CHAPTER 9

GLOBAL MARKET-ENTRY STRATEGIES: LICENSING, INVESTMENT, AND STRATEGIC ALLIANCES

SUMMARY

A. Companies that wish to move beyond exporting and importing can avail themselves of a wide range of alternative **market entry strategies**. Each strategy has distinct advantages and disadvantages associated with it; the alternatives can be ranked on a continuum representing increasing levels of investment, commitment, and risk. **Licensing** can generate revenue flow with little new investment; it can be a good choice for a company that possesses advanced technology, a strong brand image, or valuable intellectual property. **Contract manufacturing** and **franchising** are two specialized forms of licensing that are widely used in global marketing.

B. A higher level of involvement outside the home country may involve **foreign direct investment (FDI)**. This investment can take many forms. **Joint ventures** offer two or more companies the opportunity to share risk and combine value chain strengths. Companies considering joint ventures must plan carefully and communicate with partners to avoid "divorce." FDI can also be used to establish company operations outside the home country through **greenfield investment,** acquisition of an minority or majority **equity stake** in a foreign business, or taking **full ownership** of an existing business entity through merger or outright acquisition.

C. Cooperative alliances known as **strategic alliances, strategic international alliances,** and **global strategic partnerships** (GSPs) represent an important market entry strategy in the twenty-first century. GSPs are ambitious, reciprocal, cross-border alliances that may involve business partners in a number of different country markets. GSPs are particularly well suited to emerging markets in Central and Eastern Europe, Asia, and Latin America. Western businesspeople should also be aware of two special forms of cooperation found in Asia, namely Japan's **keiretsu** and South Korea's **chaebol.**

D. To assist managers in thinking through the various alternatives, the four possible **market expansion strategies** can be represented in matrix form: **country** and **market concentration**, **country concentration** and **market diversification**, **country diversification** and **market concentration**, and **country** and **market diversification**. The preferred expansion strategy will reflect the company's stage of development (i.e. whether it is international, multinational, global, or transnational). The Stage 5 transnational combines the strengths of these three stages into an integrated network to leverage worldwide learning.

LEARNING OBJECTIVES

9-1 Explain the advantages and disadvantages of using licensing as a market-entry strategy.

9-2 Compare and contrast the different forms that a company's foreign investments can take.

9-3 Discuss the factors that contribute to the successful launch of a global strategic partnership.

9-4 Identify some of the challenges associated with partnerships in developing countries.

9-5 Describe the special forms of cooperative strategies found in Asia.

9-6 Explain the evolution of cooperative strategies in the twenty-first century.

9-7 Use the market expansion strategies matrix to explain the strategies used by the world's biggest global companies.

DISCUSSION QUESTIONS

9-1. What are the advantages and disadvantages of using licensing as a market entry tool? Give examples of companies from different countries that use licensing as a global marketing strategy.

Licensing:

Advantages:
- Low cost entry alternative
- Allows licensor to circumvent tariffs, quotas, or similar export barriers
- Limits political risk and risk of expropriation

Disadvantages:
- A limited form of participation; licensor generally has no control on marketing program associated with product produced under license.
- Financial upside limited by royalty rate.
- Licensees can become competitors.

9-2. The president of XYZ Manufacturing Company of Buffalo, New York, comes to you with a license offer from a company in Osaka. In return for sharing the company's patents and know-how, the Japanese company will pay a license fee of 5 percent of the ex-factory price of all products sold based on the U.S. Company's license. The president wants your advice. What would you tell him?

Assuming XYZ is a small manufacturer with limited international experience, and if the picture for both market and sales (market share) potential are promising, licensing can be an attractive entry mode. Possibly entry into the Japanese market could be expedited by following this approach, especially if distribution would be a problem. However, XYZ must carefully study the geographic scope of the agreement. Should licensed product be marketed only in Japan? Another concern for XYZ is that the licensee will become a stronger competitor once it has absorbed XYZ's know-how. XYZ may wish to investigate other potential licensees before making a final decision. XYZ must also ensure that its patents are protected in Japan.

Overall, as Root (1994, 119) notes, "managers can rationally choose licensing as a primary entry mode only when they compare the expected profitability of a proposed licensing venture with the expected profitability of alternative entry modes." Root suggests profit contribution analysis based on projections of incremental revenues and incremental costs associated with the licensing agreement.

