Mode of Entry: Market/Country entry - Strategic Alliances and JVs – Mergers & Acquisitions

MMS Sem III 2022-23

Date: 15th Dec 2022

Entry Strategies

1. Exporting
2. Turnkey Projects
3. Licensing
4. Franchising
5. Joint Venture
6. Wholly Owned Subsidiary

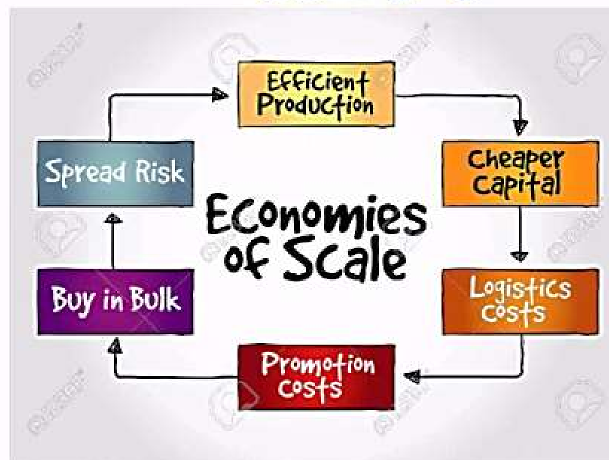
1. Exporting

Exporting refers to the selling and sending of goods or services to another country.

No investments in foreign production facilities are needed

Advantages

1. *Low cost*
2. *High efficiency*
3. *Favorable government policies*



Disadvantages

1. It can be expensive

Not be appropriate if lower-cost locations for manufacturing the product can be found abroad

2. High transportation costs and long lead time

Could take anywhere from weeks to months

3. Tariff barriers can make exporting risky

4. Foreign exchange risks

5. Foreign agents' loyalty concerns

Local agents often carry products from multiple different suppliers in the same industry

2. Turnkey Projects

The contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel.

At completion of the contract, the foreign client is handed the "key" to a plant that is ready for full operation, hence the term "turnkey."

Commonly used in the chemical, pharmaceutical, petroleum-refining, and metal-refining industries.

Advantages

1. More revenue (short-term)

Turnkey project is particularly useful in areas where FDI is limited by host government regulations.

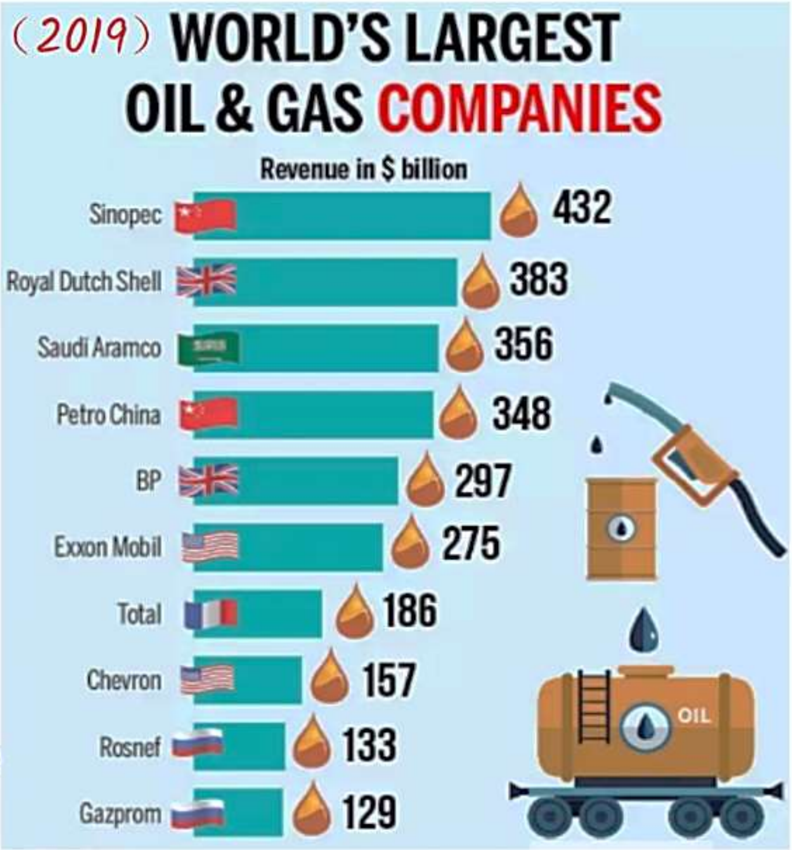
2. Less risk

Disadvantages

1. Possible revenue loss (long-term)

2. Unintended competition

3. The potential loss of a competitive advantage



3. Licensing

An arrangement whereby a licensor grants the rights to intangible property to the licensee for a specified period, and in return, the licensor receives a royalty fee from the licensee.

ck Calvin Klein

Disney

Advantages

1. Income without overhead

2. Potentially better marketing

3. The ability to enter foreign markets more easily

4. The diffusion of conflicts

Disadvantages

1. Risk of IP theft

2. No guarantee of revenue

3. Risk of diminished reputation

4. Potential conflicts

4. Franchising

Franchising is basically a specialized form of licensing in which the franchiser not only sells intellectual property to the franchisee but also insists that the franchisee agree to abide by strict rules regarding how they do business.

Licensing

manufacturing firms

Franchising

service firms

Advantages

1. Low risk

2. Fast expansion

Disadvantages

1. Less capable of supporting competitive attacks in foreign country

2. Quality control

5. Joint Ventures

A joint venture is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task.

