New venture internationalization

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In this session you will learn:

- Why it took BMW 40 years and Logitec 4 months to become global players
- Why some countries are better target markets than others
- How entrepreneurs can minimize the risk of losses from internationalization
- Why Fiat and Mitsubishi chose annoying names for their car brands

BMW’s internationalization

1916
BMW founded as a
producer of aircraft engines

1923
BMW starts
producing
motorbikes

1928
BMW starts producing automobiles

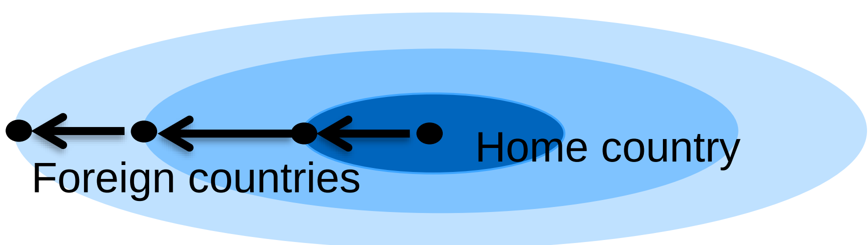
1959
BMW starts selling in foreign
countries starting in Europe and
predominantly moving into
overseas markets in 1966

http://www.bmw.de/

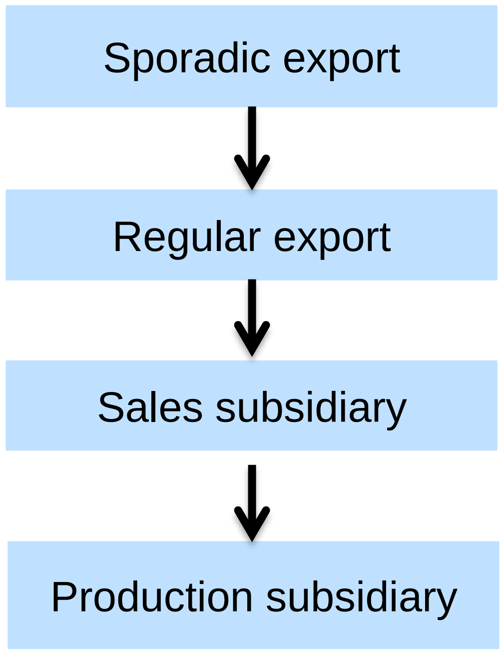
Internationalization process model 1960s / 1970s

- Perceived uncertainty and knowledge about foreign markets determine the internationalization process
- Gradually increasing internationalization after a long period of doing business exclusively in the home market

Foreign market selection



Foreign market entry mode



Johanson & Vahlne (1977)

Logitech’s internationalization

"We were a small group of people with a great dream, from the beginning, we dreamed of the day when our company would be established in the world market with a recognized name, providing fun and innovative products." Daniel Borel (founder & chairman)

USA

- Worldwide operational HQ
- 20% of manufacturing
- Hardware development
- Software development
- US marketing
- Worldwide marketing coordination

Ireland

- 10% of manufacturing

Switzerland

- Holding company
- European HQ
- Finance
- Hardware and software development
- European marketing

Taiwan

- Far East HQ
- 70% of manufacturing
- Mechanics development
- Far East marketing

http://www.logitech.com/

Born global model 1990s

Environment

Increasingly internationalized industries
Advances in ICT and transportation technologies

Product

High degree of innovation and specialization (shorter product life cycles)
Unique competitive advantage
Products often standardized (quick international roll-out)

Customers / Market

Often niche segments
Narrow market necessitates international growth
‘Global’ need (increasing homogenization of customer preferences)

Management Team

International background or experience: mindset
High international entrepreneurial orientation
Existing networks abroad → previous customers, suppliers, etc.

Foreign market entry decisions

Where do I go?

How do I go there?