Incremental revenues (excluding royalty revenues) for life of agreement:
- Lump-sum royalties
- Technical-assistance fees
- Engineering/construction fees
- Equity shares in licensee
- Dividends on equity shares

Incremental costs for life of agreement:

Opportunity costs
- Loss of current export revenues (if company currently exports)

Start-Up Costs
- Target market research
- Acquisition of local patent/trademark protection
- Negotiation of licensing agreement
- Training licensee's employees

Ongoing Costs
- Periodic training/updating of licensee
- Maintaining local patent/trademark protection
- Quality supervision and tests

Source: Adapted from Franklin R. Root, *Entry Strategies for International Markets* (New York: Lexington Books), 1994.

9-3. What is foreign direct investment (FDI)? Which forms can FDI take?

Joint Ventures:

Advantages:
- Allows for sharing of risk and combining complementary strengths, especially local market knowledge of target market partner.
- May be the entry mode most strongly supported by target market government.

Disadvantages:

- Corporate cultures and other interests of foreign partner and local partner may clash.
- Lack of mutual understanding frequently leads to "divorce."
- Sharing means less control than in 100 percent ownership.

Direct Investment/Acquisition/Ownership:

Advantages:

- Acquisition can profit instant market access.
- Provides opportunities for technology transfer to parent.

Disadvantages:

- Problems may arise from efforts to integrate acquisitions into parent company.
- Requires greatest commitment of capital and managerial effort.
- Investment and ownership may evoke suspicion about foreign company exploitation. American companies in particular may be targets of accusations about "cultural imperialism." Political risk is higher compared with other entry modes.

9-4. What are *keiretsu*? How does this form of industrial structure affect companies that compete with Japan or that are trying to enter the Japanese market?

In its most general sense, the word *keiretsu* refers to connections between different companies. Japanese *Keiretsu* consists of a group of large companies with ties to a powerful bank, such as Mitsubishi Group. In Japan's automobile industry, *keiretsu* take the form of vertical hierarchical relationships between the automakers and various component-manufacturing groups. Toyota is cited as an example in the chapter; other *keiretsu* include Nissan and Honda. In the consumer electronics industry, *keiretsu* alliances are forged between manufacturers and retailers. Matsushita is a case in point; other *keiretsu* in the electronics industry are the Hitachi Group, the Toshiba Group, and the Sony Group.

The presence of *keiretsu* can make it difficult for foreign companies to gain access to the Japanese market.

OVERVIEW

As shown in Figure 9-1, the level of involvement, risk and financial reward increases as a company moves from market entry strategies such as licensing to joint ventures and ultimately, various forms of investment.

When a global company seeks to enter a developing country market, there is an additional strategy issue to address: whether to replicate the strategy that served the company well in developed markets without significant adaptation, the strategy that served the company well in developed markets.

To the extent that the objective of entering the market is to achieve penetration, executives at global companies are well advised to consider embracing a mass-market mindset. This may well mandate an adaptation 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, the availability of investment capital, and the amount of control sought.

<u>ANNOTATED LECTURE/OUTLINE</u>

LICENSING

- ✓ **(Learning Objective #1)**

Licensing is a contractual arrangement whereby one company (the licensor) makes a legally protected asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation.

The licensed asset may be a brand name, company name, patent, trade secret, or product formulation. Licensing is widely used in the fashion industry.

Licensing is a global entry and expansion strategy, with considerable appeal. It can offer an attractive return on investment, provided that the necessary performance clauses are included in the contract. The only cost is signing the agreement and policing its implementation.

Two key advantages associated with licensing as a market entry mode.

1. 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.
2. Licensees are granted considerable autonomy and are free to adapt the licensed goods to local tastes.

Licensing is associated with several disadvantages and opportunity costs.

1. Licensing agreements offer limited market control.
2. The agreement may have a short life if the licensee develops its own know-how and begins to innovate in the licensed product or technology area.

In a worst-case scenario, licensees—especially those working with process technologies—can develop into strong competitors in the local market and, eventually, into industry leaders.

To prevent a licensor-competitor from gaining unilateral benefit, licensing agreements should provide for a cross-technology exchange between all parties. Overall, the licensing strategy must be designed to ensure ongoing competitive advantage for the licensor.

SPECIAL LICENSING ARRANGEMENTS

Companies that use **contract manufacturing** provide technical specifications to a subcontractor or local manufacturer. The subcontractor then oversees production.

Such arrangements offer several advantages.

1. The licensing firm can specialize in product design and marketing, while transferring responsibility for ownership of manufacturing facilities to contractors and subcontractors.
2. The licensing firm has limited commitment of financial and managerial resources.
3. The licensing firm has quick entry into target countries, especially when the target market is too small to justify significant investment.

