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

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.

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

South African Breweries (SAB) PLC had a problem. The company owned more than 100 breweries in 24 countries. South Africa, where SAB had a commanding 98 percent share of the beer market, accounted for approximately 14 percent of annual revenues. However, most of its 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, say, 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 the early 2000s, then-CEO Graham Mackay embarked on a buying spree; over the course of 14 years, Mackay negotiated dozens of merger, acquisition, and joint-venture deals. Before long, SABMiller had operations in nearly 80 countries. For example, Mackay bought Philip Morris's Miller Brewing unit. The $3.6 billion deal created SABMiller, the world's number 2 brewer in terms of production volume; Anheuser-Busch InBev ranked first. Miller operates nine breweries in the United States, where

Exhibit 9-1 Two decades ago, South African Breweries was a local company that dominated its domestic market. Using joint ventures and acquisitions, the company expanded into the rest of Africa as well as key emerging markets such as China, India, and Central Europe. Today, SABMiller is a global brewer whose portfolio still includes local brands. For example, Kilimanjaro is popular in Tanzania, where the competition includes brands from Diageo-owned East African Breweries such as Tusker and Serengeti. SABMiller's merger with Anheuser-Busch InBev created the world's largest brewer.

Source: Fabian von Poser/imageBROKER/Alamy Stock Photo.

its flagship brand, Miller Lite, has struggled to maintain market share. Among the challenges facing SABMiller was to revitalize the Miller Lite brand in the United States and then to launch Miller in Europe as a premium brand.

SABMiller's relentless pursuit of global market opportunities began under the leadership of CEO Mackay and continues with current CEO Alan Clark (see Exhibit 9-1). The actions of both executives illustrate the fact that most firms face a broad range of strategic options. In the last chapter, we examined exporting and importing as ways to exploit global market opportunities. However, for SABMiller and other brewers, exporting their brands (in the conventional sense) is just one way to "go global." In this chapter, we go beyond exporting to discuss several additional entry mode options that form a continuum. As shown in Figure 9-1, the levels of involvement, risk, and financial reward increase as a company moves from market-entry strategies such as licensing to joint ventures and, ultimately, various forms of investment.

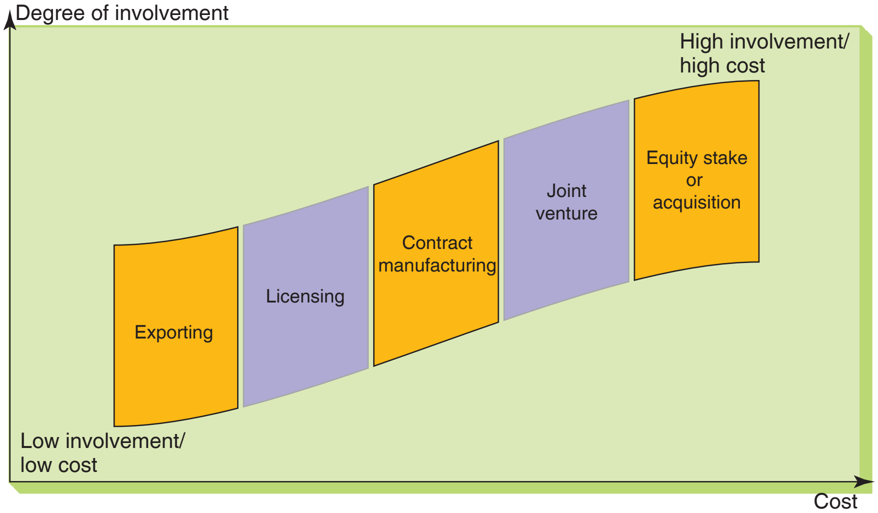


FIGURE 9-1 Investment Cost/Level of Involvement of Market-Entry Strategies

(*Continued*)

When a global company seeks to enter a developing-country market, an additional strategy issue that must be addressed is whether to replicate, without significant adaptation, the strategy that served the company well in developed markets. You will learn more about the strategic options available to the brewing industry in the continuation of Case 9-1 at the end of the chapter.

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 mind-set. This may well mandate an adaptation strategy.[1] 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 that company executives choose will depend on their vision, their attitude toward risk, the availability of investment capital, and the amount of control sought.

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

"That [Presidential Seal] t-shirt was like having a huge international hit record. Everyone knows it. And if we hadn't done it, the bootleggers would have done it for us. A licensing deal gets done and it's all passive income promoting the band."[3]

Marky Ramone, drummer for punk icons The Ramones, on the importance of merchandise licensing deals for recording artists

9-1 Licensing

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.[2] The licensed asset may be a brand name, company name, patent, trade secret, or product formulation. Licensing is widely used in the fashion industry. For example, the namesake companies associated with Giorgio Armani, Hugo Boss, and other global design icons typically generate more revenue from licensing deals for jeans, fragrances, and watches than from their high-priced couture lines. Organizations as diverse as Disney, Caterpillar Inc., the National Basketball Association, and Coca-Cola also make extensive use of licensing. Even though none is an apparel manufacturer, licensing agreements allow them to leverage their brand names and generate substantial revenue streams. As these examples suggest, licensing is a global market-entry and expansion strategy with considerable appeal. It can offer an attractive return on investment for the life of the agreement, 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 are associated with licensing as a market-entry mode. First, 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 discussed in Chapter 8. Second, when appropriate, licensees are granted considerable autonomy and are free to adapt the licensed goods to local tastes.

Disney's success with licensing is a case in point. Disney licenses its trademarked cartoon characters, names, and logos to producers of clothing, toys, and watches for sale throughout the world. This practice allows Disney to create synergies based on its core theme park, motion picture, and television businesses. Its licensees are allowed considerable leeway to adapt colors, materials, or other design elements to local tastes.

According to the international Licensing Industry Merchandisers Association (LIMA), worldwide sales of licensed goods totaled $263 billion in 2016. LIMA also has reported that the United States and Canada account for approximately 60 percent of licensed goods sales.[4] For example, yearly worldwide sales of licensed Caterpillar merchandise now approach $2.1 billion, as consumers make a fashion statement by donning boots, jeans, and handbags bearing the distinctive black-and-yellow Cat label (see Exhibit 9-2). Stephen Palmer was the chief executive of U.K.-based Overland Ltd., which held the worldwide license for Cat-branded apparel in the 2000s. He noted, "Even if people here don't know the brand, they have a feeling that they know it. They have seen Caterpillar tractors from an early age. It's subliminal, and that's why it's working."[5]

Licensing is also associated with several disadvantages and opportunity costs. First, licensing agreements offer limited market control. Because the licensor typically does not become involved in the licensee's marketing program, potential returns from marketing may be lost. The second disadvantage is that 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 (from

Exhibit 9-2 Cat's flagship store in the City Center Mall, Isfahan, Iran. Top-selling merchandise includes footwear and clothing.

Source: Eric Lafforgue/Art in All of Us/Corbis/Getty Images.

the licensor's point of view), licensees—especially those working with process technologies—can develop into strong competitors in the local market and, eventually, into industry leaders. Indeed, licensing, by its very nature, enables a company to "borrow"—that is, leverage and exploit—another company's resources. A case in point is Pilkington, which saw its leadership position in the glass industry erode in the 1990s as Glaverbel, Saint-Gobain, PPG, and other competitors achieved higher levels of production efficiency and lower costs. In 2006, Pilkington was acquired by Japan's Nippon Sheet Glass.[6]

Perhaps the most famous example of the opportunity costs associated with licensing dates back to the mid-1950s, when Sony cofounder Masaru Ibuka obtained a licensing agreement for the transistor from AT&T's Bell Laboratories. Ibuka dreamed of using transistors to make small, battery-powered radios. However, the Bell engineers with whom he spoke insisted that it was impossible to manufacture transistors that could handle the high frequencies required for a radio; they advised him to try making hearing aids instead. Undeterred, Ibuka presented the challenge to his Japanese engineers, who then spent many months improving high-frequency output. Sony was not the first company to unveil a transistor radio; a U.S.-built product, the Regency, featured transistors from Texas Instruments and sported a colorful plastic case. It was Sony's high-quality, distinctive approach to styling and marketing savvy, though, that ultimately translated into worldwide success.

When the licensee applies the lessons learned from the licensor to its own advantage in this way, companies may find that the upfront easy money obtained from licensing turns out to be a very expensive source of revenue. To prevent a licensor-competitor from gaining a unilateral benefit, licensing agreements should provide for a cross-technology exchange among all parties. At the absolute minimum, any company that plans to remain in business must ensure that its license agreements include a provision for full cross-licensing (i.e., the licensee must share its developments with the licensor).

Overall, the licensing strategy must be designed to ensure ongoing competitive advantage for the licensor. For example, license arrangements can create export market opportunities and open the door to low-risk manufacturing relationships. They can also speed diffusion of new products or technologies.

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. First, the licensing firm can specialize in product design and marketing, while transferring responsibility for ownership of manufacturing facilities to contractors and subcontractors. Other advantages include limited commitment of financial and managerial resources and quick entry into target countries, especially when the target market is too small to justify significant investment.[7] One disadvantage is that companies may open themselves to public scrutiny and criticism if workers in contract factories are poorly paid or labor in inhumane circumstances. To circumvent such problems with their public image, Timberland and other companies that source in low-wage countries are using image advertising to communicate their corporate policies on sustainable business practices.

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 franchise-wide policies and practices. For example, South Africa-based Nando's is a casual dining chain specializing in Portuguese-style chicken served with spicy peri-peri sauce (see Exhibit 9-3).

Franchising has great appeal to local entrepreneurs who are anxious to learn and apply Western-style marketing techniques. Franchising consultant William Le Sante suggests that would-be franchisers ask the following questions before expanding overseas:

> **"One of the key things licensees bring to the business is their knowledge of the local marketplace, trends, and consumer preferences. As long as it's within the guidelines and standards, and it's not doing anything to compromise our brand, we're very willing to go along with it."[8]**
>
> Paul Leech, chief operating officer, Allied Domecq Quick Service Restaurants

- 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?[9]

By addressing these issues, franchisers can gain a more realistic understanding of global opportunities. In China, for example, regulations require foreign franchisers to directly own two or more stores for a minimum of 1 year before franchisees can take over the business. Intellectual property protection is also a concern in China; U.S. President Donald Trump has made this issue a key element in trade negotiations with Beijing.