Each of the participants is responsible for the profits, losses, and costs associated with it.

50%-50%

Advantages

1. Gaining support from a local partner

2. Sharing risks and costs

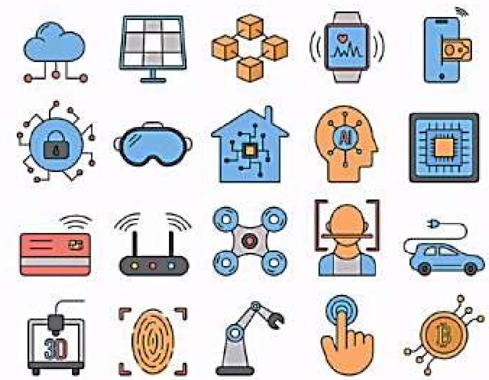
3. Less government interventions

Disadvantages

1. The risk of losing core technology

Option A: hold majority ownership in the venture

Option B: "wall off" a partner's technology that's central to the core competence of the firm



2. Not having total control

Does not give a firm the tight control over subsidiaries

3. A possible clash between partners

As a foreign partner's knowledge about local market conditions rises, it depends less on the expertise of a local partner.

It could ultimately leads to conflicts over control of the venture's strategy and goals.

6. Wholly Owned Subsidiary

Option1: Set up a new operation in a foreign country

A greenfield venture

Option2: Acquire an established firm in the host nation

Acquisition

Advantages

1. Less risk of losing core technology
2. Tight control
3. Attaining an economy of scale

Disadvantages

1. Huge sunk costs and big risks
2. A lack of local support

Acquisition

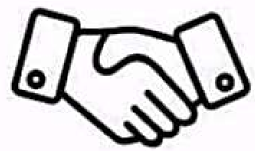
An acquisition is defined as a corporate transaction in which one company purchases either a portion or all of another company's shares or assets.

Advantages

1. Quick to execute

2. Allow a firm to preempt competitors

3. Less risky than greenfield ventures



Major reasons to fail

1. Firms may overpay for the acquisition

2. There may be a cultural clash

3. Challenges are often underestimated

Greenfield Ventures

A greenfield venture refers to when a company creates a subsidiary in a different country, building its operations from the ground up.

In addition to the construction of new production facilities, these projects can sometimes include the building of new distribution hubs, offices, and living quarters.

Advantages

1. *It gives the firm a much greater ability to build the kind of subsidiary company that it wants.*

2. *It is simpler to establish a set of operating routines in a new subsidiary than it is to convert the operating routines of an acquired unit.*

2007 Mercedes-Benz

Mexico

2015

China

2018

Disadvantages

1. It comes at a high cost and requires a long-term commitment

2. It is more vulnerable to political risk

Acquisition	vs	Greenfield Venture
When the firm is seeking to enter a market where there are already well-established incumbent enterprises, and where global competitors are also interested in establishing a presence.		When the firm is considering entering a country where there are no incumbent competitors to be acquired. When the competitive advantage of the firm is based on the transfer of organizationally embedded competencies, skills, routines, and culture.

Summary

1. Exporting
2. Turnkey projects
3. Licensing
4. Franchising
5. Joint Ventures
6. Wholly Owned Subsidiaries

* Acquisition
* Greenfield venture

Two key questions:

1. How much of our resources such as money, time, and personnel are we willing to commit?

2. How much control do we wish to retain?

Partnerships in emerging markets can be used for social good as well. For example, pharmaceutical company Novartis crafted multiple partnerships with suppliers and manufacturers to develop, test, and produce anti-malaria medicine on a nonprofit basis. The partners included several Chinese suppliers and manufacturing partners as well as a farm in Kenya that grows the medication's key raw ingredient. To date, the partnership, called the Novartis Malaria Initiative, has saved an estimated 750,000 lives through the delivery of 300 million doses of the medication.

When Walmart enters a new market, it seeks to source produce for its food sections from local farms that are near its warehouses. Walmart has learned that the savings it gets from lower transportation costs and the benefit of being able to restock in smaller quantities more than offset the lower prices it was getting from industrial farms located farther away. This practice is also a win-win for locals, who have the opportunity to sell to Walmart, which can increase their profits and let them grow and hire more people and pay better wages. This, in turn, helps all the businesses in the local community

Mode of Entry: Strategic Alliances – JVs

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STRATEGIC ALLIANCE

Strategic Alliance (SA) is an agreement between two entities to pool their resources for achieving a common business goal.

TYPES

- Horizontal Strategic Alliance
- Vertical Strategic Alliance

WAYS TO ENTER IN SA

- Joint Venture
- Equity Participation
- Non Equity

REASONS FOR STRATEGIC ALLIANCE

- Gaining an access to a restricted market (China)
- Gaining a foothold in new marker
- Increase the speed of development of new products
- Maintain leadership position
- Leverage upon the befits like economies of scale, lower cost
- De-risking the R&D efforts
- Gain market power (especially pricing power)
- Gain access to know-how
- Pool resources to fund large capital intensive projects
- Gaining competitive advantage against competitors

JOINT VENTURE

JOINT VENTURE (JV) is an agreement between two or more parties to combine their resources in achieving the common business goal.