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

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 policies and practices.

Franchising has great appeal to local entrepreneurs who are anxious to learn and apply Western-style marketing techniques.

The following questions should be asked of would-be franchisers before expanding overseas:

- 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?

The specialty retailing industry favors franchising as a market entry mode. (The Body Shop is an example.)

Franchising is a cornerstone of growth in the fast-food industry; McDonald’s reliance on franchising to expand globally is a case in point.

INVESTMENT

- ✓ **(Learning Objective #2)**

After companies gain experience outside the home country via exporting or licensing, the time often comes when executives desire a more extensive form of participation. In particular, the desire to have partial or full ownership of operations outside the home country can drive the decision to invest.

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.

The final years of the 20th century were a boom time for cross-border mergers and acquisitions. The United States is the number 1 destination for direct investment. Canada is the source of the largest share of the U.S.-bound DFI, followed by the United Kingdom, Ireland, and Switzerland.

Foreign investments may take the form of minority or majority shares in joint ventures, minority or majority equity stakes in another company, or outright acquisition.

Joint Ventures

A joint venture with a local partner represents a more extensive form of participation in foreign markets than either exporting or licensing. A **joint venture is** an entry strategy for a single target country in which the partners share ownership of a newly created business entity.

- By pursuing a joint venture entry strategy, a company can limit its financial risk as well as its exposure to political uncertainty.
- A company can use the joint venture experience to learn about a new market environment.
- Joint ventures allow partners to achieve synergy by combining different value chain strengths.
- A joint venture may be the only way to enter a country or region if government bid award practices routinely favor local companies, if import tariffs are high, or if laws prohibit foreign control but permit joint ventures.

The disadvantages of joint venturing can be significant.

- Joint venture partners must share rewards as well as risks.
- There is the potential for conflict between partners.
- A dynamic joint venture partner can evolve into a stronger competitor.

EMERGING MARKETS BRIEFING BOOK
Auto Industry Joint Ventures in Russia

Russia represents a huge, barely tapped market for a variety of industries. The number of joint ventures being formed there is increasing. In 1997, GM became the first Western automaker to begin assembling vehicles in Russia. To avoid hefty tariffs that pushed the street price of an imported Blazer over $65,000, GM invested in a 25-75 percent joint venture with the government of the autonomous Tatarstan republic.

GM has achieved better results with a joint venture with AVtoVAZ, the largest carmaker in Russia. AVtoVAZ is home to Russia's top technical design center and also has access to low-cost Russian titanium and other materials. GM intended to assemble a stripped-down reengineered car based on its Opel model. However, market research revealed that a "Made in

Russia" car would be acceptable only if it sported a very low sticker price; the same research pointed GM toward an opportunity to put the Chevrolet nameplate on the redesigned domestic model.

Investment via Ownership or Equity Stake

The most extensive form of participation in global markets is investment that results in either an equity stake or full ownership. An **equity** stake is simply an investment. **Full ownership** means that the investor has 100 percent control. This may be achieved by a start-up of new operations, known as **Greenfield investment**, or by merger or acquisition (M&A) of an existing enterprise.

If government restrictions prevent foreign majority or 100 percent ownership, by foreign companies, the investing company will have to settle for a majority or minority equity stake. In China, for example, the government restricts foreign ownership to 51 percent.

An investing company may start with a minority stake and then increase its share.

Large-scale direct expansion by means of establishing new facilities can be expensive and require a major commitment of managerial time and energy. However, political or other environmental factors may dictate this approach (Tables 9 -2, 9-3 and 9-4 provide a sense of how companies in the automotive industry utilize a variety of market entry options).

What is the driving force behind many of these acquisitions? It is globalization and the realization that globalization cannot be undertaken independently.

Several advantages of joint ventures also apply to ownership, including access to markets and avoidance of tariff or quota barriers.

Ownership permits technology transfer and access to manufacturing techniques.

The alternatives discussed here—licensing, joint ventures, minority or majority equity stake, and ownership—are, points along a continuum of strategies for global market entry and expansion.

GLOBAL STRATEGIC PARTNERSHIPS

- ✓ **(Learning Objective #3)**

Recent changes in the political, economic, sociocultural, and technological environments of the global firm have combined to change the relative importance of those strategies. Trade barriers have fallen, markets have globalized, consumer needs and wants have converged, product life cycles have contracted, and new communications technologies and trends have emerged.

Although these developments provide unprecedented market opportunities, there are strong strategic implications for the global organization and new challenges for the global marketer.