The specialty retailing industry favors franchising as a market-entry mode. The U.K.-based Body Shop has more than 3,200 stores in 66 countries; franchisees operate the majority of them. (In 2017, the Brazil's Natura Cosméticos acquired The Body Shop from L'Oréal.) Franchising is also a cornerstone of global growth in the fast-food industry; McDonald's reliance on franchising to expand globally is a case in point. The fast-food giant has a well-known global brand name and a business system that can be easily replicated in multiple country markets. As a crucial part of its success, McDonald's headquarters has learned the wisdom of leveraging local market knowledge by granting franchisees considerable leeway to tailor restaurant interior designs and menu offerings to suit country-specific preferences and tastes (see Case 1-2). Generally speaking, however, franchising is a market-entry strategy that is typically executed with less localization than is licensing.

When companies do decide to license, they should sign agreements that anticipate more extensive market participation in the future. Insofar as is possible, a company should keep its options and paths open for other forms of market participation. Many of these forms require investment and give the investing company more control than is possible with licensing.

Exhibit 9-3 This Nando's store in London's Soho neighborhood incorporated Pride colors in the brand's logo that features Barci the chicken. The company uses franchising as a global market-entry strategy.
Source: DrimaFilm/Shutterstock.

9-2 Investment

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

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. FDI allows companies to produce, sell, and compete locally in key markets. Examples of FDI abound: Honda built a $550 million assembly plant in Greensburg, Indiana; Hyundai invested $1 billion in a plant in Montgomery, Alabama; IKEA has spent nearly $2 billion to open stores in Russia; and South

Korea's LG Electronics purchased a 58 percent stake in Zenith Electronics (see Exhibit 9-4). Each of these arrangements represents FDI.

The final years of the twentieth century were a boom time for cross-border mergers and acquisitions. The trend continues today: Worldwide FDI totaled $1.9 trillion in 2016. The United States is the number 1 destination for direct investment; acquisitions alone accounted for $366 billion of FDI in 2016. Canada is the source of the largest share of U.S.-bound FDI, followed by the United Kingdom, Ireland, and Switzerland. Investment in emerging and fast-growing regions has also expanded rapidly in the past few decades. For example, as noted in earlier chapters, investment interest in the BRICS (Brazil, Russia, India, China, and South Africa) nations is increasing, especially in the automobile industry and other sectors critical to the countries' economic development.

Exhibit 9-4 Fiskars, based in Finland, is famous for premium-quality cutlery. The company is perhaps best known for its scissors with the iconic orange handles. Fiskars has expanded its brand portfolio via investment; its 2015 acquisition of WWRD included Waterford and Wedgewood.
Source: Fiskars Brand, Inc.

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. A company may also choose to use a combination of these entry strategies by acquiring one company, buying an equity stake in another, and operating a joint venture with a third. For example, in recent years, United Parcel Service (UPS) has made numerous investments and acquisitions that have focused on logistics, trucking, and e-commerce companies.

Joint Ventures

A joint venture with a local partner represents a more extensive form of participation in foreign markets than either exporting or licensing. Strictly speaking, a **joint venture** is an entry strategy for a single target country in which the partners share ownership of a newly created business entity.[10] This strategy is attractive for several reasons. First and foremost is the sharing of risk. By pursuing a joint venture entry strategy, a company can limit its financial risk as well as its exposure to political uncertainty. Second, a company can use the joint-venture experience to learn about a new market environment. If it succeeds in becoming an insider, it may later increase the level of commitment and exposure. Third, joint ventures allow partners to achieve synergy by combining different value-chain strengths. For example, one company might have in-depth knowledge of a local market, an extensive distribution system, or access to low-cost labor or raw materials. Such a company might link up with a foreign partner possessing well-known brands or cutting-edge technology, manufacturing know-how, or advanced process applications. Alternatively, a company that lacks sufficient capital resources might seek partners to jointly finance a project. Finally, 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. The partners in the joint venture must share both rewards and risks. The main disadvantage associated with joint ventures is that a company incurs very significant control and coordination cost issues when working with a partner. (However, in some instances, country-specific restrictions limit the share of capital that can be injected by foreign companies.)

A second disadvantage is the potential for conflict between partners. These disagreements often arise out of cultural differences, as was the case in a failed $130 million joint venture between Corning Glass and Vitro, Mexico's largest industrial manufacturer. The venture's Mexican managers sometimes viewed the Americans as being too direct and aggressive; the Americans believed their partners took too much time to make important decisions.[11] Such conflicts can multiply when the venture is formed among several different partners. Disagreements about third-country markets where partners view each other as actual or potential competitors can lead to "divorce." To avoid this unhappy outcome, it is essential to work out a plan for approaching third-country markets as part of the venture agreement.

A third issue, also noted in the discussion of licensing, is that a dynamic joint-venture partner can evolve into a stronger competitor. Many developing countries are very forthright about their desire to pursue this goal. As Yuan Sutai, a member of China's Ministry of Electronics Industry, told *The Wall Street Journal* more than 20 years ago, "The purpose of any joint venture, or even a wholly-owned investment, is to allow Chinese companies to learn from foreign companies. We want them to bring their technology to the soil of the People's Republic of China."[12] General Motors (GM) and South Korea's Daewoo Group formed a joint venture in 1978 to produce cars for the Korean market. By the mid-1990s, GM had helped Daewoo improve its competitiveness as an auto producer, but Daewoo chairman Kim Woo-Choong terminated the venture because its provisions prevented the export of cars bearing the Daewoo name.[13]

As one global marketing expert warns, "In an alliance you have to learn skills of the partner, rather than just see it as a way to get a product to sell while avoiding a big investment." Yet, compared with U.S. and European firms, Japanese and Korean firms seem to excel in their abilities to leverage new knowledge that comes out of a joint venture. For example, Toyota learned many new things from its partnership with GM—about U.S. supply and transportation and managing American workers—that Toyota subsequently applied at its Camry plant in Kentucky. Conversely, some American managers involved in the venture complained that the manufacturing expertise that Toyota brought to the table was not applied broadly throughout GM.

Investment via Equity Stake or Full Ownership

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. If the investor owns fewer than 50 percent of the shares, it is a minority stake; ownership of more than half the shares makes it a majority. **Full ownership**, as the name implies, means the investor has 100 percent control. This may be achieved by a startup of new operations, known as **greenfield investment**, or by merger or acquisition of an existing enterprise.

In 2016, one of the largest merger and acquisition (M&A) deals was the proposed acquisition of American agricultural giant Monsanto by Germany-based Bayer for $66 billion. In March 2018, the EU gave its approval; the following month, the U.S. Justice Department did the same. Prior to the global financial crisis in the late 2000s, the media and telecommunications industry sectors were among the busiest for M&A worldwide. As illustrated by these and many other deals, ownership requires the greatest commitment of capital and managerial effort and offers the fullest means of participating in a market.

Companies may move from licensing or joint venture strategies to ownership in attempt to achieve faster expansion in a market, greater control, and/or higher profits. A quarter-century ago, Ralston Purina ended a 20-year joint venture with a Japanese company to start its own pet food subsidiary. Home Depot used acquisition to expand in China; in 2006, the home improvement giant acquired the HomeWay chain—only to discover that Chinese consumers did not embrace the big-box, do-it-yourself model. By the end of 2012, Home Depot had closed the last of its big-box stores in China; its two remaining Chinese retail locations are a paint-and-flooring specialty store and an interior design store.

If government restrictions prevent 100 percent ownership by foreign companies, the investing company will have to settle for a majority or minority equity stake. In China, the government usually restricts foreign ownership in joint ventures to a 51 percent majority stake. However, a minority equity stake may suit a company's business interests. For example, Samsung was content to purchase a 40 percent stake in computer maker AST. As Samsung manager Michael Yang noted, "We thought 100 percent would be very risky, because any time you have a switch of ownership, that creates a lot of uncertainty among the employees."[14]

In other instances, the investing company may start with a minority stake and then increase its share. In 1991, Volkswagen AG made its first investment in the Czech auto industry by purchasing a 31 percent share in Skoda. By 1995, Volkswagen had increased its equity stake to 70 percent, with the government of the Czech Republic owning the rest. Volkswagen acquired full ownership in 2000. By 2011, when Skoda celebrated the twentieth anniversary of its relationship with VW, the Czech automaker had evolved from a regional company to a global one, selling more than 750,000 vehicles in 100 countries.[15] Similarly, during the economic downturn of the late 2000s, Italy's Fiat acquired a 20 percent stake in Chrysler when the U.S. automaker was in bankruptcy proceedings. Fiat CEO Sergio Marchionne returned Chrysler to profitability and upped his company's stake first to 53.5 percent and then to 58.5 percent. Finally, in 2013, Fiat was set to acquire the remaining 41.5 percent and complete the full acquisition of Chrysler.[16]

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 sometimes dictate this approach. For example, Japan's Fuji Photo Film Company invested hundreds of millions of dollars in the United States after the U.S. government ruled that Fuji was guilty of dumping (i.e., selling photographic paper at substantially lower prices than in Japan). As an alternative to greenfield investment in new facilities, acquisition is an instantaneous—and sometimes less expensive—approach to market entry or expansion. Although full ownership can yield the additional advantage of avoiding communication and conflict-of-interest problems that may arise with a joint venture or coproduction partner, acquisitions still present the demanding and challenging task of integrating the acquired company into the worldwide organization and coordinating activities.

EMERGING MARKETS BRIEFING BOOK

Auto Industry Joint Ventures in Russia

Russia represents a huge, barely tapped market for a variety of industries, and 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 would have pushed the street price of an imported Blazer to $65,000 or more, GM invested in a 25–75 joint venture with the government of the autonomous Tatarstan republic. That partnership, known as Elaz-GM, assembled Blazer sport-utility vehicles (SUVs) from imported components until the end of 2000. Young Russian professionals were expected to snap up the vehicles as long as the price was less than $30,000. However, after only 15,000 vehicles had been sold, market demand evaporated. At the end of 2001, GM terminated the joint venture. Some other recent joint venture alliances are outlined in Table 9-1.

