Market Entry Strategies: Licensing, Investment, and Strategic Alliances

Global Marketing

Chapter 9

- 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

Profit Potential
Risk
Which Strategy?

Risk Aversion
Capital availability

Strategic Choice

Level of Control

Licensing
A contractual agreement whereby the licensor makes an asset available to the licensee

Advantages
- Provides additional profitability with little initial investment
- Provides method of circumventing tariffs, quotas, and other export barriers
- Attractive ROI
- Low costs to implement

Disadvantages
- Limited participation
- Returns may be lost
- Lack of control
- Licensee may become competitor
- Licensee may exploit company resources
Special Licensing Types

- **Contract manufacturing**
  - Technical specifications provided 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
- **Forms**
  - Joint ventures
  - Minority or majority equity stakes
  - Outright acquisition

Worldwide Franchise Activity

Franchise Statistics

- Franchising creates almost $2,000,000,000,000 (2 trillion) revenue every year worldwide. Enough to:
  - equal the 4th largest GNP in the world
  - blanket the state of Massachusetts (7,600 sq. miles)
  - circle the earth 6,500 times
  - stack 137,000 miles high (over 1/2 way to the moon)
- Franchise businesses account for about 50% of all retail sales in the United States.
- Franchise businesses employ more than 15 million Americans.
- More than 75 industries use franchising to distribute goods and services to consumers.
- A U.S. department of commerce study conducted from 1971 to 1997 showed that during that time less than 5% of franchise businesses were closed each year.
- A U.S. Small Business Administration study conducted from 1978 to 1998, which found that 62% of non-franchised businesses closed within the first 6 years of their existence due to failures, bankruptcy, etc.
- 1 out of every 12 businesses is a franchised business.

联合王国

United States.

United Kingdom

France

Germany

Netherlands

Japan

Italy

Other 13%

United Kingdom 16%

France 16%

Germany 10%

Netherlands 15%

Japan 19%

Italy 10%

FDI in the US - 2006

U.S. Direct Foreign Investment

Joint Ventures

Entry strategy for a single target country in which the partners share ownership of a newly created business entity

**Advantages**
- Allows for sharing of risk (both 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
- Share rewards and risks
- Strong coordination needed
- Potential conflicts
- Partner may become a competitor
**Investment**
- Start-up of new operations
- Greenfield operations or Greenfield investment
- Merger with an existing enterprise
- Acquisition of an existing enterprise

**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 Partnerships**
- Independent Partners
- Continuous Contributions
- Shared benefits and control

**Partnership Attributes**
- 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)
- In markets not covered by alliance, participants retain national and ideological identities

**Success Factors**

**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
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 one another’s boards, share information, and coordinate prices

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

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

Expansion Strategies
• Companies must decide to expand by seeking
  • New markets in existing countries
  • New country markets for already identified and served market segments