Today's competitive environment is characterized by unprecedented degrees of turbulence, dynamism, and unpredictability; global firms must respond and adapt quickly.

THE NATURE OF GLOBAL STRATEGIC PARTNERSHIPS

The terminology used to describe the new forms of cooperation strategies varies widely. The terms **strategic alliances, strategic international alliances**, and **global strategic partnerships** (GSPs) are frequently used to refer to linkages among companies from different countries to jointly pursue a common goal.

The strategic alliances discussed here all share three characteristics (see Figure 9-2):

1. The participants remain independent subsequent to the formation of the alliance.
2. The participants share the benefits of the alliance as well as control over the performance of assigned tasks.
3. The participants make ongoing contributions in technology, products, and other key strategic areas.

The number of strategic alliances has been growing at the rate of 20 to 30 percent since the mid-1980s.

This upward trend for GSPs comes, in part, at the expense of traditional cross-border mergers and acquisitions. A key driving partnership formation has been the realization that globalization and the Internet will require new, inter-corporate configurations (Table 9-5).

There are compelling reasons for pursuing a strategic alliance:

- 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.

Because licensing agreements do not call for continuous transfer of technology or skills among partners, such agreements are not strategic alliances.

Traditional joint ventures are basically alliances focusing on a single national market or a specific problem.

GSPs differ significantly from the market entry modes discussed earlier. A true global strategic partnership is different; it is distinguished by five attributes:

1. *Two or more companies develop a joint long-term strategy aimed at achieving world leadership by pursuing cost-leadership, differentiation, or a combination of the two.*
2. *The relationship is reciprocal. Each partner possesses specific strengths that it shares with the other; learning must take place on both sides.*
3. *The partners' vision and efforts are truly global, extending beyond home countries* and *the home regions to the rest of the world.*

4. *The relationship is organized along horizontal, not vertical, lines. Continual transfer of resources laterally between partners is required, with technology sharing and resource pooling representing norms.*
5. *When competing in markets excluded from the partnership, the participants retain their national and ideological identities.*

SUCCESS FACTORS

Assuming that a proposed alliance has the above five attributes, it is necessary to consider six basic factors deemed to have significant impact on the success of GSPs: mission, strategy, governance, culture, organization, and management.

1. *Mission*. Successful GSPs create win-win situations, where participants pursue objectives on the basis of mutual need or advantage.
2. *Strategy*. A company may establish separate GSPs with different partners; strategy must be thought out up front to avoid conflicts.
3. *Governance*. Discussion and consensus must be the norms. Partners must be viewed as equals.
4. *Culture*. Personal chemistry is important, as is the successful development of a shared set of values.
5. *Organization*. Innovative structures and designs may be needed to offset the complexity of multi-country management.
6. *Management*. GSPs invariably involve a different type of decision making. Potentially divisive issues must be identified in advance and clear, unitary lines of authority established that will result in commitment by all partners.

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

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

Alliances with Asian Competitors

Western companies may find themselves at a disadvantage in GSPs with an Asian competitor; especially if the latter's manufacturing skills are the attractive quality in the partnership. Manufacturing excellence represents a multifaceted competence that is not easily transferred.

To limit transparency, some companies involved in GSPs establish a "collaboration section" – this department is designed to serve as a gatekeeper through which requests for access to people and information must be channeled. Oftentimes, problems between partners had less to do with objective levels of performance than with a feeling of mutual disillusionment and missed opportunity.

The McKinsey study identified four common problem areas in alliances gone wrong. The first problem was that each partner had a "different dream"; the Japanese partner saw itself emerging from the alliance as a leader in its business or entering new sectors and building a new basis for the future; the Western partner sought relatively quick and risk-free financial returns.

A second area of concern is the balance between partners. Each must contribute to the alliance, and each must depend on the other to a degree that justifies participation in the alliance. The most attractive partner in the short run is likely to be a company that is already established and competent in the business.

Another common cause of problems is "frictional loss," caused by differences in management philosophy, expectations, and approaches.

Short-term goals can result in the foreign partner limiting the number of people allocated to the joint venture.

CFM International, GE, and SNECMA: A Success Story

Commercial Fan Moteur (CFM) International, a partnership between GE's jet engine division and Snecma, a government-owned French aerospace company is a frequently cited example of a successful GSP.