GM achieved better results with a joint venture with AvtoVAZ, the largest car maker in Russia (see Exhibit 9-5). Founded in 1966 in Togliatti, a city on the Volga River, AvtoVAZ is home to Russia's top technical design center and also has access to low-cost Russian titanium and other materials. In the past, the company was best known for being inefficient and for producing the outdated, boxy Lada, whose origins date back to the Soviet era. GM originally intended to assemble a stripped-down, reengineered car based on its Opel model. But 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 a redesigned domestic model.

Developed with $100 million in funding from GM, the Chevrolet Niva was launched in fall 2002. Within a few years, however, the joint venture was struggling as AvtoVAZ installed a new management team that had the personal approval of then President Vladimir Putin. The Russian government owns 25 percent of AvtoVAZ; in 2008, Renault paid $1 billion for a 25 percent stake. Renault's contribution consisted of technology transfer—specifically, its "B-Zero" auto platform—and production equipment. That same year, Russians bought a record 2.56 million vehicles. When Russian auto sales collapsed as the global economic crisis deepened, however, AvtoVAZ was pushed close to bankruptcy. More than 40,000 workers were laid off, and Moscow was forced to inject $900 million into the company.

In 2009, an American, Jeffrey Glover, was sent from GM's Adam Opel division in Germany to run the Russian joint venture. By 2011, when AvtoVAZ celebrated its 45th anniversary, Russian automobile sales had rebounded. In 2012, annual sales reached pre-crisis levels of 3 million vehicles. Indeed, industry analysts predicted that Russia would surpass Germany as Europe's top auto market by 2014. And the Niva? More than 500,000 have been sold since 2002. As Jim Bovenzi, president of GM Russia explains, "Ten years ago, this was a difficult decision for GM. It was the first time in the 100-year history of the company that we would produce a fully locally designed and produced product, but when we look back now, it was the right decision."

More recent events in Russia have put a damper on GM's outlook. By 2016, the volume of car sales had dropped to half of the 2012 level. As a result, Russia is no longer on track to surpass Germany as Europe's top car market. New car sales in Russia have dropped significantly. The ruble's decline in value and Russia's military incursions in Crimea and Ukraine prompted GM to slash production and cut jobs. Despite the turmoil, GM is maintaining the AvtoVAZ joint venture. And, to cut costs and take advantage of the weak ruble, GM is sourcing more components from local suppliers.

Prior to the crisis, the Russian market for imported premium vehicles was also growing as the number of households that could afford luxury products exhibited rapid growth. Porsche (a division of Volkswagen) and BMW both expanded the number of their dealerships in Russia. Rolls-Royce (owned by BMW) now has two dealerships in Moscow; the only other city in the world with two dealerships is New York City. In addition, Nissan is assembling the Infiniti FX SUV in St. Petersburg. Even so, the weak ruble means that imports are much more expensive than in the past.

By 2017, as the country emerged from recession, there were signs that sales were recovering. AvtoVAZ returned to profitability. Some plants that had been shuttered, including a Mitsubishi Motors plant in Kaluga, were brought back online.

Sources: Henry Foy and Peter Campbell, "Carmakers Gear up for Recovery in Russia," *Financial Times* (September 29, 2017), p. 20; Jason Chow and James Marson, "Renault Tries to Fix Russian Misadventure," *The Wall Street Journal* (April 11, 2016), pp. A1, A10; James Marson, "CEO under Fire at Russian Car Giant," *The Wall Street Journal* (March 5–6, 2016), pp. B1, B4; William Boston and Sarah Sloat, "GM Slices Jobs and Output in Russia," *The Wall Street Journal* (September 14, 2014), p. B6; Anatoly Temkin, "The Land of the Lada Eyes Upscale Rides," *Bloomberg Businessweek* (September 17, 2012), pp. 28–30; Luca I. Alpert, "Russia's Auto Market Shines," *The Wall Street Journal* (August 30, 2012), p. B3; John Reed, "AvtoVAZ Takes Stock of 45 Years of Ladas," *Financial Times* (July 22, 2011), p. 17; David Pearson and Sebastian Moffett, "Renault to Assist AvtoVAZ," *The Wall Street Journal* (November 28, 2009), p. A5; Guy Chazan, "Kremlin Capitalism: Russian Car Maker Comes under Sway of Old Pal of Putin," *The Wall Street Journal* (May 19, 2006), p. A1; Keith Naughton, "How GM Got the Inside Track in China," *BusinessWeek* (November 6, 1995), pp. 56–57; Gregory L. White, "Off Road: How the Chevy Name Landed on SUV Using Russian Technology," *The Wall Street Journal* (February 20, 2001), pp. A1, A8.

Exhibit 9-5 In the past, Russia was known as "the land of the Lada," a reference to a Soviet-era car of dubious distinction. Until recently, Russia was on track to surpass Germany as Europe's largest car market. Despite the current sales slump, GM is standing by its $100 million joint venture bet with AvtoVAZ.

Source: Evg Zhul/Shutterstock.

TABLE 9-1 Market Entry and Expansion by Joint Venture

Companies Involved	Purpose of Joint Venture
GM (USA), Toyota (Japan)	NUMMI, a jointly operated plant in Freemont, California (venture was terminated in 2009).
GM (USA), Shanghai Automotive Industry (China)	A 50–50 joint venture to build an assembly plant to produce 100,000 mid-sized sedans for the Chinese market beginning in 1997 (total investment of $1 billion).
GM (USA), Hindustan Motors (India)	A joint venture to build as many as 20,000 Opel Astras annually (GM's investment was $100 million).
GM (USA), governments of Russia and Tatarstan	A 25–75 joint venture to assemble Blazers from imported parts and, by 1998, to build a full assembly line for 45,000 vehicles (total investment of $250 million).
Ford (USA), Mazda (Japan)	AutoAlliance International 50–50 joint operation of a plant in Flat Rock, Michigan.
Ford (USA), Mahindra & Mahindra Ltd. (India)	A 50–50 joint venture to build Ford Fiestas in the Indian state of Tamil Nadu (total investment of $800 million).
Chrysler (USA), BMW (Germany)	A 50–50 joint venture to build a plant in South America to produce small-displacement, 4-cylinder engines (total investment of $500 million).

Source: Compiled by authors.

Table 9-2, Table 9-3, and Table 9-4 provide a sense of how companies in the automotive industry utilize a variety of market-entry options discussed previously, including equity stakes, investments to establish new operations, and acquisition. Table 9-2 shows that GM historically favored minority stakes in non-U.S. automakers; from 1998 through 2000, the company spent $4.7 billion on such deals, whereas Ford spent twice as much on acquisitions. Despite the fact that GM losses from the deals resulted in substantial write-offs, the strategy reflects management's skepticism about big mergers actually working. As former GM chairman and CEO Rick Wagoner said, "We could have bought 100 percent of somebody, but that probably wouldn't have been a good use of capital." Meanwhile, the company's

TABLE 9-2 Investment in Equity Stake

Investing Company (Home Country)	Investment (Share, Amount, Date)
Fiat (Italy)	Chrysler (United States, initial 20% stake, 2009; Fiat took Chrysler out of bankruptcy)
General Motors (USA)	Fuji Heavy Industries (Japan, 20% stake, $1.4 billion, 1999); Saab Automobiles AB (Sweden, 50% stake, $500 million, 1990; remaining 50%, 2000; following bankruptcy filing, sold Saab to Swedish consortium in 2009)
Volkswagen AG (Germany)	Skoda (Czech Republic, 31% stake, $6 billion, 1991; increased to 50.5%, 1994; currently owns 70% stake)
Ford (USA)	Mazda Motor Corp. (Japan, 25% stake, 1979; increased to 33.4%, $408 million, 1996; decreased stake to 13%, 2008; reduced to 3.5%, 2010)
Renault SA (France)	AvtoVAZ (Russia, 25% stake, $1.3 billion, 2008); Nissan Motors (Japan, 35% stake, $5 billion, 2000)

TABLE 9-3 Investment to Establish New Operations

Investing Company (Headquarters Country)	Investment (Location, Date)
Honda Motor (Japan)	$550 million auto-assembly plant (Indiana, United States, 2006)
Hyundai (South Korea)	$1.1 billion auto-assembly and manufacturing facility producing Sonata and Santa Fe models (Georgia, United States, 2005)
Bayerische Motoren Werke AG (Germany)	$400 million auto-assembly plant (South Carolina, United States, 1995)
Mercedes-Benz AG (Germany)	$300 million auto-assembly plant (Alabama, United States, 1993)
Toyota (Japan)	$3.4 billion manufacturing plant producing Camry, Avalon, and minivan models (Kentucky, United States); $400 million engine plant (West Virginia, United States)

TABLE 9-4 Market Entry and Expansion by Acquisition

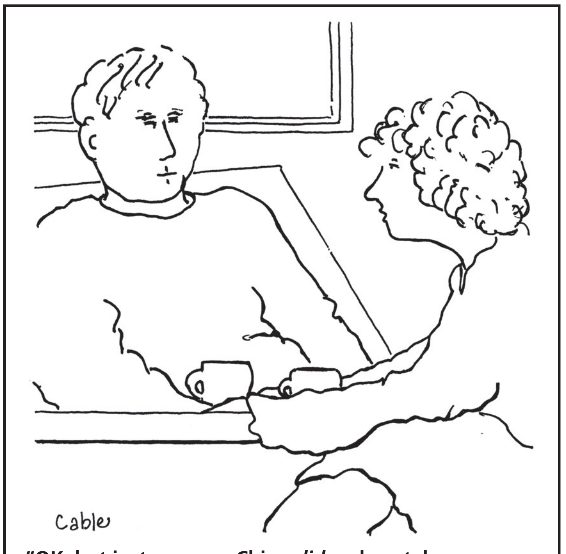
Acquiring Company	Target (Country, Amount, Date)
Anheuser-Busch InBev (Belgium)	SABMiller (United Kingdom; $101 billion; 2016)
Tata Motors (India)	Jaguar Land Rover (United Kingdom, $2.3 billion, 2008)
Volkswagen AG (Germany)	Sociedad Española de Automóviles de Turismo (SEAT, Spain, $600 million, purchase completed in 1990)
Zhejiang Geely (China)	Volvo car unit (Sweden, $1.3 billion, 2010)

investments in minority stakes have paid off: The company enjoys scale-related savings in purchasing, it has gained access to diesel technology, and Saab produced a new model in record time with the help of Subaru.[17] Following its bankruptcy filing in 2009, GM divested itself of several noncore businesses and brands, including Saab. By the early 2010s, Saab Automobile itself had gone out of business.