Foreign market entry barriers

Institutional barriers

- Import tariffs or quota
- Local ownership restrictions (joint ventures)
- Local content clauses for foreign direct investments

Market-based barriers

- Access to distribution systems hindered
- Problems in finding skilled personnel
- Customer preferences for local companies (“buy-local”)

Foreign market attractiveness

- Market volume: Amount of customers, sales volume
- Market growth: Potential growth in customers and sales volume
- Price structure: Potential price, competitor prices, prices of substitute products
- Cost structure: Labor costs, costs for resources
- Infrastructure: Transport systems, internet

Foreign market entry modes

Exporting: Exporting involves the sale and shipment of products manufactured in one country to a customer located in another country.

Licensing: Entrepreneur who is a manufacturer (licensor) gives a foreign manufacturer (licensee) the right to produce and sell a product in return for the payment of a royalty.

Joint Venture: Two or more firms form a new enterprise in which they share the equity.

Subsidiary: Subsidiaries are separate, distinct legal entities that are controlled by a separate higher entity; the parent company.

Entry modes comparison

Entry Mode	Advantage	Disadvantage
Export	• Small resource investments • Relatively small risk	• Transportation costs • Problems with and costs for export management firms or agents
Licensing	• Small resource investments • No transportation costs	• Lack of control over licensee and licensed property
Joint Ventures	• Access to local partner's knowledge • Sharing development costs and risks	• No autonomous decision making • Coordination efforts • Conflicts with partners (instability)
Subsidiaries	• Protection of knowledge and technologies • Autonomous decision making and strategic planning	• High investment costs • High risks

Foreign market entry: Eclectic Theory (1)

Explains choice of foreign market entry mode

- Export
- Licensing
- Subsidiary

Correlation between choice of market entry mode and certain advantages

Ownership advantages: Product innovations, patents, technological advantage

Internalization advantages: Advantages that are realized by keeping a resource internal (mainly resources like technology and know-how)

Location advantages: Resource costs, labor costs, infrastructure, transportation

Dunning (1980)

Foreign market entry: Eclectic Theory (2)

Explains choice of foreign market entry mode

- Export
- Licensing
- Subsidiary

Ownership advantages

yes → Internalization advantages

no → No internationalization

Internalization advantages

yes → Location advantages in foreign country

no → Licensing

Location advantages in foreign country

yes → Subsidiary

no → Export

Dunning (1980)

Foreign cultures and foreign markets

Company	Original message	Translation
Kentucky Fried Chicken	English: "Finger lickin' good."	Chinese: "Eat your fingers off."
Electrolux	Vacuum cleaner	USA: “Nothing sucks like an Electrolux"
Perdue Farms Inc.	English: "It takes a tough man to make a tender chicken."	Spanish: "It takes a sexually excited man to make a chick affectionate."
Toyota	English: MR2	French: Merde
Fiat	Uno	Finnish: Uuno = Idiot
Mitsubishi	Pajero	Spanish: Pajero = motherfu**
Clairol	Curling iron	Germany: Mist Stick

Your task (15 min):

- Take a sheet of paper and a pencil
- Watch the video of Starbuck‘s internationalization into Australia by following the link provided on Moodle.
- When watching the video, pay particular attention to the mistakes Starbucks made and what they have learned.

Starbuck’s mistakes

- Overconfidence in the product
- Wrong location choices
- Insufficient understanding of local market
- No product adaptation
- Wrong assessment of local meaning of a product
- Wrong pricing
- Underestimation of made-at-home preference

Starbuck’s lessons learned

- Give customers time to get to know the offering
- Create more value than locals
- Find an appropriate customer segment and the right location to reach this segment

Session summary

- New ventures‘ speed of, and approach to internationalization has changed fundamentally over the last decades
- Entrepreneurs must make important decisions related to where and how to enter foreign markets
- Dunnan‘s eclectic theory is a useful decision tool for assessing entry modes
- Culture is a key to internationalization success which even global players often underestimate

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