Boeing and Japan: A Controversy

In some circles, GSPs have been the target of criticism. Critics warn that employees of a company that becomes reliant on outside suppliers for critical components will lose expertise and experience erosion of their engineering skills. Such criticism is often directed at GSPs involving U.S. and Japanese firms. One team of researchers has developed a framework outlining the stages that a company can go through as it becomes increasingly dependent on partnerships:

Step 1 Outsourcing of assembly for inexpensive labor

Step 2 Outsourcing of low-value components to reduce product price

Step 3 Growing levels of value-added components move abroad

Step 4 Manufacturing skills, designs, and functionally related technologies move abroad

Step 5 Disciplines related to quality, precision manufacturing, testing, and future avenues of product derivatives move abroad

Step 6 Core skills surrounding components, miniaturization, and complex systems integration move abroad

Step 7 Competitor learns the entire spectrum of skills related to the underlying core competence

INTERNATIONAL PARTNERSHIPS IN DEVELOPING COUNTRIES

- ✓ **(Learning Objective #4)**

Central and Eastern Europe, Asia, India, and Mexico offer opportunities to enter gigantic and largely untapped markets. An obvious strategic alternative for entering these markets is the strategic alliance. Potential partners trade market access for expertise.

Assuming that risks can be minimized and problems overcome, joint ventures in the transition economies of Central and Eastern Europe could evolve at a more accelerated pace than past joint ventures with Asian partners.

Russia is an excellent location for an alliance because it has a well-educated workforce, and quality is very important to Russian consumers.

Disadvantages include organized crime, supply shortages, and outdated regulatory and legal systems.

Hungary has the most liberal financial and commercial system in the region. It has also provided investment incentives to Westerners, especially in high-tech industries.

Cooperative Strategies in Asia

- ✓ **(Learning Objective #5)**

Asian cultures exhibit collectivist social values; cooperation and harmony are highly valued in both personal life and the business world. Therefore it is not surprising that some of Asia's biggest companies pursue cooperation strategies.

COOPERATIVE STRATEGIES IN JAPAN: *KEIRETSU*

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 exist in a broad spectrum of markets, including the capital, primary goods, and component parts markets.

Keiretsu relationships 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.

Further, *keiretsu* executives can legally sit on one another'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.

Some observers have disputed charges that *keiretsu* have an impact on market relationships in Japan and claim instead that the groups primarily serve a social function. Others acknowledge the past significance of preferential trading patterns associated with *keiretsu* but assert that the latter's influence is now weakening.

Another type of manufacturing *keiretsu* consists of vertical hierarchical alliances between automakers and suppliers and component manufacturers.

The *keiretsu* system ensured that high-quality parts were delivered on a just-in-time basis, a key factor in the high quality for which Japan's auto industry is renowned.

HOW *KEIRETSU* AFFECT AMERICAN BUSINESS: TWO EXAMPLES

Clyde Prestowitz provides the following example to show how *keiretsu* relationships have a potential impact on U.S. businesses.

In the early 1980s, Nissan was in the market for a supercomputer to use in car design. Two vendors under consideration were Cray, the worldwide leader in supercomputers at the time, and Hitachi, which had no functional product to offer. When it appeared that the purchase of a Cray computer was pending, Hitachi executives called for solidarity; both Nissan and Hitachi were members of the same big six *keiretsu*, the Fuyo group. Hitachi essentially mandated that Nissan show preference to Hitachi, a situation that rankled U.S. trade officials. Meanwhile, a coalition within Nissan was pushing for a Cray computer; ultimately, thanks to U.S. pressure on both Nissan and the Japanese government, the business went to Cray.

COOPERATIVE STRATEGIES IN SOUTH KOREA: *CHAEBOL*

South Korea has its own type of corporate alliance groups, known as *chaebol*.

Like the Japanese *keiretsu*, ***chaebol*** are composed of dozens of companies, centered around a central bank or holding company, and dominated by a founding family.

However, *chaebol* are a more recent phenomenon, dating from the early 1960s.

The *chaebol* were a driving force behind South Korea's economic miracle; GNP increased from $1.9 billion in 1960 to $238 billion in 1990.

TWENTY-FIRST CENTURY COOPERATIVE STRATEGIES

- ✓ **(Learning Objective #6)**

The U.S. government, concerned that key companies in the domestic semiconductor industry were having difficulty competing with Japan, agreed to subsidize a consortium of 14 technology companies beginning in 1987. The task facing the consortium was to save the U.S. chip-making equipment industry, in which manufacturers were rapidly losing market share in the face of intense competition from Japan.