BENEFITS

- Access to Key Technical Know How
- Access to Local Distribution Channel
- Access to other person's local resources
- The liability gets limited
- Reduction in risk

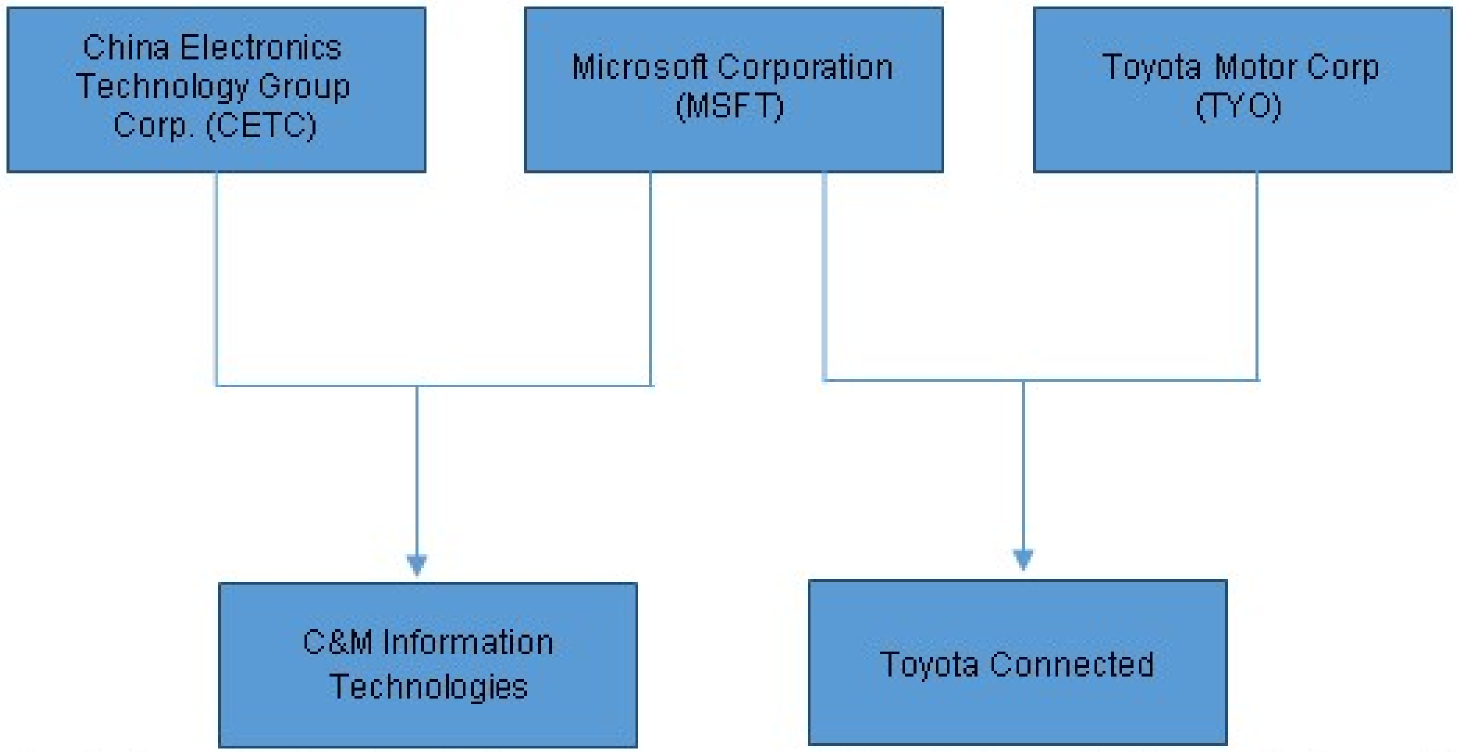
TYPES

- Private Companies gaining access to resources
- Public Private Partnership

KEY SUCCESS FACTORS FOR JV

- Definite Purpose
- Strong Shareholders
- Risk, Responsibilities and Repercussions
- Management
- Business Plans and Performance Review Schedule
- Exit and Termination Clause

Microsoft's Joint Ventures



JV for deployment of customized version Windows 10 in Chinese government organization.
CETC is a state owned company having access to huge customer base in china.
Microsoft benefits from the venture as it instantaneously gets access to customer base and faster deployment of its software.

JV for development of connected cars. The cars manufactured by Toyota would use Cloud services of Microsoft (Azure).
Microsoft owns the Azure cloud computing platform, while Toyota is manufacturer of automobiles. Both having separate core competencies combining their forces to create new product.

#1. Meaning

Joint Venture	Strategic Alliance
Joint venture is a form of business organization, set up by two or more business organization for the purpose of carrying out particular task or business activity.	Strategic alliance implies an agreement between two or more entities to work jointly with one another to increase the performance of both the parties.

#2. Independent Organization

Joint Venture	Strategic Alliance
The independent entities which come together in a joint venture. Do not operate as independent companies.	The two more company come together in strategic alliance, continue to operate as separate and independent companies.

#3. Contract

Joint Venture	Strategic Alliance
In joint venture there is need of a contract so contract exists in joint venture.	In strategic alliance there may or may not be a contract.

#4. From of

Joint Venture	Strategic Alliance
Strategic alliance.	Collaboration or corporate partnering.

#5. Separate Legal Entity

Joint Venture	Strategic Alliance
Joint venture is an separate legal entity.	Strategic alliance is not a separate legal entity.

#6. Objective

Joint Venture	Strategic Alliance
In joint venture is risk is limited.	In strategic alliance the reward is maximize.

