CHAPTER 9

GLOBAL MARKET ENTRY STRATEGIES: LICENSING, INVESTMENT, AND

STRATEGIC ALLIANCES

**SUMMARY**

Companies that wish to move beyond exporting and importing can avail themselves of a wide range of alternative **market entry strategies**. Each alternative 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**. This 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.” Foreign direct investment can also be used to establish company operations outside the home country through **greenfield investment,** acquisition of an minority or majority **equity stake** in a foreign business, or taking **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***andSouth Korea’s ***chaebol*.**

To assist managers in thinking through the various alternatives, **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 be a reflection of a company’s stage of development (i.e. whether it is international, multinational, global, or transnational). The Stage 5 transnational combines the strengths of these three stages into an integrated network to leverage worldwide learning.

**OVERVIEW**

The various entry mode options form a continuum, (Figure 9-1), the level of involvement, risk and financial reward increases as a company moves from market entry strategies such as licensing to joint ventures and ultimately, various forms of investment.

When a global company seeks to enter a developing country market, there is an

additional strategy issue to address: whether to replicate the strategy that served the company well in developed markets without significant adaptation.

This is the issue that Starbucks is facing. 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 mindset. This may well mandate an adaptation strategy.

* **How do executives choose a market entry strategy?**

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 company executives choose will depend on their vision, attitude toward risk, how much investment capital is available, and how much control is sought.

**ANNOTATED LECTURE/OUTLINE**

## LICENSING

* **What is licensing?**

**Licensing** is as a contractual arrangement 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.

The licensed asset may be a brand name, company name, patent, trade secret, or product formulation. Licensing is widely used in the fashion industry.

Licensing is a global entry and expansion strategy, with considerable appeal. It can offer an attractive return on investment, provided that the necessary performance clauses are included in the contract. The only cost is signing the agreement and policing its implementation.

* **What are the major advantages and disadvantages associated with licensing?**

There are two key advantages associated with licensing as a market entry mode.

1. 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.
2. Licensees are granted considerable autonomy and are free to adapt the licensed goods to local tastes.

Licensing is associated with several disadvantages and opportunity costs.

1. Licensing agreements offer limited market control.
2. 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, licensees — especially those working with process technologies— can develop into strong competitors in the local market and, eventually, into industry leaders.

To prevent a licensor-competitor from gaining unilateral benefit, licensing agreements should provide for a cross-technology exchange between all parties. Overall, the licensing strategy must ensure ongoing competitive advantage.

# Special Licensing Arrangements

Companies that use **contract manufacturing** provides technical specifications to a subcontractor or local manufacturer. The subcontractor then oversees production.

* **What are the advantages of contract manufacturing?**

Such arrangements offer several advantages.

1. The licensing firm can specialize in product design and marketing, while transferring responsibility for ownership of manufacturing facilities to others.
2. The licensing firm has limited commitment of financial and managerial resources.
3. The licensing firm has quick entry into target countries, especially when the target market is too small to justify significant investment.

One disadvantage: Companies may open themselves to public criticism if workers in contract factories are poorly paid or labor in inhumane circumstances.

**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 policies and practices. (Table 9-1).

Franchising has great appeal to local entrepreneurs anxious to learn and apply Western-style marketing techniques.

The following questions should be asked of would-be franchisers before expanding overseas:

• 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?

The specialty retailing industry favors franchising as a market entry mode. (The Body Shop is an example.)

Franchising is a cornerstone of growth in the fast-food industry; McDonald’s reliance on franchising to expand globally is a case in point.

# INVESTMENT

* **When do companies move from exporting or licensing to investing?**

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.

Foreign direct investment allows companies to produce, sell, and compete locally in key markets.

The final years of the 20th century, the top three countries for U.S. investment were the United Kingdom, Canada, and the Netherlands. The United Kingdom, Japan, and the Netherlands were the top three investors in the U.S. during the same period.

Foreign investments may take t he form of minority or majority shares in joint ventures, minority or majority equity stakes in another company, or outright acquisition.

## Joint Ventures

A joint venture with a local partner represents a more extensive form of participation in foreign markets than either exporting or licensing. A **joint venture is** an entry strategy for a single target country in which the partners share ownership of a newly created business entity.