Although initially plagued by attitudinal and cultural differences among the different factions, Sematech eventually helped chip makers try new approaches with their equipment vendors. By 1991, the Sematech initiative, along with other factors such as the economic downturn in Japan, reversed the market share slide of the semiconductor equipment industry.

Sematech's creation heralded a new era in cooperation among technology companies. As the company has expanded internationally, its membership roster has likewise grown to include Advanced Micro Devices, Hewlett-Packard, IBM, Infineon, Intel, Panasonic, Qualcomm, Samsung, and STMicroelectronics. Companies in a variety of industries are pursuing similar types of alliances.

The "relationship enterprise" is another possible stage of evolution of the strategic alliance.

Relationship enterprises are groupings of firms in different industries and countries that are held together by common goals that encourage them to act almost as a single firm.

More than the simple strategic alliances we know today, relationship enterprises will be super-alliances among global giants, with revenues approaching $1 trillion.

With home bases in all major markets, they will enjoy the political advantage of being a "local" firm almost anywhere.

The virtual corporation will seem to be a single entity with vast capabilities but will really be the result of numerous collaborations assembled only when they're needed.

The virtual corporation could combine the twin competencies of cost effectiveness and responsiveness; thus, it could pursue the "think globally, act locally" philosophy with ease.

This approach, with its emphasis on just-in-time alliances, reflects the trend toward "mass customization."

MARKET EXPANSION STRATEGIES

- ✓ **(Learning Objective #7)**

Companies must decide whether to expand by seeking new markets in their existing countries of operation or, alternatively, seeking new country markets for already identified and served market segments.

These two dimensions in combination produce four **market expansion strategy** options, as shown in Table 9-6.

Strategy 1, **country and market concentration**, involves targeting a limited number of customer segments in a few countries. This is typically a starting point for most companies.

In Strategy 2, **country concentration and market diversification**, a company serves many markets in a few countries. This strategy was implemented by many European companies that remained in Europe and sought growth by expanding into new markets. It is also the approach of the American companies that decide to diversify in the U.S. market as opposed to going international with existing products or creating new, global products. According to the U.S. Department of Commerce, the majority of U.S. companies that export limit their sales to five or fewer markets. This means that U.S. companies typically pursue Strategies 1 or 2.

Strategy 3, **country diversification and market concentration**, is the classic global strategy whereby a company seeks out the world market for a product. The appeal of this strategy is that, by serving the world customer, a company can achieve a greater accumulated volume and lower costs than any competitor and therefore have an unassailable competitive advantage. This is the strategy of the well-managed business that serves a distinct need and customer category.

Strategy 4, **country and market diversification**, is the corporate strategy of a global, multi-business company such as Matsushita. Overall, Matsushita is multicountry in scope and its various business units and groups serve multiple segments. Thus, at the level of corporate strategy, Matsushita may be said to be pursuing Strategy 4. At the operating business level, however, managers of individual units must focus on the needs of the world customer in their particular global market. In Table 9-6, this is Strategy 3—country diversification and market concentration. An increasing number of companies all over the world are beginning to see the importance of market share not only in the home or domestic market but also in the world market. Success in overseas markets can boost a company's total volume and lower its cost position.

CASES

Case 9-1: AB InBev and SABMiller: A Match Made in (Beer) Heaven?

Overview: South African Breweries PLC had a problem. The company owned more than 100 breweries in 24 countries. South Africa, where the company had a commanding 98 percent share of the beer market, accounted for about 14 percent of annual revenues (see Exhibit 9-8). However, most of the company's brands, which include Castle Lager, Pilsner Urquell, and Carling Black Label, were sold on a local or regional basis; none had the global status of Heineken, Amstel, or Guinness. Nor were the company's brands well known in the key U.S. market, where a growing number of the "echo boom"—the children of the nation's 75 million baby boomers—were reaching drinking age.

In 2002, a solution presented itself: South African Breweries had an opportunity to buy the Miller Brewing unit from Philip Morris. The $3.6 billion deal created SABMiller, a new company that ranks as the world's number two brewer in terms of production volume; Anheuser-Busch InBev ranks first. Miller operates nine breweries in the United States, where its flagship brand, Miller Lite, had been losing market share for a number of years. The challenge facing

SABMiller is to revitalize the Miller Lite brand in the United States and then launch Miller in Europe as a premium brand.

SABMiller and its competitors are also making strategic investment in China, the world's largest beer market with $6 billion in annual sales.

As Sylvia Mu Yin, an analyst with Euromonitor, noted, "Local brewers are keen to explore strategic alliances with large multinational companies. At the same time, foreign companies are eager to sell to the 1.3 billion Chinese but lack local knowledge."