What is the driving force behind many of these acquisitions? Globalization. In companies like Anheuser-Busch management realizes that the path to globalization cannot be undertaken independently. Two decades ago, management at Helene Curtis Industries came to a similar realization and agreed to be acquired by Unilever. Ronald J. Gidwitz, president and CEO, said, "It was very clear to us that Helene Curtis did not have the capacity to project itself in emerging markets around the world. As markets get larger, that forces the smaller players to take action."[18] Still, management's decision to invest abroad sometimes clashes with investors' short-term profitability goals—or with the wishes of members of the target organization (see Exhibit 9-6).

Several of the advantages of joint ventures also apply to ownership, including access to markets and avoidance of tariff and quota barriers. Like joint ventures, ownership permits important technology experience transfers and provides a company with access to new manufacturing techniques and intellectual property.

The alternatives discussed here—licensing, joint ventures, minority or majority equity stake, and ownership—are all points along a continuum of alternative strategies for global market entry and expansion. The overall design of a company's global strategy may call for combinations of exporting–importing, licensing, joint ventures, and ownership among different operating units. As an example, Avon Products uses both acquisition and joint ventures to enter developing markets. A company's strategy preference may also change over time. For example, Borden Inc. ended licensing and joint venture arrangements for branded food products in Japan and set up its own production, distribution, and marketing capabilities for dairy products. Meanwhile, in nonfood products, Borden has maintained joint-venture relationships with Japanese partners in flexible packaging and foundry materials.



"OK, but just suppose China *did* make a takeover move on our B-school."

Exhibit 9-6 As we have seen in previous chapters, China's growing economic clout has contributed to increased anti-globalization sentiment in various parts of the world. China offsets its huge trade surplus with the United States by investing in American securities and companies. As this cartoon implies, business schools may be next!

Source: Cartoon Features Syndicate.

Competitors within a given industry may pursue different strategies. Cummins Engine and Caterpillar both face very high costs—in the $300 to $400 million range—for developing new diesel engines suited to new applications, but the two companies vary in their strategic approaches to the world market for engines.

Cummins management looks favorably on collaboration; also, the company's relatively modest $6 billion in annual revenues presents financial limitations to engaging in acquisitions and some other approaches. Thus, Cummins prefers joint ventures. One of the biggest joint ventures between an American company and a Russian company linked Cummins with the KamAZ truck company in Tatarstan. The joint venture allowed the Russians to implement new manufacturing technologies while providing Cummins with access to the Russian market. Cummins also has joint ventures in Japan, Finland, and Italy.

Management at Caterpillar, by contrast, prefers the higher degree of control that comes with full ownership. The company has spent more than $2 billion on purchases of Germany's MaK, British engine maker Perkins, Electro-Motive Diesel, and others. Caterpillar's management believes that it is often less expensive to buy existing firms than to develop new applications independently. Also, Caterpillar is concerned about safeguarding proprietary knowledge that is basic to manufacturing in its core construction equipment business.[19]

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

9-3 Global Strategic Partnerships

In Chapter 8 and the first half of this chapter, we surveyed the range of options—exporting, licensing, joint ventures, and ownership—traditionally used by companies wishing either to enter global markets for the first time or to expand their activities beyond present levels. However, 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 marketing opportunities, they also have strong strategic implications for the global organization and new challenges for the global marketer. Such strategies will undoubtedly incorporate—or may even be structured around—a variety of collaborations. Once thought of only as joint ventures, with the more dominant party reaping most of the benefits (or losses) of the partnership, cross-border alliances are taking on surprising new configurations and even more surprising players.

Why would any firm—global or otherwise—seek to collaborate with another firm, be it local or foreign? Today's competitive environment is characterized by unprecedented degrees of turbulence, dynamism, and unpredictability; thus global firms must respond and adapt to changing market conditions very quickly. To succeed in global markets, firms can no longer rely exclusively on the technological superiority or core competence that brought them past success. The disruption that is evident across a variety of industry sectors—from transportation to retailing to media to telecommunications—requires new vision and new approaches.

In the twenty-first century, firms must look toward new strategies that will enhance environmental responsiveness. In particular, they must pursue "entrepreneurial globalization" by developing flexible organizational capabilities, innovating continuously, and revising global strategies accordingly.[20] In the second half of this chapter, we will focus on global strategic partnerships. In addition, we will examine the Japanese *keiretsu* and various other types of cooperation strategies that global firms are using today.

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. This terminology can cover a broad spectrum of interfirm agreements, including joint ventures. Notably, the strategic alliances discussed here all share three characteristics (see Figure 9-2):[21]

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 an estimated 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. Since the mid-1990s, a key force driving partnership formation has been the realization that globalization and the Internet will require new, intercorporate configurations (see Exhibit 9-7). Table 9-5 lists some examples of GSPs.

Like traditional joint ventures, GSPs have some disadvantages. Partners share control over assigned tasks, a situation that creates management challenges. Also, strengthening a competitor from another country can present a number of risks. However, there are compelling reasons for pursuing a strategic alliance. First, high product development costs in the face of resource constraints may force a company to seek one or more partners; this was part of the rationale

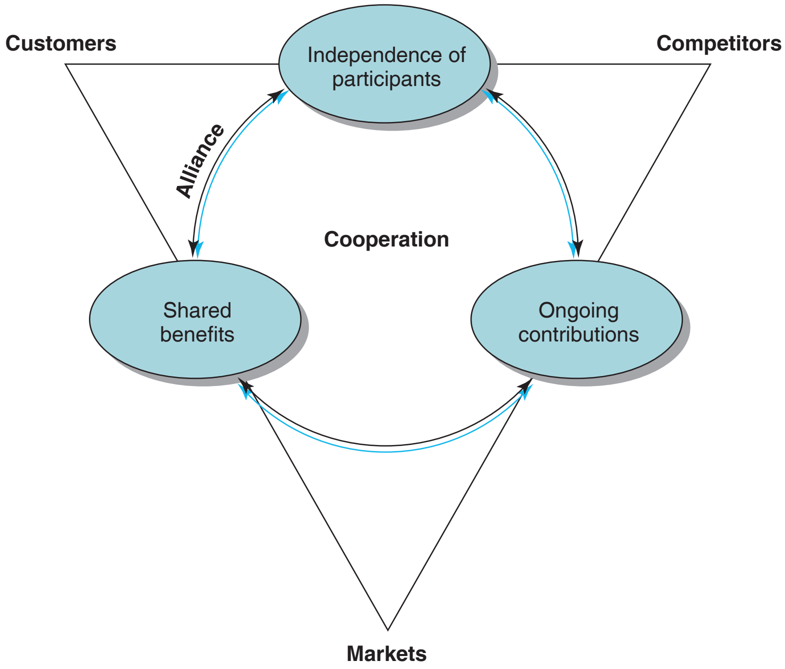


FIGURE 9-2 Three Characteristics of Strategic Alliances

Exhibit 9-7 Oneworld is a global network that brings together American Airlines and other carriers in a number of different countries. Passengers booking a ticket on any network member can easily connect with other carriers for smooth travel around the globe. A further benefit for travelers is the fact that AAdvantage frequent-flyer miles earned can be redeemed with any member of the network.
Source: First Class Photography/ Shutterstock.

TABLE 9-5 Examples of Global Strategic Partnerships

Name of Alliance or Product	Major Participants	Purpose of Alliance
Renault–Nissan–Mitsubishi Alliance	Groupe Renault, Nissan Motor, Mitsubishi Motors	Sharing vehicle platforms, cross-brand manufacturing, combine purchasing operations
S-LCD	Sony Corp., Samsung Electronics Co.	Produce flat-panel LCD screens for high-definition televisions
High-performance engines	Aston Martin and Mercedes-AMG	Mercedes-Benz's performance division produces 4.0-liter V8 engines for Aston-Martin
Star Alliance	Airberlin, American Airlines and US Airways, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian, S7 Airlines, Sri Lankan Airlines, TAM Airlines	Create a global travel network by linking 15 member airlines and providing improved service for international travelers

for Sony's partnership with Samsung to produce flat-panel TV screens. Second, the technology requirements of many contemporary products mean that an individual company may lack the skills, capital, or know-how to go it alone.[22] This helps explain why Britain's iconic Aston-Martin has formed partnerships with Mercedes-Benz. The German company provides high-performance engines, cabin electronics, and infotainment systems. This means that Aston-Martin's engineers can focus on other design issues.[23] Third, partnerships may be the best means of securing access to national and regional markets. Fourth, partnerships provide important learning opportunities; in fact, one expert regards GSPs as a "race to learn." Professor Gary Hamel of the London Business School has observed that the partner that proves to be the fastest learner can ultimately dominate the relationship.

As noted earlier, GSPs differ significantly from the market-entry modes discussed in the first half of the chapter. Because licensing agreements do not call for continuous transfer of technology or skills among partners, such agreements are not strategic alliances.[24] Traditional joint ventures are basically alliances focusing on a single national market or a specific problem. The Chinese joint venture mentioned previously between GM and Shanghai Automotive fits this description; the basic goal is to make cars for the Chinese market. A true global strategic partnership, however, is different and is distinguished by five attributes.[25] S-LCD, Sony's strategic alliance with Samsung, offers a good illustration of each attribute.[26]

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*. Samsung and Sony are jockeying with each other for leadership in the global television market. One key to profitability in the flat-panel TV market is being the cost leader in panel production. S-LCD is a $2 billion joint venture that produces 60,000 panels per month.
2. *The relationship is reciprocal. Each partner possesses specific strengths that it shares with the other; learning must take place on both sides*. Samsung is a leader in the manufacturing technologies used to create flat-panel TVs. Sony excels at parlaying advanced technology into world-class consumer products; its engineers specialize in optimizing TV picture quality. Jang Insik, Samsung's chief executive, says, "If we learn from Sony, it will help us in advancing our technology."[27]
3. *The partners' vision and efforts are truly global, extending beyond their home countries and home regions to the rest of the world*. Sony and Samsung are both global companies that market global brands throughout 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*. Jang and Sony's Hiroshi Murayama speak by telephone on a daily basis; they also meet face-to-face each month to discuss panel making.
5. *When competing in markets excluded from the partnership, the participants retain their national and ideological identities*. Samsung developed a line of high-definition televisions that use digital light processing (DLP) technology; Sony does not produce DLP sets.