[redacted]

#9. Part

Joint Venture	Strategic Alliance
Joint venture is a complicate part of strategic alliance.	Strategic alliance is an itself alliance of two different business.

#10. Duration

Joint Venture	Strategic Alliance
Joint venture duration is of short term only may be 1 year to 5 year.	Strategic alliance duration can be long term or short term depends upon the need of time.

#11. Risk

Joint Venture

In joint venture there is and limited risk to parties involve in the agreement.

Strategic Alliance

In strategic alliance there are chances for higher risk due to the trust relationship between two parties, because there is may or may not be contract.

Mode of Entry: Mergers & Acquisitions

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Corporate Re-Organisation

Integration of Existing Companies

Disintegration/
Restructuring of Existing Co. with or without a **Split-up of Balance sheet**

Through Transfer of shares/Assets
Merger
Amalgamation

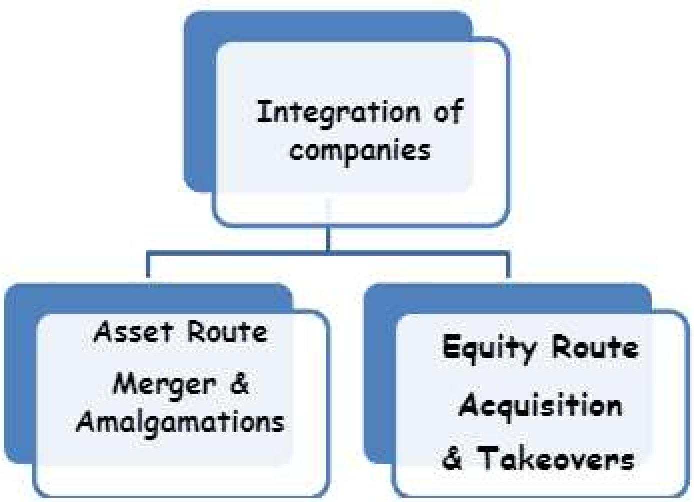
Through transfer of equity/cash/Assets
Acquisition
Takeover

Corporate reorganizations

- Integration of two or more B/S – Mergers & Amalgamation

- Change in the shareholding pattern of a Co. resulting in change in control or ownership- Acquisitions/Takeovers

- Split up of existing company`s balance sheet through asset sale, Subsidiarization or other methods –transfer of equity, Transfer of assets (Disintegration/disinvestment/demerger)



Merger?

- One company blending with other
- One company getting absorbed by another
- Joining together two or more companies

Amalgamation?

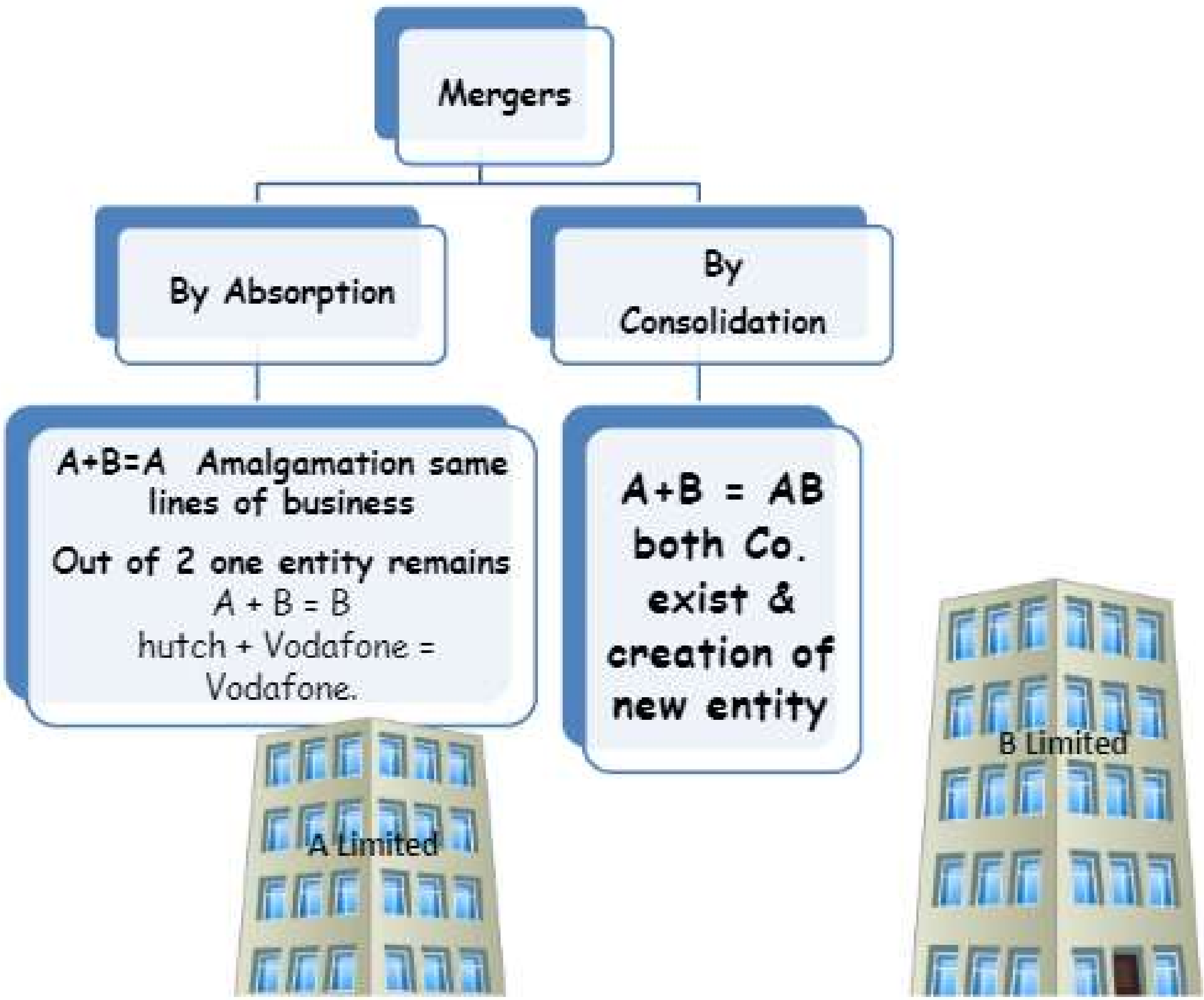
- Two or more companies combining together
- Blending of two or more existing undertakings into one undertakings