Meanwhile, some of SABMiller's local brands are being introduced in the United States.

9-5. Why are AB InBev, Heineken, and other global brewers targeting emerging markets such as Vietnam?

> With a population of 90 million people, Vietnam is a nation of beer drinkers and ranks fifth in per capita consumption in the Asia-Pacific region. In 2017, the Vietnamese government moved forward with plans to sell stakes in two key state enterprises.

9-6. Is the brewing industry local or global?

> Student answer will tend to vary, this author believes brewing to be global. The case has stated that: "Local brewers are keen to explore strategic alliances with large multinational companies."

9-7. Why do so many licensing deals, mergers, and acquisitions occur in the brewing industry?

> Student answers will vary but one option is that the mergers, etc. are so that the large companies can claim more market share and also have more ability to engage in cost saving activities.

Case 9-2: Jaguar's Passage to India

Overview: In 2008, Tata Motors paid the Ford Motor Company $2.3 billion for U.K. based automakers Land Rover and Jaguar. Jaguar's new owners face challenges of their own. Some have criticized the acquisition on the grounds that the brands are not compatible with the low-cost cars, trucks, and commercial vehicles that have long been Tata's mainstays.

9-8. Why has JLR prospered under the ownership of Tata Motors?

> Tata Motors invested 500 million British pounds to enlarge the Jaguar factory in Castle Bromwich and a similar amount at a plant in nearby Solihull that produces Land Rovers. Changes made to their lines of vehicles has enhanced the cars' appeals to American buyers. Additionally, in 2015, Jaguar rolled back prices on some of its cars by approximately 10 percent and a more comprehensive warranty.

9-9. In 2016, Jaguar launched the second-generation XF sedan with a V6 engine and a 5-year, 60,000-mile warranty at a base price of $51,600. The new price represented a savings of approximately $5,100 from the previous model year. What is the rationale behind these changes?

> The rationale behind these changes, it was hoped, would enhance the car's appeal to American buyers living in areas were winter snow and ice makes AWD a virtual necessity.

9-10. Jaguar recently launched a new compact luxury crossover, the E-Pace, whose price tops out at nearly $50,000. Observers expect it to be a high-volume, profitable addition to the Jaguar lineup. What are the prospects for its success?

> Although most observers believe that Jaguar is late to the EV market. Tesla is the dominant player in this market. Jaguar's is closely tied to its British heritage, and yet the first generation I-Pace is being assembled in a factory in Austria owned by a Canadian carmaker Magna. The reason is straightforward: Jaguar's U.K. manufacturing operations are currently operating at 100 percent capacity!

9-11. What do you think are the biggest challenges facing the Jaguar and Land Rover brands in the next few years?

> Students answers will vary on this question.

TEACHING TOOLS AND EXERCISES

Additional Cases:

"Samsung Electronic Co.: Global Marketing Operations". John A. Quelch; Anna Harrington: *HBS* 504051.

Videos:

Video on International Marketing Exporting Tactics – The highlights of successfully selling American-made products overseas. March 2011 – 69 minutes long.
Link: http://www.youtube.com/watch?v=zDQ_tI_TZrA

Five minute video of Jerome Couturier talking about international expansion opportunities. He discusses why some companies would want to go global during a recession. October 2009.

Link: http://www.youtube.com/watch?v=6nJ-KEgGmo8&feature=relmfu

LSEF Global MBA Video—11 minutes—Introduction to International Strategy and determining whether a company has what it takes to go global. Standardization vs. Adaptation, Modes of Entry, etc.

Link: http://www.youtube.com/watch?v=vII1HJcCxTk&feature=related

Activities: Students should be preparing or presenting their Cultural-Economic Analysis and Marketing Plan for their country and product as outlined in Chapter 1.

Students will find an example of company that has been / has altered its marketing and investment strategy(s) to compete in the global market. Students will explain why the strategy is being changed.

Out-Of-Class Reading: Bamford, James, David Ernst, and David G. Fubini. "Launching a World-Class Joint Venture," *Harvard Business Review* 82, no. 2 (February 2004) pp. 91-100.

Debate: The Merits of the *Keiretsu.* Divide the class into two teams. Team A: The *keiretsu* violates anti-trust laws because it is anti-competitive. Team B: American companies should increase alliances patterned after the Japanese *keiretsu* because of Japanese success in the auto and electronics industries. Each team has 10 minutes to prepare, 5 minutes to present its arguments, and 5 minutes to refute the opposing team.

