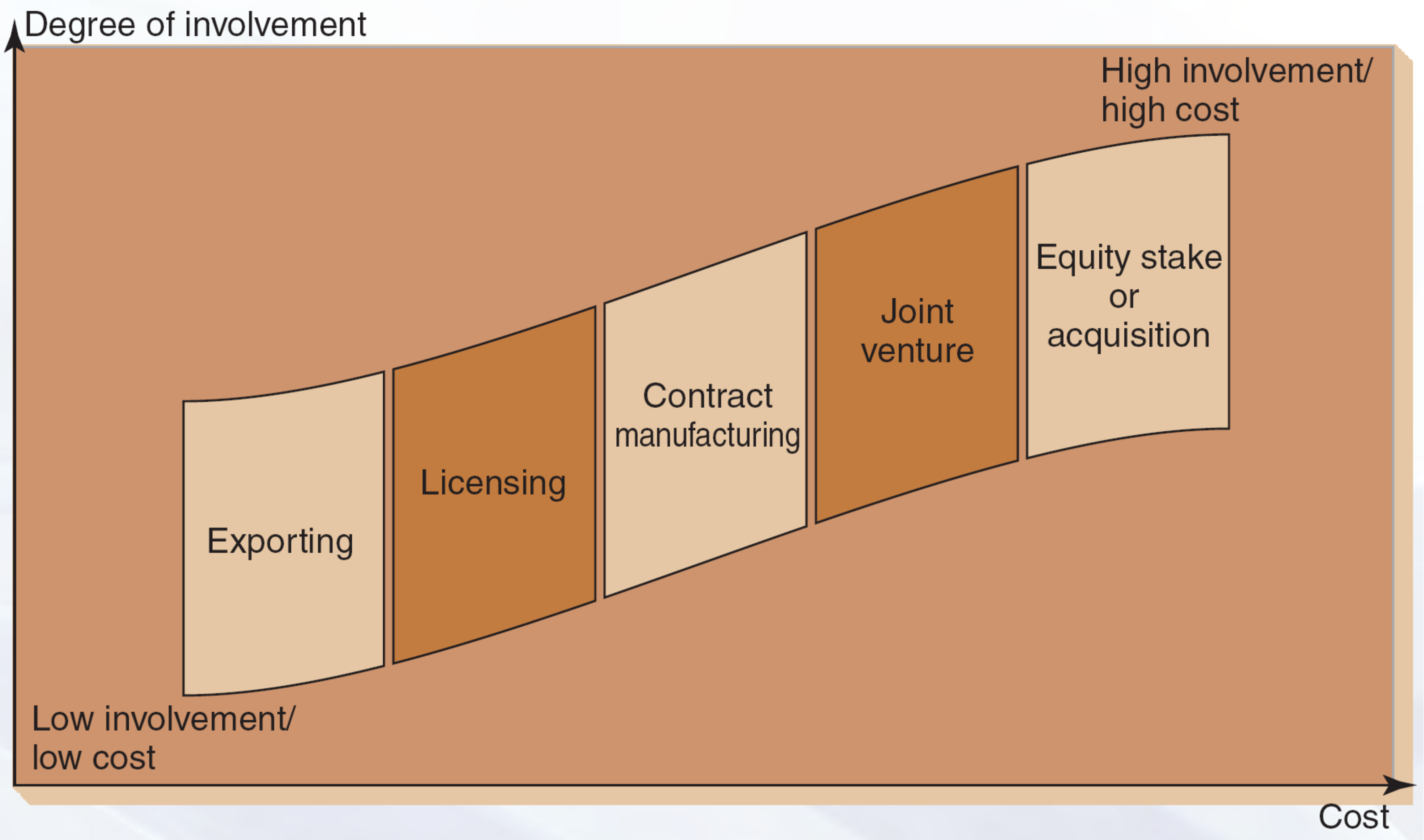
Introduction

- 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



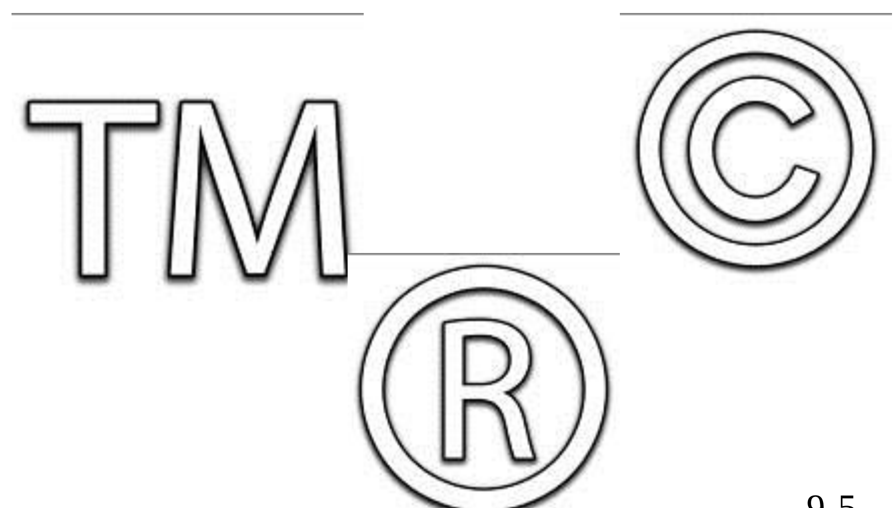
Which Strategy Should Be Used?