* **What are the major advantages and disadvantages of the joint venture?**
* By pursuing a joint venture entry strategy, a company can limit its financial risk as well as its exposure to political uncertainty.
* A company can use the joint venture experience to learn about a new market environment.
* Joint ventures allow partners to achieve synergy by combining different value chain strengths.
* 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.

* Joint venture partners must share rewards as well as risks.
* There is the potential for conflict between partners.
* A dynamic joint venture partner can evolve into a stronger competitor.

##### Investment via Ownership or Equity Stake

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. **Full ownership,** means that the investor has 100 percent control. This may be achieved by a start-up of new operations, known as, ***greenfield operations*** or ***greenfield investment***, or by merger or acquisition (M&A) of an existing enterprise.

If government restrictions prevent foreign majority or 100 percent ownership, by foreign companies, the investing company will have to settle for a minority equity stake. In Russia, for example, the government restricts foreign ownership to 49 percent.

An investing company may start with a minority stake and then increase its share (e.g., Volkswagen started with a 31 percent share in the Czech auto industry and then increased to 70 percent).

Large-scale direct expansion by means of new facilities can be expensive and require a major commitment of managerial time and energy. However, political or other environmental factors may dictate this approach. (Tables 9 -3 and 9-4)

Acquisition is an instantaneous—and even less expensive—approach to market entry or expansion.

Full ownership avoids communication issues and conflict, whereas acquisitions must integrate the acquired company and coordinate activities.

What is the driving force behind many of these acquisitions? It is globalization and the realization that globalization cannot be undertaken independently.

###### Several advantages of joint ventures also apply to ownership, including access to markets and avoidance of tariff or quota barriers.

Ownership permits technology transfer and access to manufacturing techniques (e.g., Stanley Works, a tool maker acquired companies such as a Taiwanese socket wrench manufacturer).

The alternatives —licensing, joint ventures, minority or majority equity stake, and ownership—are, points along a continuum of strategies for global market entry and expansion.

A global strategy may call for a combination of strategies.

Sometimes competitors within a given industry pursue different strategies.

It can also be the case that competitors within a given industry pursue different strategies.

**GLOBAL STRATEGIC PARTNERSHIPS**

* **Why would any firm seek to collaborate with another firm, be it local or foreign?**

Recent changes in the political, economic, sociocultural, and technological environments 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 shortened, and new communications technologies and trends have emerged.

Although these developments provide unprecedented market opportunities, there are strong strategic implications for the global organization and new challenges for the global marketer.

Today’s competitive environment is characterized by unprecedented degrees of turbulence, dynamism, and unpredictability; global firms must respond and adapt quickly.

**THE NATURE OF GLOBAL STRATEGIC PARTNERSHIPS**

The terminology used to describe the new forms of cooperation strategies varies widely. The phrases **collaborative agreements,** **strategic alliances, strategic international alliances**, and **global strategic partnerships** (GSPs) are frequently used to refer to linkages between companies from different countries to jointly pursue a common goal.

* **What are the main characteristics of strategic alliances?**

The strategic alliances discussed here exhibit three characteristics (see Figure 9-2).

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 the rate of 20 to 30 percent since the mid-1980s.

The upward trend for GSPs comes in part at the expsense of traditional cross-border mergers and acquisitions. A key driving force is the realization that globalization and the Internet will require new inter-corporate configurations. (Table 9 – 6).

GSPs are attractive for several reasons:

* High product development costs in the face of resource constraints may force a company to seek one or more partners.
* The technology requirements of many contemporary products mean that an individual company may lack the skills, capital, or know-how to go it alone.
* Partnerships may be the best means of securing access to national and regional markets.
* Partnerships provide important learning opportunities.

Because licensing agreements do not call for continuous transfer of technology or skills among partners, such agreements are not strategic alliances.

Traditional joint ventures are basically alliances focusing on a single national market or a specific problem.

* **A true global strategic partnership is known by five attributes. What are they?**

GSPs differ significantly from the market entry modes discussed earlier. A true global strategic partnership is different; it is distinguished by five attributes.

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.*

2. *The relationship is reciprocal. Each partner possesses specific strengths that it shares with the other; learning must take place on both sides.*

3. *The partners’ vision and efforts are truly global, extending beyond home countries and the home regions to the rest of 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.*

5. *When competing in markets excluded from the partnership, the participants retain their national and ideological identities.*

**SUCCESS FACTORS**

Assuming that a proposed alliance has the above 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.