Merger

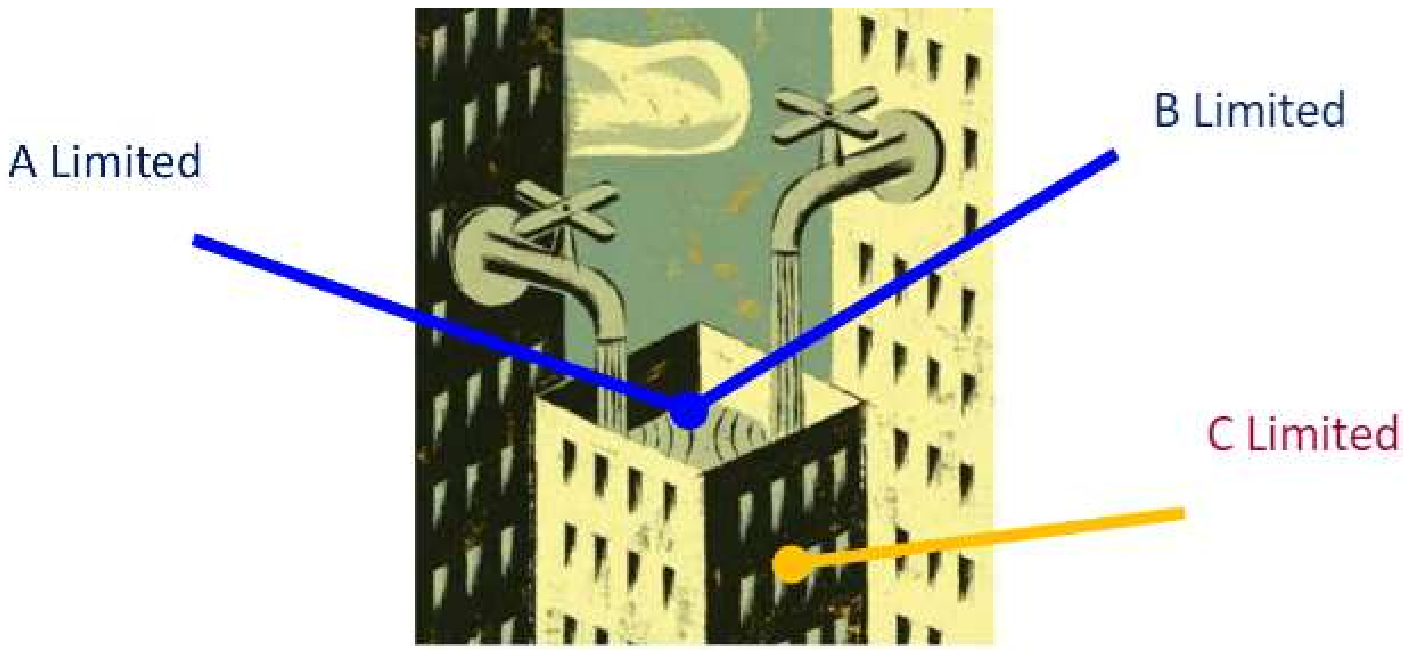
"It involves combination of all the assets, liabilities, loans, and businesses (on a going concern basis) of two (or more) companies such that one of them survives."

Merger is primarily a strategy of inorganic growth.

Example: India's largest private sector corporate entity Reliance Industries Limited (RIL) is indeed a result of many mega mergers Demergers of group companies into RIL.


Mergers
By Absorption
By Consolidation
A+B=A Amalgamation same lines of business
Out of 2 one entity remains
A + B = B
hutch + Vodafone = Vodafone.
A+B = AB both Co. exist & creation of new entity
A Limited
B Limited

Consolidation

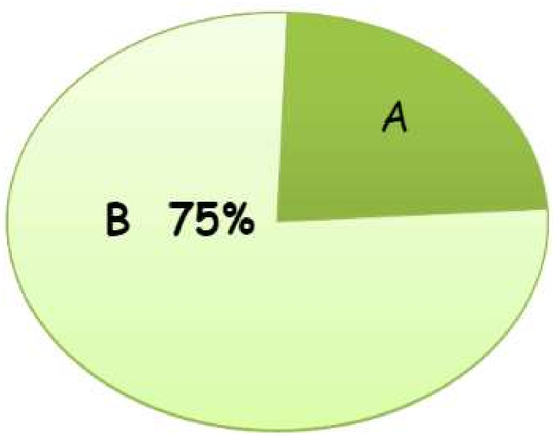


- ✓ *It involves creation of an altogether new company owning assets, liabilities, loans and businesses (on going concern basis) of two or more companies, both/all of which cease to exist.*