How do executives choose a market entry strategy?

- Formulating a **market entry strategy** means that management must decide which option or options to use in pursuing opportunities outside the home country. The particular market entry strategy company executives choose will depend on their vision, attitude toward risk, how much investment capital is available, and how much control is sought

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

There are two key advantages associated with licensing as a market entry mode.

- Because the licensee is typically a local business that will produce and market the goods on a local or regional basis, licensing enables companies to circumvent tariffs, quotas, or similar export barriers.
- Licensees are granted considerable autonomy and are free to adapt the licensed goods to local tastes.

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 :provides 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 others.
- The licensing firm has limited commitment of financial and managerial resources.
- The licensing firm has quick entry into target countries, especially when the target market is too small to justify significant investment.

One **disadvantag**e: Companies may open themselves to public criticism if workers in contract factories are poorly paid or labor in inhumane circumstances

Franchising

– 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 policies and practices.

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.

Foreign direct investment (FDI)

- **Foreign direct investment (FDI)** figures reflect investment flows out of the home country as companies invest in or acquire plants, equipment, or other assets.
- Foreign direct investment allows companies to produce, sell, and compete locally in key markets.

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

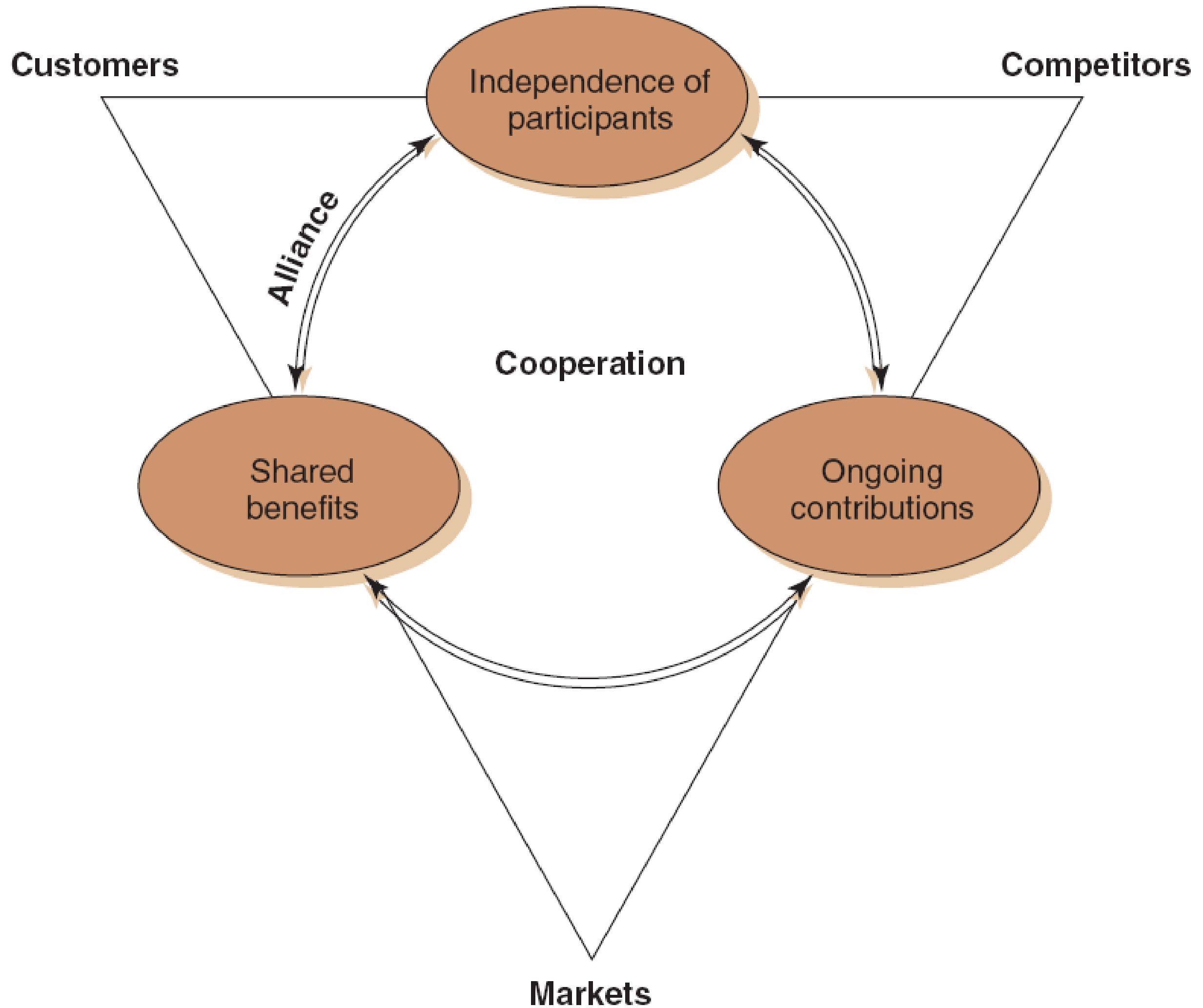
- Start-up of new operations
  - *Greenfield operations* or
  - *Greenfield investment*
- Merger with an existing enterprise
- Acquisition of an existing enterprise
- Examples: Volkswagen, 70% stake in Skoda Motors, Czech Republic (equity), Honda, $550 million auto assembly plant in Indiana (new operations)