When drawing up plans for a DVD player and home theater sound system to match the TV, a Samsung team headed by head TV designer Yunje Kang worked closely with the audio/video division. At Samsung, managers with responsibility for consumer electronics and computer products report to digital media chief Gee-sung Choi. All the designers worked side by side on open floors. According to a company profile, "the walls between business units are literally nonexistent."[28] By contrast, in recent years Sony has been plagued by a time-consuming, consensus-driven communication approach among divisions that have operated largely autonomously.

Success Factors

Assuming that a proposed alliance has these 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:[29]

1. *Mission*. Successful GSPs create win–win situations, in which 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 upfront 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. The failure of a partnership between Great Britain's General Electric Company and Siemens AG was blamed in part on the fact that the former was run by finance-oriented executives, the latter by engineers.
5. *Organization*. Innovative structures and designs may be needed to offset the complexity of multicountry 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, four principles can be applied to guide successful collaborations. First, despite the fact that partners are pursuing mutual goals in some areas, partners must remember that they are competitors in others. Second, harmony is not the most important measure of success—some conflict is to be expected. Third, all employees, engineers, and managers must understand where cooperation ends and competitive compromise begins. Finally, as noted earlier, learning from partners is critically important.[30]

The issue of learning deserves special attention. As one team of researchers notes,

> The challenge is to share enough skills to create advantage vis-à-vis companies outside the alliance while preventing a wholesale transfer of core skills to the partner. This is a very thin line to walk. Companies must carefully select what skills and technologies they pass to their partners. They must develop safeguards against unintended, informal transfers of information. The goal is to limit the transparency of their operations.[31]

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. Unfortunately for Western companies, manufacturing excellence represents a multifaceted competence that is not easily transferred. Non-Asian managers and engineers must also learn to be more receptive and attentive—they must overcome the "not invented here" syndrome and begin to think of themselves as students, not teachers. At the same time, they must learn to be less eager to show off proprietary lab and engineering successes.

To limit transparency, some companies involved in GSPs establish a "collaboration section." Much like a corporate communications department, this department is designed to serve as a gatekeeper through which requests for access to people and information must be channeled. Such gatekeeping serves an important control function in guarding against unintended transfers.

A 1991 report by McKinsey and Company shed additional light on the specific problems of alliances between Western and Japanese firms.[32] Oftentimes, problems between partners have less to do with objective levels of performance than with a feeling of mutual disillusionment and missed opportunity. The study identified four common problem areas in alliances gone wrong. The first type of problem arises when each partner has a "different dream": The Japanese partner sees 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 seeks relatively quick and risk-free financial returns. Said one Japanese manager, "Our partner came in looking for a return. They got it. Now they complain that they didn't build a business. But that isn't what they set out to create."

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 but with the need to master, say, some new technological skills. The best long-term partner, however, is likely to be a less competent player or even one from outside the industry.

A third common cause of problems is "frictional loss" caused by differences in management philosophy, expectations, and approaches. All functions within the alliance may be affected, and performance is likely to suffer as a consequence. Speaking of his Japanese counterpart, a Western businessperson said, "Our partner just wanted to go ahead and invest without considering whether there would be a return or not." The Japanese partner stated, "The foreign partner took so long to decide on obvious points that we were always too slow." Such differences often lead to frustration and time-consuming debates that can stifle decision making.

Last, the study found that short-term goals can result in the foreign partner limiting the number of people allocated to the joint venture. Sometimes, those involved in the venture may work on only two- or three-year assignments. The result is "corporate amnesia"—that is, little or no corporate memory is built up on how to compete in Japan. The original goals of the venture will be lost as each new group of managers takes their turn. When taken collectively, these four problems will almost always ensure that the Japanese partner will be the only one in it for the long haul.

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. GE was motivated to form this alliance, in part, by its desire to gain access to the European market so it could sell engines to Airbus Industrie; also, the $800 million in development costs was more than GE could risk on its own. While GE focused on system design and high-tech work, the French side handled fans, boosters, and other components. In 2004, the French government sold a 35 percent stake in Snecma; in 2005, Sagem, an electronics maker, acquired Snecma. The new business entity, known as Safran, had more than €13 billion ($18.7 billion) in 2016 revenues; slightly more than half was generated by the aerospace propulsion unit.[33]

The alliance got off to a strong start because of the personal chemistry between two top executives, GE's Gerhard Neumann and the late General René Ravaud of Snecma. The partnership continues to thrive despite each side's differing views regarding governance, management, and organization. Brian Rowe, senior vice president of GE's engine group, has noted that the French like to bring in senior executives from outside the industry, whereas GE prefers to bring in experienced people from within the organization. Also, the French prefer to approach problem solving with copious amounts of data, while Americans may take a more intuitive approach. Despite these philosophical differences, senior executives from both sides of the partnership have been delegated substantial responsibility.

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 its engineering skills. Such criticism is often directed at GSPs involving U.S. and Japanese firms. For example, a proposed alliance between Boeing and a Japanese consortium to build a new fuel-efficient airliner, the 7J7, generated a great deal of controversy. The project's $4 billion price tag was too high for Boeing to shoulder alone. The Japanese were to contribute between $1 billion and $2 billion; in return, they would get a chance to learn manufacturing and marketing techniques from Boeing. Although the 7J7 project was shelved in 1988, a new wide-body aircraft, the 777, was developed with approximately 20 percent of the work subcontracted out to Mitsubishi, Fuji, and Kawasaki.[34]

Critics envision a scenario in which the Japanese use what they learn to build their own aircraft and compete directly with Boeing in the future—a disturbing thought considering that Boeing is a major exporter to world markets. One team of researchers developed a framework outlining the stages that a company can go through as it becomes increasingly dependent on partnerships:[35]

1. Outsourcing of assembly for inexpensive labor
2. Outsourcing of low-value components to reduce product price
3. Growing levels of value-added components move abroad
4. Manufacturing skills, designs, and functionally related technologies move abroad
5. Disciplines related to quality, precision manufacturing, testing, and future avenues of product derivatives move abroad
6. Core skills surrounding components, miniaturization, and complex systems integration move abroad
7. Competitor learns the entire spectrum of skills related to the underlying core competence

Yoshino and Rangan have described the interaction and evolution of the various market-entry strategies in terms of cross-market dependencies.[36] Many firms start with an export-based approach, as described in Chapter 8. Historically, the success of Japanese firms in the automobile and consumer electronics industries can be traced back to such an export drive. Nissan, Toyota, and Honda initially concentrated production in Japan, thereby achieving economies of scale.

Eventually, an export-driven strategy gives way to an affiliate-based one. The various types of investment strategies—equity stake, investment to establish new operations, acquisitions, and joint ventures—create operational interdependence within the firm. By operating in different markets, firms have the opportunity to transfer production from place to place in response to fluctuating exchange rates, resource costs, or other considerations. Although at some companies foreign affiliates operate as autonomous fiefdoms (the prototypical multinational business with a polycentric orientation), other companies realize the benefits that operational flexibility can bring.

The third and most complex stage in the evolution of a global strategy comes with management's realization that full integration and a network of shared knowledge from different country markets can greatly enhance the firm's overall competitive position. As company personnel opt to pursue increasingly complex strategies, they must simultaneously manage each new interdependency as well as the existing ones. The stages described here are reflected in the evolution of South Korea's Samsung Group, as described in Case 1-3.

9-4 International Partnerships in Developing Countries

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

Central and Eastern Europe, Asia, India, and Mexico offer exciting opportunities for firms that seek to enter gigantic and largely untapped markets. An obvious strategic choice for entering these markets is the strategic alliance. Like the early joint ventures between U.S. and Japanese firms, potential partners will trade market access for know-how. Other entry strategies are also possible. In 1996, for example, Chrysler and BMW agreed to invest \$500 million in a joint-venture plant in Latin America capable of producing 400,000 small engines annually. Although then Chrysler chairman Robert Eaton was skeptical of strategic partnerships, he believed that limited forms of cooperation such as joint ventures make sense in some situations. Eaton knew that, outside of the domestic market, most car engines were smaller than 2.0 liters—a design in which Chrysler had little experience. As Eaton explained, "In the international market, there's no question that in many cases such as this, the economies of scale suggest you really ought to have a partner."[37]

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. On the one hand, a number of factors combine to make Russia an excellent location for an alliance: It has a well-educated workforce, and quality is very important to Russian consumers. On the other hand, several problems are frequently cited in connection with joint ventures in Russia—namely, organized crime, supply shortages, and outdated regulatory and legal systems in a constant state of flux. Despite the risks, the number of joint ventures in Russia is growing, particularly in the service and manufacturing sectors. In the early post-Soviet era, most of the manufacturing ventures were limited to assembly work, but higher value-added activities such as component manufacture are now being performed.

A Central European market with interesting potential is Hungary. Hungary already has the most liberal financial and commercial systems in the region. It has also provided investment incentives to Westerners, especially in high-tech industries. Like Russia, this former Communist economy does have its share of problems. Digital's recent joint-venture agreement with the Hungarian Research Institute for Physics and the state-supervised computer systems design firm Szamalk offers a case in point. Although the venture was formed so Digital would be able to sell and service its equipment in Hungary, the underlying impetus of the venture was to stop the cloning of Digital's computers by Central European firms.

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

9-5 Cooperative Strategies in Asia

As we have seen in earlier chapters, Asian cultures exhibit collectivist social values; cooperation and harmony are highly valued in both personal life and the business world in Asia. Therefore, it is not surprising that some of Asia's biggest companies—including Mitsubishi, Hyundai, and LG—pursue cooperation strategies.