ACQUISITION

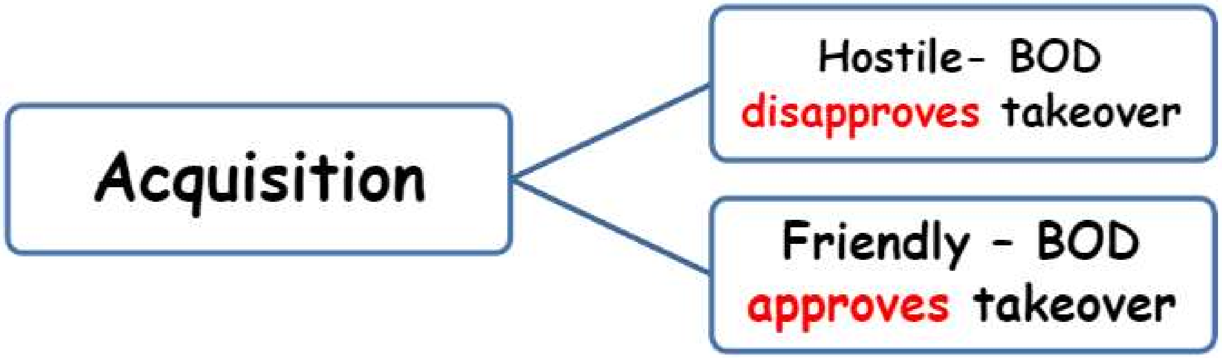
Acquisition essentially means ‘to acquire’ or ‘to takeover’. Here a bigger company will take over the shares and assets of the smaller company. Both the Companies A & B exists – No new company is formed

Control can be from 50% -100%



ACQUISITION

- A transaction where one firms buys another firm with the intent of more effectively using a core competence by making the acquired firm a subsidiary within its portfolio of business
- It also known as a takeover or a buyout
- It is the buying of one company by another.
- Example: Company A+ Company B= Company A.



(BOD – Board Of Directors)

ACQUISITION

Ways to acquire a control over a company (a target company):

- By acquiring ,i.e. purchasing a substantial percentage of the voting capital of the target company.
- By acquiring voting rights of the target company through power of attorney or through a proxy voting arrangement.
- By acquiring control over an investment or holding company, whether listed or unlisted, that in turn holds controlling interest in the target company.
- By simply acquiring management control through a formal or informal understanding or agreement with the existing person (s) in control of the target company.

Integration of Companies

Amalgamation

(through merger or purchase)

- Integration – asset route
- Merger is the absorption of one company into another- absorption co. is dissolved
- Amalgamation can be either – through a merger or through a purchase of business undertaking of the transferor co.
- Involves transfer of A&L (Assets & Liabilities) – Transferor to Transferee
- Consideration is settled through stock swap
- Merger needs valuation of both the co. on a going concern basis to fix a swap ratio

Acquisition /Takeover

- Process of integration of the shareholder level through the transfer of shares (ER)
- Transfer of A&L
- Not only controlling interest – strategic reasons
- Compliance with the take over code of SEBI-mandatory-if acquisition of listed co.
- No judicial process involved
- Takeover –term used to denote – hostile acquisition-aiming to get management control