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

What are the main characteristics of strategic alliances?

- 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

global strategic partnerships (GSPs)

- frequently used to refer to linkages between companies from different countries to jointly pursue a common goal

GSPs are attractive for several reasons:

- High product development costs in the face of resource constraints may force a company to seek one or more partners.
- The technology requirements of many contemporary products mean that an individual company may lack the skills, capital, or know-how to go it alone.
- Partnerships may be the best means of securing access to national and regional markets.
- Partnerships provide important learning opportunities.

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.

Success Factors

What are the guiding principles of successful collaborations?

Companies forming GSPs must keep these factors in mind. Moreover, the following four principles will guide successful collaborators:

- Partners must remember that they are competitors in other areas.
- Harmony is not the most important measure of success – some conflict is to be expected.
- All employees, engineers, and managers must understand where cooperation ends and competitive compromise begins.
- Learning from partners is critically important

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

What is a *keiretsu* and why is it so important in global marketing?

- **Japan's *keiretsu*** represent a special category of cooperative strategy. A **keiretsu** is an inter-business alliance or enterprise group that, in the words of one observer, "resembles a fighting clan in which business families join together to vie for market share."
- ***Keiretsu* exi**st in a broad spectrum of markets, including the capital, primary goods, and component parts markets.
- ***Keiretsu* relati**onships are often cemented by bank ownership of large blocks of stock and by cross-ownership of stock between a company and its buyers and nonfinancial suppliers.
- ***keiretsu* executives** can legally sit on each other's boards, share information, and coordinate prices in closed-door meetings of "presidents' councils." Thus, *keiretsu* are essentially cartels that have the government's blessing. While not a market entry strategy per se, *keiretsu* played an integral role in the international success of Japanese companies as they sought new markets.

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

Looking Ahead to Chapter 10

- The Global Marketing Mix–Product and Brand Decisions

Starbuck's Global Expansion: The Assignment

Overview: From modest beginnings in Seattle's Pike Street Market, Starbucks Corporation has become a global marketing phenomenon. Today, Starbucks is the world's leading specialty coffee retailer, with 2008 sales of $10.8 billion. Starbucks founder and chairman Howard Schultz and his management team have used a variety of market entry approaches—including direct ownership as well as licensing and franchising—to create an empire of more than 12,000 coffee cafés in 35 countries. In addition, Schultz has licensed the Starbucks brand name to marketers of non-coffee products such as ice cream. The company is also diversifying into movies and recorded music. However, coffee remains Starbucks core business; to reach the ambitious goal of 40,000 shops worldwide, Starbucks is expanding aggressively in key countries. **S**tarbucks has also been successful in other European countries, including the United Kingdom and Ireland. Greater China—including the mainland, Hong Kong, and Taiwan—represents another strategic growth market for Starbucks.

Starbuck's Global Expansion: The Assignment

- In the United States, about two-thirds of Starbucks outlets are company owned; the remaining one-third are operated by licensees. Outside the United States, the proportions are reversed: about two-thirds are run by licensees or partnerships in which Starbucks has equity stakes. What is the explanation for the two different market expansion strategies?

Starbuck’s Global Expansion: The Assignment

- In response to the economic downturn, Starbucks recently launched a new line of instant coffee called VIA Ready Brew. The company also developed a breakfast value meal that costs less than $4. Do you agree with these decisions?

Starbuck's Global Expansion: The Assignment

- In the long run, which company is more likely to win the global "coffee wars," Starbucks or McDonald's?