Cooperative Strategies in Japan: *Keiretsu*

Japan's *keiretsu* represent a special category of cooperative strategy. A *keiretsu* is an interbusiness 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."[38] The *keiretsu* were formed in the early 1950s as regroupings of four large conglomerates—*zaibatsu*—that had dominated the Japanese economy until 1945. *Zaibatsu* were dissolved after the U.S. occupational forces undertook antitrust actions as part of the reconstruction following World War II.

Today, Japan's Fair Trade Commission appears to favor harmony rather than pursuing anticompetitive behavior. As a result, the U.S. Federal Trade Commission has launched several investigations of price-fixing, price discrimination, and exclusive supply arrangements. Hitachi, Canon, and other Japanese companies have also been accused of restricting the availability of high-tech products in the U.S. market. The Justice Department has considered prosecuting the U.S. subsidiaries of Japanese companies if the parent company is found guilty of unfair trade practices in the Japanese market.[39]

Keiretsu exist in a broad spectrum of markets, including the capital, primary goods, and component parts markets.[40] *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. Although not a market-entry strategy per se, *keiretsu* have 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 these alliances' influence is now weakening. Although it is beyond the scope of this chapter to address these issues in detail, there can be no doubt that, for companies competing with Japanese companies or wishing to enter the Japanese market, a general understanding of *keiretsu* is crucial. Imagine, for example, what it would mean in the United States if an automaker (e.g., GM), an electrical products company (e.g., GE), a steelmaker (e.g., USX), and a computer firm (e.g., IBM) were interconnected, rather than separate, firms. Global competition in the era of *keiretsu* means that competition exists not only among products, but also among different systems of corporate governance and industrial organization.[41]

As the hypothetical example from the United States suggests, some of Japan's biggest and best-known companies are at the center of *keiretsu*. Several large companies with common ties to a bank are at the center of the Mitsui Group and the Mitsubishi Group. These and the Sumitomo, Fuyo, Sanwa, and DKB groups together make up the "big six" *keiretsu* (in Japanese, *roku dai kigyo shudan*, or "six big industrial groups"). The big six strive for a strong position in each major sector of the Japanese economy. Because intragroup relationships often involve shared stock holdings and trading relations, the big six are sometimes known as *horizontal keiretsu*.[42] Annual revenues in each group are in the hundreds of billions of dollars. In absolute terms, *keiretsu* represent only a small percentage of all Japanese companies. However, these alliances can effectively block foreign suppliers from entering the market and result in higher prices to Japanese consumers, while at the same time resulting in corporate stability, risk sharing, and long-term employment.

In addition to the big six, several other *keiretsu* have formed, bringing new configurations to the basic forms previously described. *Vertical* (i.e., supply and distribution) *keiretsu* are hierarchical alliances between manufacturers and retailers. For example, Matsushita controls a chain of National stores in Japan through which it sells its Panasonic, Technics, and Quasar brands. Approximately half of Matsushita's domestic sales is generated through the National chain, 50 to 80 percent of whose inventory consists of Matsushita's brands. Japan's other major consumer electronics manufacturers, including Toshiba and Hitachi, have similar alliances. (Sony's chain of stores is much smaller and weaker by comparison.) All are fierce competitors in the Japanese market.[43]

Another type of manufacturing *keiretsu* consists of vertical hierarchical alliances between automakers and suppliers and component manufacturers. Intergroup operations and systems are closely integrated, with suppliers receiving long-term contracts. Toyota has a network of about 175 primary suppliers and several thousand secondary suppliers. One such supplier is Koito; Toyota owns about one-fifth of Koito's shares and buys about half of its production. The net result of this arrangement is that Toyota produces approximately 25 percent of the sales value of its cars, compared with 50 percent for GM. The manufacturing *keiretsu* demonstrate the gains that, in theory, can result from an optimal balance of supplier and buyer power. Because Toyota buys a given component from several suppliers (some are in the *keiretsu*, some are independent), discipline is imposed down the network. Also, because Toyota's suppliers do not work exclusively for Toyota, they have an incentive to be flexible and adaptable.[44]

The *keiretsu* system ensures that high-quality parts are delivered on a just-in-time basis, a key factor in the high quality for which Japan's auto industry is renowned. However, as U.S. and European automakers have closed the quality gap, larger Western parts makers have begun building economies of scale that enable them to operate at lower costs than small Japanese parts makers. Moreover, the stock holdings that Toyota, Nissan, and others have in their supplier networks tie up capital that could be used for product development and other purposes.

After Renault took a controlling stake in Nissan, for example, a new management team from France headed by Carlos Ghosn began divesting the company's 1,300 *keiretsu* investments. Nissan shifted to an open-source bidding process for parts suppliers, some of which were not based in Japan.[45] Eventually, Honda and Toyota adopted a similar approach and began seeking bids from non-*keiretsu* component suppliers. That, in turn, led to collusion among auto-parts makers that saw an opportunity to set higher prices. Recent antitrust charges brought by the U.S. Department of Justice resulted in fines totaling approximately $1 billion for the colluding partners. Several Japanese auto-parts suppliers admitted that they had collaborated, and the Justice Department alleged that American car buyers paid higher prices for vehicles as a result.

Despite the sometimes problematic nature of the *keiretsu*, change comes slowly in Japan. As Mitsuhisa Kato, vice president for R&D at Toyota, said, "We feel a duty to protect our *keiretsu*. We are trying to incorporate more outside suppliers, but won't give up on our own way of doing business in Japan."[46]

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 are 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.

Prestowitz describes the Japanese attitude toward this type of business practice:[47]

> It respects mutual obligation by providing a cushion against shocks. Today Nissan may buy a Hitachi computer. Tomorrow it may ask Hitachi to take some of its redundant workers. The slightly lesser performance it may get from the Hitachi computer is balanced against the broader considerations. Moreover, because the decision to buy Hitachi would be a favor, it would bind Hitachi closer and guarantee slavish service and future Hitachi loyalty to Nissan products . . . . This attitude of sticking together is what the Japanese mean by the long-term view; it is what enables them to withstand shocks and to survive over the long term.[48]

Because *keiretsu* relationships are crossing the Pacific and directly affecting the American market, U.S. companies have reason to be concerned with *keiretsu* outside the Japanese market as well. According to data compiled by Dodwell Marketing Consultants, in California alone *keiretsu* own more than half of the Japanese-affiliated manufacturing facilities. But the impact of *keiretsu* extends beyond the West Coast. Illinois-based Tenneco Automotive, a maker of shock absorbers and exhaust systems, does a great deal of worldwide business with the Toyota *keiretsu*. In 1990, however, Mazda dropped Tenneco as a supplier to its U.S. plant in Kentucky. Part of the business was shifted to Tokico Manufacturing, a Japanese transplant and a member of the Mazda *keiretsu*; a non-*keiretsu* Japanese company, KYB Industries, was also made a vendor. A Japanese auto executive explained the rationale behind the change: "First choice is a *keiretsu* company, second choice is a Japanese supplier, third is a local company."[49]

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 on a central bank or holding company, and dominated by a founding family. Compared to *keiretsu*, however, *chaebol* are a more recent phenomenon: It was only in the early 1960s that Korea's military dictator granted government subsidies and export credits to a select group of companies in the auto, shipbuilding, steel, and electronics sectors. In the 1950s, for example, Samsung was best known as a woolen mill. By the 1980s, Samsung had evolved into a leading producer of low-cost consumer electronics products. Today, Samsung Electronics' Android-powered Galaxy smartphone line is a worldwide best seller.

The *chaebol* were a driving force behind South Korea's economic miracle; gross national product (GNP) increased from $1.9 billion in 1960 to $238 billion in 1990. After the economic crisis of 1997–1998, however, South Korean President Kim Dae Jung pressured *chaebol* leaders to initiate reform. Prior to the crisis, the *chaebol* had become bloated and heavily in debt; within a few years, the *chaebol* were being transformed. Samsung diversified into pharmaceuticals and green energy, and LG Electronics moved into wastewater treatment. Samsung, LG, Hyundai, and other *chaebol* built their brands by developing high-value-added branded products supported by sophisticated advertising.[50]

Recently, questions about corporate governance have arisen after some *chaebol* leaders were accused of various offenses including colluding with politicians and corruption. In 2017, for example, a Korean court convicted Samsung heir Lee Jae-yong of bribing then-president Park Geun-hye. In an ironic twist, Park was elected in part on the basis of campaign pledges to rein in *chaebol* excesses. Observers hope that reform can increase transparency and corporate oversight and reduce the amount of economic power wielded by the *chaebol*. If that happens, it is hoped that Korea's millions of small- and mid-sized enterprises will be better positioned to boost employment and generate long-term economic growth.[51]

9-6 Twenty-First-Century Cooperative Strategies

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

One U.S. technology alliance, Sematech, is unique in that it is the direct result of government industrial policy. 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. Sematech originally had 700 employees, some permanent and some on loan from IBM, AT&T, Advanced Micro Devices, Intel, and other companies. 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, had reversed the market share slide of the U.S. semiconductor equipment industry.[52]

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. In a relationship enterprise, groupings of firms in different industries and countries are held together by common goals that encourage them to act as a single firm. Cyrus Freidheim, former vice chairman of the Booz Allen Hamilton consulting firm, outlined an alliance that, in his opinion, might be representative of an early relationship enterprise. He suggests that within the next few decades, Boeing, British Airways, Siemens, TNT, and Snecma might jointly build several new airports in China. As part of the package, British Airways and TNT would be granted preferential routes and landing slots, the Chinese government would contract to buy all its aircraft from Boeing/Snecma, and Siemens would provide air traffic control systems for all 10 airports.[53]

More than the simple strategic alliances we know today, relationship enterprises will be super-alliances among global giants, with revenues approaching $1 trillion. They will be able to draw on extensive cash resources; circumvent antitrust barriers; and, with home bases in all major markets, enjoy the political advantage of being a "local" firm almost anywhere. This type of alliance is not driven simply by technological change, but rather reflects the political necessity of having multiple home bases.