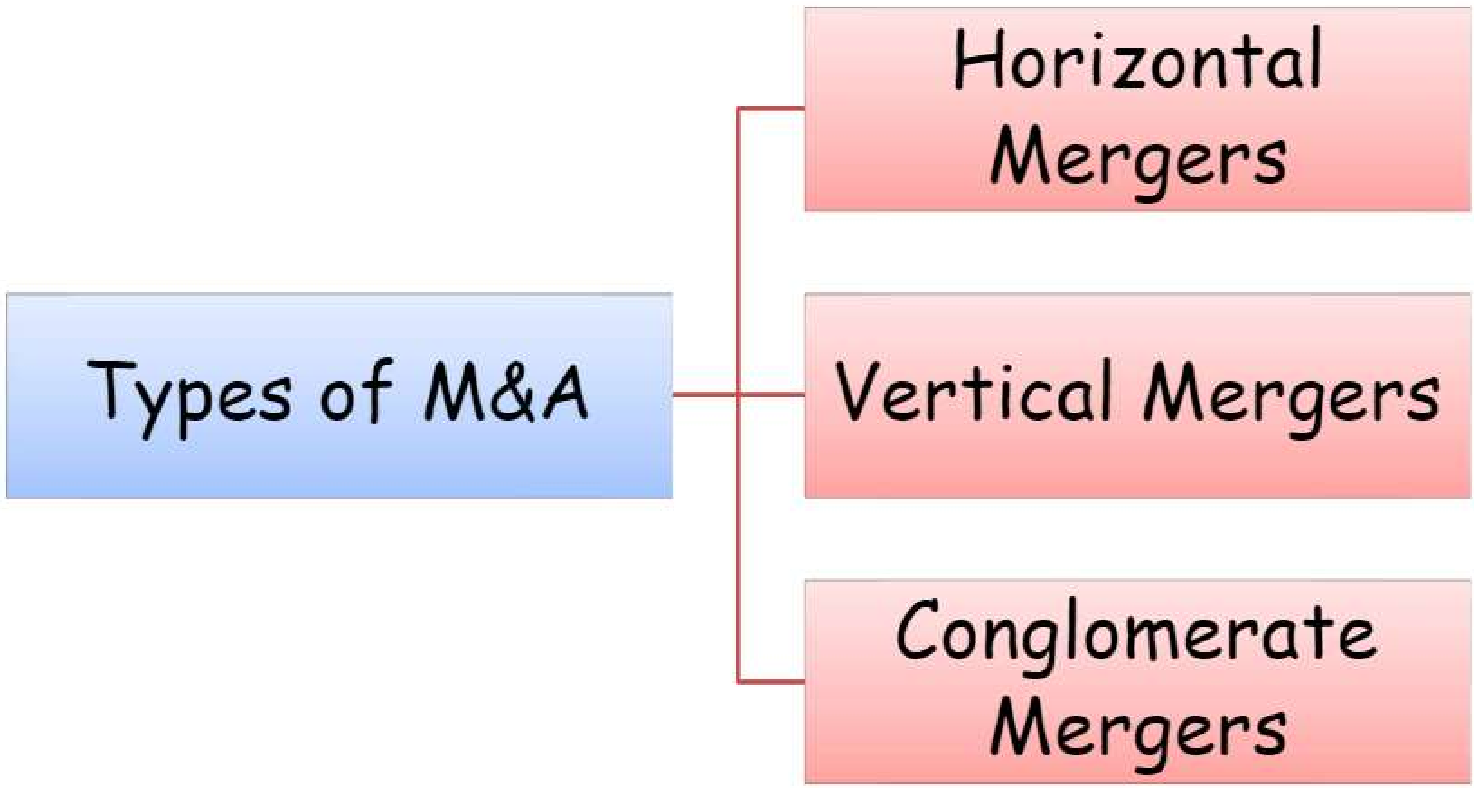
Difference between Merger & Acquisition

Merger

i. Merging of two organization in to one.
ii. It is the mutual decision.
iii. Through merger shareholders can increase their net worth.
iv. It is time consuming and the company has to maintain so much legal issues.
v. Dilution of ownership occurs in merger.

Acquisition

i. Buying one organization by another
ii. It can be friendly takeover or hostile takeover.
iii. Buyers cannot raise their enough capital.
iv. It is faster and easier transaction.
v. The acquirer does not experience the dilution of ownership



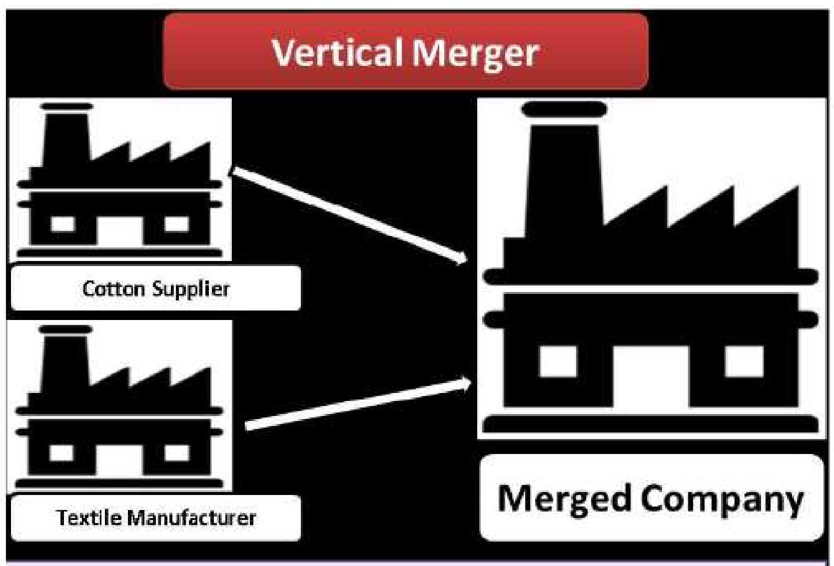
Horizontal Mergers: It refers to two firms operating in same industry or producing ideal products combining together.

Vertical M&A

- Happens between companies engaged in different segments of product value chain so as to integrate the entire value chain
- Forward integration & Backward integration