1. *Mission*. Successful GSPs create win-win situations, where 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 up front 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.
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.
* **What are the guiding principles of successful collaborations?**

Companies forming GSPs must keep these factors in mind. Moreover, the following four principles will guide successful collaborators:

1. Partners must remember that they are competitors in other areas.
2. Harmony is not the most important measure of success – some conflict is to be expected.
3. All employees, engineers, and managers must understand where cooperation ends and competitive compromise begins.
4. Learning from partners is critically important.

**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.

Manufacturing excellence represents a competence that is not easily transferred.

To limit transparency, some companies involved in GSPs establish a “collaboration section” –this department is designed to serve as a gatekeeper through which requests for access to people and information must be channeled.

The most attractive partner in the short run is likely to be a company that is already established and competent in the business.

The best long-term partner, however, is likely to be a less competent player or even one from outside the industry.

Another common cause of problems is “frictional loss,” caused by differences in management philosophy, expectations, and approaches.

Short-term goals can result in the foreign partner limiting the number of people allocated to the joint venture.

**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.

**Boeing and Japan: A Controversy**

In some circle, GSPs have been the target of criticism. Critic warn that employees of a company that becomes reliant on outside suppliers for critical components will lose expertise and experience erosion like engineering skills. Such criticism is often directed at GSPs involving U.S. and Japanese firms. One team of researchers has developed a framework outlining the stages that a company can go through as it becomes increasingly dependent on partnerships:

**Step 1** Outsourcing of assembly for inexpensive labor

**Step 2** Outsourcing of low-value components to reduce product price

**Step 3** Growing levels of value-added components move abroad

**Step 4** Manufacturing skills, designs, and functionally related technologies move abroad

**Step 5** Disciplines related to quality, precision manufacturing, testing, and future avenues of product

derivatives move abroad

**Step 6** Core skills surrounding components, miniaturization, and complex systems integration

move abroad

**Step 7** Competitor learns the entire spectrum of skills related to the underlying core competence

**INTERNATIONAL PARTNERSHIPS in Developing Countries**

Central and Eastern Europe, Asia, India, and Mexico offer opportunities to enter gigantic and largely untapped markets. An obvious strategic alternative for entering

these markets is the strategic alliance. Potential partners trade market access for expertise.

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.

Russia is an excellent location for an alliance because the workforce is well-educated workforce, and quality is important to consumers.

Disadvantages include organized crime, supply shortages, and outdated regulatory and legal systems.

Hungary has the most liberal financial and commercial system in the region plus investment incentives to Westerners, especially in high-tech industries.

**COOPERATIVE STRATEGIES IN JAPAN: *KEIRETSU***

* **What is a *keiretsu* and why is it so important in global marketing?**

Japan’s *keiretsu* represent a special category of cooperative strategy. A **keiretsu** is an inter-business 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.”

 *Keiretsu* exist in a broad spectrumof markets, including the capital, primary goods, and component parts markets.

*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 each other’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. While not a market entry strategy per se, *keiretsu* 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 the latter’s influence is now weakening.

*Vertical* (i.e., supply and distribution) *keiretsu* are hierarchical alliances between manufacturers and retailers. For example, Matsushita controls a chain of 25,000

National stores in Japan through which it sells its Panasonic, Technics, and Quasar brands.

Another type of manufacturing *keiretsu* consists of vertical hierarchical alliances between

automakers and suppliers and component manufacturers. Suppliers do not work exclusively for Toyota, they have an incentive to be flexible and adaptable.

The *keiretsu* system ensured that high-quality parts were delivered on a just-in-time basis, a key factor in the high quality for which Japan’s auto industry is well known

Some observers have questioned whether *keiretsu* violate antitrust laws.

**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 around a central bank or holding company, and dominated by a founding family.

However, *chaebol* are a more recent phenomenon, dating from the early 1960s.

The *chaebol* were a driving force behind South Korea’s economic miracle; GNP increased from $1.9 billion in 1960 to $238 billion in 1990.

**TWENTY-FIRST CENTURY COOPERATIVE STRATEGIES: TARGETING THE DIGITAL FUTURE**

Increasing numbers of companies in all parts of the world are entering into alliances that resemble *keiretsu*. The phrase *digital keiretsu* is frequently used to describe alliances between companies in several industries—computers, communications, consumer electronics, and entertainment—that are undergoing transformation and convergence. These processes are the result of tremendous advances in the ability to transmit and manipulate vast quantities of audio, video, and data and the rapidly approaching era of a global electronic “superhighway” composed of fiber optic cable and digital switching equipment.