Another perspective on the future of cooperative strategies correctly predicted the emergence of the virtual corporation. As described in a *BusinessWeek* cover story in the early 1990s, 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."[54] On a global level, 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." The same forces that are driving the formation of the digital *keiretsu*—high-speed communication networks, for example—are embodied in the virtual corporation. As noted by William Davidow and Michael Malone in their book *The Virtual Corporation*, "The success of a virtual corporation will depend on its ability to gather and integrate a massive flow of information throughout its organizational components and intelligently act upon that information."[55]

Why did the virtual corporation burst onto the scene in the early 1990s? Previously, firms lacked the technology needed to facilitate this type of data management. Today's distributed databases, networks, and open systems make possible the kinds of data flow required for the virtual corporation. In particular, these data flows permit superior supply-chain management. Ford provides an interesting example of how technology is improving information flows among the far-flung operations of a single company. Ford's $6 billion "world car"—known as the Mercury Mystique and Ford Contour in the United States and the Mondeo in Europe—was developed using an international communications network linking computer workstations of designers and engineers on three continents.[56]

TABLE 9-6 Market Expansion Strategies

		Market	
		Concentration	Diversification
Country	**Concentration**	1. Narrow focus	2. Country focus
	Diversification	3. Country diversification	4. Global diversification

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

9-7 Market Expansion Strategies

Companies must decide whether to expand by seeking new markets in their existing countries of operation or, alternatively, by seeking new country markets for already identified and served market segments.[57] 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. It matches company resources and market investment needs. Unless a company is large and endowed with ample resources, this strategy may be the only realistic way to begin.

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 strategy 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, multibusiness company such as Panasonic Corporation. Panasonic celebrated its 100th anniversary in 2018; the company's founder, Konosuke Matsushita, is an icon of twentieth-century business. Today, Panasonic is multicountry in scope, and its various business units and groups serve multiple consumer and business segments. Thus, at the level of corporate strategy, Panasonic 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.

Summary

Companies that wish to move beyond exporting and importing can avail themselves of a wide range of *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.

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 a minority or majority *equity stake* in a foreign business, or *full ownership* of an existing business entity through merger or outright acquisition.

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*.

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 the prior three stages into an integrated network to leverage worldwide learning.

Discussion Questions

9-1. What are the advantages and disadvantages of a joint venture as a global market-entry tool? Give examples of joint-venture companies from different countries that have ventured successfully.

9-2. According to Franchise Direct (www.franchisedirect.com), U.S. franchise businesses hold sixteen of the top twenty global franchise operations. Of the remaining four, three are French and the fourth is from the United Kingdom. The first Asian franchise operation in the top 100 is Kumon, a Japanese education franchise. Explain the continued success of Western franchises over Asian ones.

9-3. Explain the advantages and disadvantages of using a contract manufacturer.

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?

CASE 9-1 *(continued from page 298)*

AB InBev and SABMiller: A Match Made in (Beer) Heaven?

Market Entry Problems in Japan

SAB was not the only brewer seeking to expand its global presence. Anheuser-Busch's experience in Japan provided a case study in entry-mode options, and highlighted the advantages and disadvantages of the joint-venture approach.

Access to distribution is critical to success in Japan; Anheuser-Busch first entered that market by means of a licensing agreement with Suntory, which at the time was the smallest of Japan's four top brewers. Although Budweiser became Japan's top-selling imported beer brand within a decade, Bud's market share in the early 1990s was still less than 2 percent. Anheuser-Busch then created a joint venture with Kirin Brewery, the market leader. Anheuser-Busch's 90 percent stake in the venture entitled it to market and distribute beer produced in a Los Angeles brewery through Kirin's channels. Anheuser-Busch also had the option to use some of Kirin's brewing capacity to brew Bud locally.

For its part, Kirin was well positioned to learn more about the global market for beer from the world's largest brewer. By the end of the decade, however, Bud's market share hadn't increased and the venture was losing money. On January 1, 2000, Anheuser-Busch dissolved the joint venture and eliminated most of the associated job positions in Japan; it then reverted to a licensing agreement with Kirin. The lesson was clear: In Japan, it often makes more sense to give control to a local partner via a licensing agreement than to make a major investment.

Heineken

Netherlands-based Heineken is another brewer that, like SAB, has made the transition from a local brand to first a regional brand and then a global one. Today Heineken, in the iconic green bottle emblazoned with the red star, is sold in more countries than any other single brand. Heineken is an independent brewer, and the fourth generation of the founding Heineken family remains in control of the company. In 2014, Heineken turned down an acquisition offer from SABMiller.

The brand's popularity can be attributed in part to an advertising tagline from the 1970s and 1980s that has become legendary in the annals of marketing communications. At the time, Whitbread PLC, a brewer of English ales, distributed Heineken in the United Kingdom. The phrase "Heineken refreshes the parts other beers cannot reach" helped convert British consumers from traditional ales to Heineken's lager.

Following a game plan similar to SABMiller's strategy, Heineken CEO Jean-François van Boxmeer has invested more than $30 billion since the mid-2000s by making dozens of acquisitions. In doing so, he almost doubled the company's market coverage, which now extends to 70 countries. In addition to its namesake brew, today the company markets Amstel, Affligem (based in Belgium), Sol (Mexico), and Tiger (Singapore). Increased scale is one way the company helps reduce the costs of key commodity inputs such as malted barley and aluminum.

More Acquisitions

Consolidation in the brewing industry continued at a rapid pace in the 2000s. In 2004, Belgium's Interbrew merged with a Brazilian company, Ambev. The new entity was known as InBev; in 2008, InBev acquired Anheuser-Busch in a deal valued at $52 billion. After cementing its status as the world's largest brewer, Anheuser-Busch InBev, led by its CEO, Carlos Brito, made headlines again in 2016 when antitrust regulators approved a £79 billion ($101 billion) takeover bid for SABMiller. The deal is expected to result in annual cost savings of as much as $500 million for the behemoth.

At the time, approximately one-third of AB InBev's revenues were generated in the United States, where the top-selling brands include Bud Light and Budweiser. However, the company had virtually no presence in Africa. By contrast, SABMiller was experiencing growth in both sales and revenues in Africa. More generally, emerging markets account for about three-fourths of SABMiller's revenues. For example, Snow, a local Chinese brand, was SABMiller's sales volume leader. As noted in Chapter 5, however, to satisfy Chinese antitrust regulators, SABMiller was required to sell its stake in Snow before the acquisition could go through. The combined entity had $64 billion in 2017 revenue and commands nearly one-third of the global beer market.

Emerging Markets

Global brewers are also stepping up their marketing activities and making strategic investments in fast-growing emerging markets. A case in point is 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." In particular, AB InBev is seeking deeper penetration with its Budweiser brand.

Vietnam is also attracting the attention of the major international brewing companies. 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 (Australia ranks number 1). In 2017, the Vietnamese government moved forward with plans to sell stakes in two key state enterprises. Hanoi Alcohol Beer and Beverages Corporation (Habeco), the third largest by sales, brews and markets the popular Hanoi Beer brand. Its larger rival, Sabeco, is based in Ho Chi Minh City and commands approximately 40 percent of the market with brands including 333 and Saigon Beer.

AB InBev, Carlsberg, Heineken, Thai Beverage, and Kirin Holdings were among the potential suitors eying both Vietnamese companies as potential investment targets. Heineken, whose Heineken and Tiger brands are popular in Vietnam, already owned a 5 percent stake in Sabeco. Danish brewer Carlsberg's stake in Habeco stood at 17 percent.

Africa: The Last Frontier

Heineken currently has operations in Ethiopia and Cote d'Ivoire. However, AB InBev's SABMiller unit has also set its sights on low-income consumers in Africa. According to industry forecasts, Africa's beer sector will grow by 5 percent annually; by contrast, beer consumption is declining in Europe and North America.

In Africa, brewers are cutting costs by negotiating deals with local governments to lower taxes on beer sales. Officials can often be persuaded with a two-pronged argument. First, the low-cost beers use local crops such as sorghum, so they create jobs locally. Second, legal, branded brews from well-known companies are a safer alternative to illegal home brew. One unintended consequence: As farmers switch from food crops such as corn and beans, prices for these and other consumer staples are increasing.

Back in the United States

Prior to the acquisition by AB InBev, SABMiller had introduced several local brands in its portfolio in the United States. The company set out to build Pilsner Urquell, the number 1 beer in the Czech Republic, into a national brand in the United States. Success in that effort would be the foundation for transforming Pilsner Urquell into a global premium brand to rival Heineken.

A pale lager, Pilsner Urquell has been produced at the Prazdroj brewery in Plzen ("Pilsen") since 1842. The brew has benefited from a trend that finds U.S. consumers graduating to craft beers that have stronger hops flavors. SABMiller's marketing program included training bartenders to ensure that each draft pour came with a thick head of foam.

In 2005, Colorado-based Adolph Coors merged with Canada's Molson. In 2008, to compete more effectively with AB InBev, SAB Miller and Molson Coors created a 50–50 joint venture called MillerCoors LLC. That venture, a combination of SABMiller's U.S. operations and those of Molson Coors Brewing, created the number 2 brewer in the United States. At the time, AB InBev commanded a nearly 49 percent share of the $100 billion U.S. beer market. Coors Light was the number 2 beer brand by volume; Miller Lite was number 4. Then, in 2016, following the SAB Miller and AB InBev deal, Molson Coors raised its stake in MillerCoors to full ownership as part of a $12 billion deal.

Discussion Questions

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

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

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

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CASE 9-2
Jaguar's Passage to India

Jaguar, one of Britain's most iconic brands, celebrates its 85th anniversary in 2020. Jaguar's storied history can be traced back to the 1930s, when a factory was established at Castle Bromwich in Birmingham. In 1935, the first car bearing the Jaguar nameplate was produced.

During World War II, the factory was utilized for military production, and it was here that more than 10,000 of the legendary Spitfire single-engine fighter planes were produced. The Lancaster heavy bomber flown by the Royal Air Force was produced at Castle Bromwich as well. During the war, the exteriors of the brick buildings were covered in camouflage paint. Even so, German bombers inflicted heavy damage on the factory, which was quickly rebuilt.