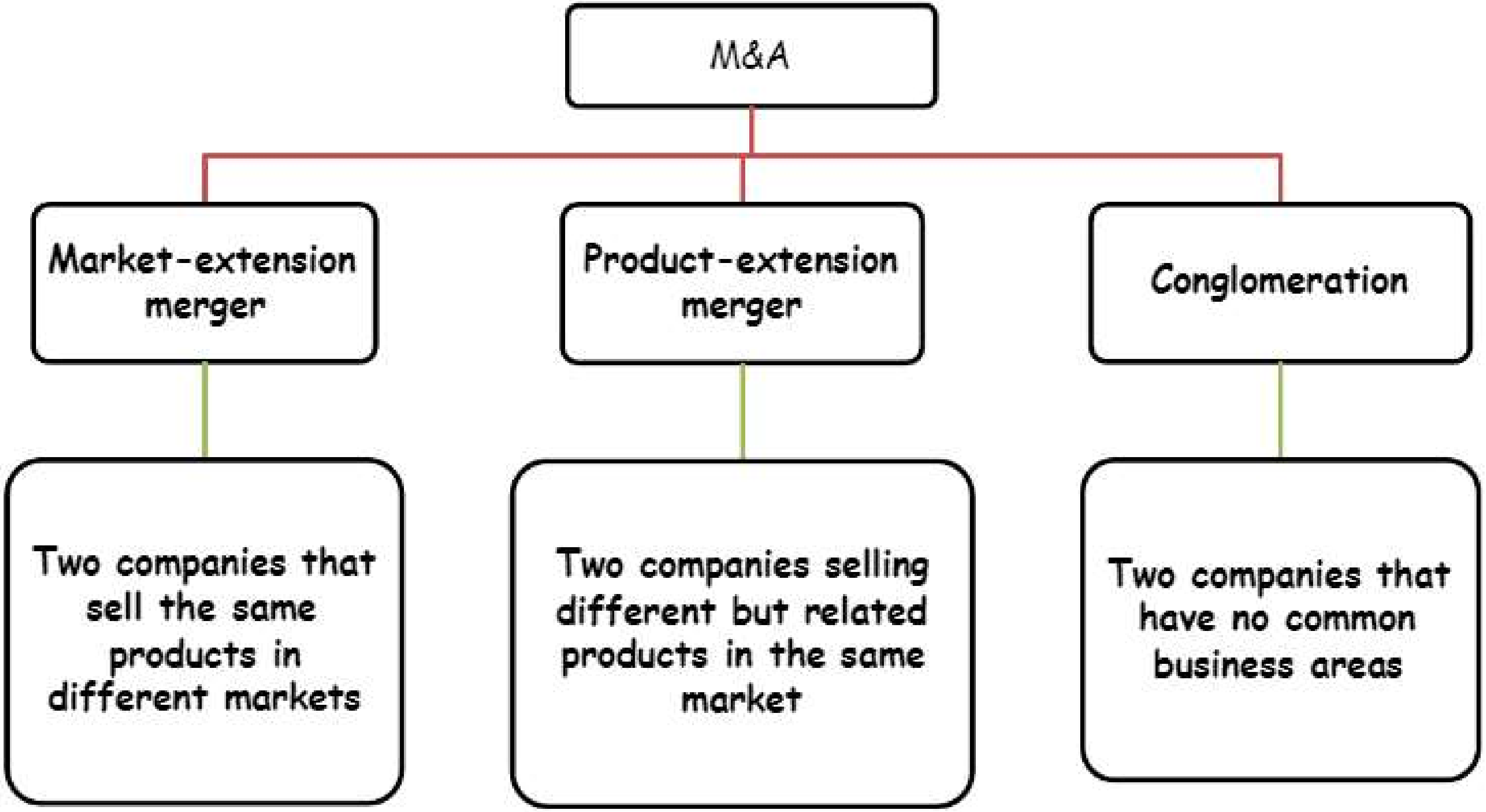
a FMCG company acquiring an advertising company or a retailing outlet etc.

A car manufacturer may acquire tyre and electrical-component factories (backward integration) or buys a showrooms to sell its vehicle models or provide after-sales service (forward integration)



Conglomerate M&A

- Between companies – diversified industries-gain synergies – utilization of excess cash, large customer base, economies of scale etc.
- Intention of diversifying and de-risking the expansion and growth of corporate empire
- Refers to the combination of two firms operating in industries unrelated to each other. In this case, the business of the target company is entirely different from those of the acquiring company.
- For e.g., a watch manufacturer acquiring a cement manufacturer, a steel manufacturer acquiring a software company etc.
- The main objective of a conglomerate merger is to achieve big size.


M&A
Market-extension merger
Product-extension merger
Conglomeration
Two companies that sell the same products in different markets
Two companies selling different but related products in the same market
Two companies that have no common business areas

Rationale for M&A

- To grow at a rate faster than an organic growth rate
- To enter a new market or grow beyond a saturated market-could be an entry strategy Eg: acquisition of Tetley in UK by Tata Ta Ltd, common amongst FMCG- Coca Cola`s acquisition of Parle`s soft drinks business, Modern Foods by HUL, Kwality Ice Cream by HLL (became Kwality walls) etc
- To capture forward and backward linkages in the value chain-vertical mergers- (HUL group – Brook bond, Ponds, Lipton etc.,)
- To attain control on a larger fund/manufacturing base-Horizontal mergers- industry goes through consolidation –Cement industries, telecom, banks, pharma, etc.,
- Achieving synergies for operations – pharma sector (Novartis, GlaxoSKB), finanace Sector – (HDFC- HDFC Bank)
- Bail out – co. in trouble, seeks financial strength

Laws governing M&A

- The Companies Act , 1956 : U/s 390 to 395 deals with arrangements, amalgamations, mergers and the procedure to be followed
- The Competition Commission Act ,2002, deals with “Combinations” which defines combination by reference to assets and turnover - adverse effect on competition
- Foreign Exchange Management Act,1999 - Transfer or Issue of Securities by an entity residing out of India- Regulation & recording in its books etc.
- SEBI Take over Code 1994- 2011- Regulations permit consolidation of shares or voting rights beyond 15% up to 55%, provided the acquirer does not acquire more than 5% of shares or voting rights of the target company in any financial year. However, acquisition of shares or voting rights beyond 26% would apparently attract the notification procedure under the Act
- The Indian Income Tax Act (ITA), 1961: encourage – special treatment
- Stamp duty: Levied on movable & immovable properties etc.,

"The best partnerships aren't dependent on a mere common goal but on a shared path of equality, desire, and no small amount of passion"

thank you!