SUGGESTED READINGS

Books

Bleeke, Joel, and David Ernst. *Collaborating to Compete*. Somerset, New Jersey: John Wiley & Sons, 1991.

Contractor, Farok, and Peter Lorange. *Cooperative Strategies in International Business*. Cambridge, MA: Ballinger, 1987.

D'Aveni, Richard. *Hypercompetition.* New York: Free Press, 1994.

Doz, Yves L., and Gary Hamel. *Alliance Advantage: The Art of Creating Value Through Partnering.* Cambridge: Harvard Business School Press, 1998.

Doorley, Thomas L. III. *Teaming Up for the '90s: A Guide to International Joint Ventures and Strategic Alliances*. New York: Business One Irwin, 1991.

Harbison, John R. and Peter Pekar. *Smart Alliances: A Practical Guide to Repeatable Success.* San Francisco: Jossey-Bass, 1998.

Miyashita Kenichi, and David Russell. *Keiretsu: Inside the Hidden Japanese Conglomerates*. New York: McGraw-Hill, 1996.

Oster, Sharon. *Modern Competitive Analysis*. New York: Oxford University Press, 1990.

Prestowitz, Clyde V. Jr. *Trading Places: How We Are Giving Our Future to Japan and How to Reclaim It*. New York: Basic Books, 1989.

Root, Franklin R. *Entry Strategies for International Markets*. New York: Lexington Books, 1994.

Rugman, Alan. *The End of Globalization.* New York: Amacom, 2001.

Yoshino, Michael Y., and U. Srinivasa Rangan. *Strategic Alliances: An Entrepreneurial Approach to Globalization*. Boston: Harvard Business School Press, 1995.

Articles

Agarwal, Sanjeev. "Socio-Cultural Distance and the Choice of Joint Venture: A Contingency Perspective." *Journal of International Marketing* 2, no. 2 (1994), pp. 63-80.

Beamish, Paul W. "The Characteristics of Joint Ventures in the People's Republic of China." *Journal of International Marketing* 1, no. 2 (1993), pp.29-48.

Chang, Sea-Jin and Philip M. Rosenzweig. "The Choice of Entry Mode in Foreign Direct Investment." *Strategic Management Journal* 22, no. 8 (August 2001), pp. 7447-776,

Fey, Carl F., and Paul W. Beamish. "Strategies for Managing Russian International Joint Venture Conflict." *European Management Journal* 17, no. 1 (February 1999), pp. 99-106.

Kim, W. Chan and Peter Hwang. "Global Strategy and Multinationals' Entry Mode Choice." *Journal of International Business Studies* 23, no. 1 (1992), pp. 29-54.

Lamming, Richard. "Japanese Supply Chain Relationships in Recession." *Long Range Planning* 33, no. 6 (December 2000), pp. 757-778.

Lin, Xiaohua, and Richard Germain. "Sustaining Satisfactory Joint Venture Relationships: The Role of Conflict Resolution Strategy." *Journal of International Business Studies* 29, no. 1 (1998), pp. 179-196.

McDougall, Patricia. "New Venture Strategies: An Empirical Identification of Eight 'Archetypes' of Competitive Strategies for Entry." *Strategic Management Journal* 11, no. 6 (October 1990), pp. 447-467.

Nair, Ajit S., and Edwin R. Stafford. "Strategic alliances in China: Negotiating the Barriers." *Long Range Planning* 31, no. 1 (February 1998), pp. 139-146.

Reuer, Jeffrey. "The Dynamics and Effectiveness of International Joint Ventures." *European Management Journal* 16, no. 2 (April 1998), pp. 160-168.

Sargent, John. "Getting to Know the Neighbors: *Grupos* in Mexico." *Business Horizons* (November-December 2001), pp.16-24.

Shama, Avraham. "Entry Strategies of U.S. firms to the Newly Independent
States, Baltic States, and Eastern European Countries." *California Management Review* 37 (Spring 1995) pp. 90-109.

Steensma, H. Kevin, and Marjorie A. Lyles. "Explaining IJV Survival in a Transitional Economy Through Social Exchange and Knowledge-based Perspectives." *Strategic Management Journal* 21, no. 8 (August 2000), pp. 831-851.

Yavas, Ugur, Dogan Eroglu, and Sevgin Eroglu. "Sources and Management of Conflict: The Case of Saudi-U.S. Joint Ventures." *Journal of International Marketing* 2, no. 3 (1994), pp. 61-82.