In the decades following the war, production returned to automobiles, and the corporate structure underwent a series of changes. Once known as Swallow Sidecars (S.S.), the company formally adopted the Jaguar name in 1945. In the 1960s, Jaguar merged with British Motor Corporation, later known as British Motor Holdings (BMH). In 1962, the legendary Jaguar E-Type sports car was born.

In 1968, BMH merged with Leyland Motor Corporation. The new entity, known as British Leyland, manufactured several legendary British sports cars including the Austin, MG, and Triumph nameplates. Land Rover was also a unit of British Leyland.

British Leyland was nationalized in 1975; in other words, the British government took partial control of the company. In the 1980s, however, Prime Minister Margaret Thatcher's government reversed course, and British Leyland was privatized. In 1984, Jaguar was spun off from British Leyland as a stand-alone company.

Fast-forward a quarter of a century. In 2008, Tata Motors paid the Ford Motor Company $2.3 billion for Jaguar and Land Rover. The deal came about as Detroit's automakers faced one of the worst business environments in decades. The Big Three posted losses in the billions of dollars; by 2008, with the global recession and credit crunch causing a sharp decline in demand, executives from GM and Chrysler appealed to Congress for a bailout. Meanwhile, industry observers called for Ford to shed some of its luxury brands.

The Ford Acquisition

When Ford acquired Jaguar in 1989, the American company lacked a high-end luxury model. Executives were betting that they could leverage an exclusive nameplate by launching a new, less-expensive Jaguar line and selling it to more people. The challenge was to execute this strategy without diminishing Jaguar's reputation. Daniel Jones, a professor at the University of Cardiff and an auto industry expert, noted that the Ford name is synonymous with "bread and butter" cars.

Meanwhile, Land Rover, another iconic British nameplate, had also been nationalized and then privatized by the British government. BMW acquired the Land Rover business in 1994. Before the end of the decade, however, heavy losses at the unit prompted BMW to look for a buyer. In 2000, Ford bought the business for $2.7 billion, with both Jaguar and Land Rover becoming part of Ford's Premier Automotive Group.

Ford's Japanese competitors, including Honda, Nissan, and Toyota, were pursuing a different strategy for moving upmarket: They launched new nameplates and upgraded their dealer organizations. Status- and quality-conscious car buyers embraced Lexus, Infiniti, and other new luxury sedans that offer high performance and outstanding dealer organizations.

Despite Jaguar's classy image and distinguished racing heritage, the cars were somewhat notorious for their unreliability. Gears sometimes wouldn't shift, headlights wouldn't light, and the brakes sometimes caught fire. Part of the problem could be traced to manufacturing.

To remedy the situation, Ford invested heavily to update and upgrade Jaguar's plant facilities and improve productivity. As a benchmark, Ford's manufacturing experts knew that German luxury car makers could build a vehicle in 80 hours; in Japan, the figure was 20 hours. If Jaguar were ever to achieve world-class manufacturing status, Jaguar's assembly time of 110 hours per car had to be drastically reduced.

As the 1990s came to an end, Jaguar introduced several new vehicles. In 1997, amid industry estimates that Ford's cumulative investment had reached $6 billion, Jaguar launched the $64,900 XK8 coupe and roadster. Styling cues clearly identified this model as the successor to Jaguar's legendary XK-E, or E-Type. In the spring of 1999, the S-Type sedan was introduced to widespread acclaim. One observer called the S-Type a "handsome car, instantly recognizable as a Jaguar, yet totally contemporary."

In 2001, the long-awaited "baby Jaguar," the $30,000 X-Type compact sports sedan, was unveiled. Company executives hoped to attract a new generation of drivers and capture a significant share of the entry-level luxury market dominated by the BMW 3-series and the Mercedes C-Class. The X-Type was built on the same platform as the Ford Contour.

The early signs were positive. In 2002, first-year sales of the X-Type boosted Jaguar's worldwide sales by 29 percent, with a record 130,000 vehicles being snapped up by buyers. Unfortunately, the company was not able to sustain the momentum. A backlash began to develop. For example, critics of the X-Type dismissed it as a "warmed-over Ford." Critics also found fault with Ford for failing to move Jaguar's styling forward enough. As one longtime Jaguar owner explained, "They lost their way in what the public wanted. Instead of making Jaguar a niche player, where it should be, they tried to go the mass-production route."

In 2005, bowing to pressures to move the venerable nameplate upmarket again, it was announced that the least expensive Jaguar model, the 2.5 liter X-Type, would be discontinued. In 2008, the curtain came down on Jaguar's two decades under American ownership.

Exhibit 9-8 Dan Neil, auto critic for *The Wall Street Journal*, praised the XJ's massiveness, width, and stance. "From a low side angle this thing is a torpedo, a hollow-point bullet scattering shards of moonbeams, a blunt hypodermic of adrenaline," he wrote. "It's completely bad-ass."
Source: Chatchai Somwat/Shutterstock.

"For me, the revival of Jaguar Land Rover is because Ratan Tata owns it and he is a petrolhead. I've been to three Grand Prix and he was on the starting grid at all of them."[58]

Sir James Dyson, inventor/entrepreneur

The Tata Era Begins

Jaguar Land Rover's new owner, Tata Motors, faced challenges of its own. The global economic crisis led to a slump in demand for cars in India; in fact, in its first year of ownership, Tata Motors lost $500 million on Jaguar Land Rover (JLR). Then, as the global economy began to rebound, so did sales of luxury cars. As noted in Exhibit 9-8, Jaguar's XF and XJ sedans won rave reviews from auto critics; the XE, launched in 2015, quickly became the company's best-selling model. In short, two decades of restructuring by Ford were finally paying off under Tata's ownership. For the 2015–2016 model year, JLR sold 521,000 vehicles, up from 250,000 just a few years earlier.

John Edwards, brand director for Land Rover, noted, "Ford laid out a good foundation for us, but I think we are more nimble." For its part, Ford management didn't second-guess its decision to sell the Jaguar and Land Rover brands. As Lewis Booth, Ford's CFO, explained, "We didn't have enough capital resources to look after them. But we found an owner that had the resources to continue what we started."

Over the next few years, Jaguar showed the world how it had been putting those resources to use to improve quality and productivity. For example, Tata invested £500 million to enlarge the Jaguar factory in Castle Bromwich and a similar amount at a plant in nearby Solihull that produces Land Rovers.

On a production floor at Castle Bromwich, employees feed sheets of aluminum ("aluminium" in British English) and steel into giant die presses that stamp out body panels. Nearby, in the body assembly area, hundreds of industrial robots from Swiss engineering giant ABB perform spot welds, apply adhesive, and drive rivets. After the completed bodies are painted, logistics partner DHL ensures that deliveries of seats, auto glass, and instrument panels from outside vendors are routed to the final assembly hall on a just-in-time basis. The plant's D7a technology means that four different models can be produced on the same production line.

Eighty percent of Jaguar's production is exported, and the United States is a key market for these cars. For the 2014 model year, Jaguar launched an all-wheel-drive (AWD) version of the XF sedan; it was available with an optional V6 engine for the first time. These changes, it was hoped, would enhance the car's appeal to American buyers living in areas where winter snow and ice makes AWD a virtual necessity. Jaguar's most affordable model, the XE sport sedan, was launched at the Paris Auto Show in October 2014; production began the following spring.

In fall 2015, Jaguar rolled back prices on some of its cars by approximately 10 percent, and also announced a more comprehensive warranty. Despite these new-model introductions and other marketing changes, overall sales of sedans and coupes were being eclipsed by demand for a vehicle Jaguar lacked—namely, an SUV. In spring 2016, Jaguar responded by launching the company's first SUV, the F-Pace. In short order, it became Jaguar's best-selling model.

In November 2016, the company raised the curtain on its first electric vehicle (EV), the £65,000 Jaguar I-Pace SUV, at the Los Angeles Motor Show. Some industry analysts noted that Jaguar's entry into the luxury EV category comes relatively late; Tesla is the dominant player with its Model S sedan and Model X SUV. Although Jaguar's identity is closely tied to its British heritage, the first-generation I-Pace is being assembled in a factory in Austria owned by Canadian carmaker Magna. The reason is straightforward: Jaguar's U.K. manufacturing operations are currently operating at 100 percent capacity.

Discussion Questions

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

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?

9-10. Jaguar recently launched a new compact luxury cross-over, 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 its prospects for success?

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

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PART FOUR

THE GLOBAL MARKETING MIX

10 Brand and Product Decisions in Global Marketing

LEARNING OBJECTIVES

10-1 Review the basic product concepts that underlie a successful global marketing product strategy.

10-2 Compare and contrast local products and brands, international products and brands, and global products and brands.

10-3 Explain how Maslow's needs hierarchy helps global marketers understand the benefits sought by buyers in different parts of the world.

10-4 Outline the importance of "country of origin" as a brand element.

10-5 List the five strategic alternatives that marketers can utilize during the global product planning process.

10-6 Explain the new-product continuum and compare and contrast the different types of innovation.

CASE 10-1 Alphabet

Alphabet, the company formerly known as Google, has developed some of the world's premier technology products and services. Founded in 1998 by Larry Page and Sergei Brin with a focus on Internet searches, Alphabet's mission is connecting people with technology. The company's core search and ad-driven businesses are still called Google, the brand name recognized virtually everywhere. In Europe, for example, despite operating under the glare of regulatory scrutiny, Google accounts for 90 percent of online search traffic. Roughly one-third of annual global digital ad revenues go to Google.

Today, the company has grown far beyond its roots in search, which is one of the reasons for the corporate restructuring and name change that was announced in August 2015. Alphabet has developed an impressive product portfolio under the Google brand that includes consumer offerings such as Google+, the Google Play app store, Google Wallet, Google Chrome, and Google Chromecast. Alphabet has also made a number of strategic acquisitions, including video-sharing site YouTube and the Internet of Things thermostat brand Nest.

Alphabet serves its enterprise customers as well. For example, Samsung and several other handset manufacturers use its Android smartphone operating system. Google Fiber is bringing high-speed, one-gigabyte-per-second Internet service to a growing list of American cities. Google Analytics is a source of big data, and Google AdWords allows advertisers—both small and large—to bid for preferred placement on Web pages. The company also operates huge data centers throughout the world.