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

Chapter 9

Global Marketing

What is the Right Market Entry Strategy?

- It depends on:
  - Vision
  - Attitude toward risk
  - How much investment capital is available
  - How much control is desired

Market Entry Strategies

Licensing

Investment

Strategic Alliances

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 of Licensing

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

Disadvantages of 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

Investment

- Partial or full ownership of operations outside of home country
  - *Foreign Direct Investment*
- Forms
  - Joint ventures
  - Minority or majority equity stakes
  - Outright acquisition

Joint Ventures

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

Joint Ventures

- 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 than a licensing agreement
  - Must share rewards as well as risks
  - Requires strong coordination
  - Potential for conflict among partners
  - Partner may become a competitor

Ownership or Equity Stake

- Start-up of new operations
  - *Greenfield operations* or
  - *Greenfield investment*
- Merger with an existing enterprise
- Acquisition of an existing enterprise

Advantages of Ownership

- Access to markets
- Avoidance of tariffs or quota barriers
- Technology experience transfers
- Access to new manufacturing techniques

Global Strategic Partnerships

- Possible terms:
  - Collaborative agreements
  - Strategic alliances
  - Strategic international alliances
  - Global strategic partnerships

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

Disadvantages of GSPs

- Must share control over assigned tasks
- Risk of strengthening a competitor
- Conflict between participants

Advantages of GSPs

- Enables firms to share high costs for a project
- Accommodates a lack of skills, resources within a company by forming an alliance with company with those resources
- Provides access to national and regional markets
- Provides learning opportunities

Attributes of Global 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 for GSPs

Mission

Strategy

Governance

Culture

Organization

Management

Principles to Follow

- While partners in some areas, partners are still competitors in other areas
- Harmony is not the most important measure of success
- Everyone must understand where cooperation ends and competitive compromise begins
- Learning from each other is critically important

Figure 9-2: Evolution and Interaction of Entry Strategies

Less Complex

	Scale	Operational	Scope
Export-based	X		
Affiliate-based	X	X	
Network-based	X	X	X

More complex

International Cooperative Strategies

- Japan
- Korea
- United States

Cooperative Strategies in Japan: Keiretsu

- Interbusiness 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 nonfinancial suppliers
- Keiretsu executives can legally sit on each other's boards, share information, and coordinate prices

Cooperative Strategies in Korea: Chaebol

- Composed of dozens of companies, centered around a bank or holding company, and dominated by a founding family
  - Samsung
  - LG
  - Hyundai
  - Daewoo

Cooperative Strategies in US: Digital Keiretsu

- Alliances between companies in several industries that are undergoing transformation and convergence
  - Computers
  - Communications
  - Consumer electronics
  - Entertainment

Relationship Enterprise

- Next stage of evolution of the strategic alliance
  - *Super-alliance*
  - *Virtual corporation*

Table 9-9: Market Expansion Strategies

		MARKET	
		Concentration	Diversification
C O U N T R Y	Concentration	1. Narrow Focus	2. Country Focus
	Diversification	3. Country Diversification	4 . Global Diversification