MKTG 680
Chapter 9 Global Market Entry Strategies: Licensing, Investment, and Strategic Alliances

Introduction

Which strategy should be used?
- It depends on:
  - Vision
  - Attitude toward risk
  - How much investment capital is available
  - How much control is desired
Licensing

- A contractual agreement whereby one company (the licensor) makes an asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation
  - Patent
  - Trade secret
  - Brand name
  - Product formulations

Advantages to Licensing

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

Disadvantages to Licensing

- Limited participation
- Returns may be lost
- Lack of control
- Licensee may become competitor
- Licensee may exploit company resources
Special Licensing Arrangements

- Contract manufacturing
  - Company provides technical specifications to a subcontractor or local manufacturer
  - Allows company to specialize in product design while contractors accept responsibility for manufacturing facilities

- Franchising
  - Contract between a parent company-franchisor and a franchisee that allows the franchisee to operate a business developed by the franchisor in return for a fee and adherence to franchise-wide policies

Franchising Questions

- 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?

Investment

- Partial or full ownership of operations outside of home country
  - Foreign Direct Investment

- Forms
  - Joint ventures
  - Minority or majority equity stakes
  - Outright acquisition
Joint Ventures

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

**Advantages**
- Allows for sharing of risk (both financial and political)
- Provides opportunity to learn new environment
- Provides opportunity to achieve synergy by combining strengths of partners
- May be the only way to enter market given barriers to entry

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

Investment via Ownership or Equity Stake

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

Global Strategic Partnerships

- Possible terms:
  - Collaborative agreements
  - Strategic alliances
  - Strategic international alliances
  - Global strategic partnerships
The Nature of Global Strategic Partnerships

- Participants remain independent following formation of the alliance
- Participants share benefits of alliance as well as control over performance of assigned tasks
- Participants make ongoing contributions in technology, products, and other key strategic areas

5 Attributes of True Global Strategic Partnerships

- Two or more companies develop a joint long-term strategy
- Relationship is reciprocal
- Partners’ vision and efforts are global
- Relationship is organized along horizontal lines (not vertical)
- When competing in markets not covered by alliance, participants retain national and ideological identities
Success Factors

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

Alliances with Asian Competitors

- Four common problem areas
  - Each partner had a different dream
  - Each must contribute to the alliance and each must depend on the other to a degree that justifies the alliance
  - Differences in management philosophy, expectations and approaches
  - No corporate memory

Cooperative Strategies in Japan: Keiretsu

- Inter-business alliance or enterprise groups in which business families join together to fight for market share
- Often cemented by bank ownership of large blocks of stock and by cross-ownership of stock between a company and its buyers and non-financial suppliers
- Keiretsu executives can legally sit on each other’s boards, share information, and coordinate prices
Cooperative Strategies in South Korea: Chaebol

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

21st Century Cooperative Strategies: Targeting the Digital Future

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

Beyond Strategic Alliances

- Next stage of evolution of the strategic alliance
  - Super-alliance
  - Virtual corporation
Companies must decide to expand by:
- Seeking new markets in existing countries
- Seeking new country markets for already identified and served market segments