Companies in all parts of the world are entering into alliances that resemble *keiretsu*.

# Beyond Strategic Alliances

The “relationship enterprise” is said to be the next stage of evolution of the strategic alliance.

Relationship enterprises are groupings of firms in different industries and countries that will be held together by common goals that encourage them to act almost as a single firm.

More than the simple strategic alliances we know today, relationship enterprises will be super-alliances among global giants, with revenues approaching $1 trillion.

With home bases in all major markets, enjoy the political advantage of being a “local” firm almost anywhere.

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.

The virtual corporation would combine the twin competencies of cost effectiveness and responsiveness; thus, it could pursue the “think globally, act locally” philosophy with ease.

This reflects the trend toward “mass customization.”

# MARKET EXPANSION STRATEGIES

* **What market expansion strategies do U.S. companies typically pursue?**

Companies must decide whether to expand by seeking new markets in existing countries or, alternatively, seeking new country markets for already identified and served market segments.

These two dimensions in combination produce four **market expansion strategy** options, as shown in Table 9-7.

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.

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 Strategies 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, multi-business company such as Matsushita. Overall, Matsushita is multi-country in scope and its various business units and groups serve multiple segments. Thus, at the level of corporate strategy, Matsushita 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 9-7, 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.

**DISCUSSION QUESTIONS**

1. What are the advantages and disadvantages or using licensing as a market entry tool? Give examples of companies from different countries that use licensing as a global marketing strategy.

**Licensing:**

**Advantages:**

* Low cost entry alternative
* Allows licensor to circumvent tariffs, quotas, or similar export barriers
* Limits political risk and risk of expropriation

#### Disadvantages:

* A limited form of participation; licensor generally has no control on marketing program

associated with product produced under license.

* Financial upside limited by royalty rate.
* Licensees can become competitors.

2. The president of XYZ Manufacturing Company of Buffalo, New York, comes to you with a license offer from a company in Osaka. In return for sharing the company's patents and know-how, the Japanese company will pay a license fee of 5 percent of the ex-factory price of all products sold based on the U.S. company’s license. The president wants your advice. What would you tell him?

Assuming XYZ is a small manufacturer with limited international experience, and if the picture for both market and sales (market share) potential are promising, licensing can be an attractive entry mode. Possibly entry into the Japanese market could be expedited by following this approach, especially if distribution would be a problem. However, XYZ must carefully study the geographic scope of the agreement. Should licensed product be marketed only in Japan? Another concern for XYZ is that the licensee will become a stronger competitor once it has absorbed XYZ’s know-how. XYZ may wish to investigate other potential licensees before making a final decision. XYZ must also ensure that its patents are protected in Japan.

Overall, as Root (1994, 119) notes, “managers can rationally choose licensing as a primary entry mode only when they compare the expected profitability of a proposed licensing venture with the expected profitability of alternative entry modes.” Root suggests profit contribution analysis based on projections of incremental revenues and incremental costs associated with the licensing agreement.

Incremental revenues (excluding royalty revenues) for life of agreement:

* Lump-sum royalties
* Technical-assistance fees
* Engineering/construction fees
* Equity shares in licensee
* Dividends on equity shares

Incremental costs for life of agreement:

Opportunity costs

* Loss of current export revenues (if company currently exports)

Start-Up Costs

* Target market research
* Acquisition of local patent/trademark protection
* Negotiation of licensing agreement
* Training licensee’s employees

Ongoing Costs

* Periodic training/updating of licensee
* Maintaining local patent/trademark protection
* Quality supervision and tests

Source: Adapted from Franklin R. Root, *Entry Strategies for International Markets* (New York: Lexington Books), 1994.

3. What is foreign direct investment (FDI)? What forms can FDI take?

 **Joint Ventures:**

 **Advantages:**

* Allows for sharing of risk and combining complementary strengths, especially local market knowledge of target market partner.
* May be the entry mode most strongly supported by target market government.

**Disadvantages:**

* Corporate cultures and other interests of foreign partner and local partner may clash.
* Lack of mutual understanding frequently leads to “divorce.”
* Sharing means less control than in 100 percent ownership.

 **Direct Investment/Acquisition/Ownership:**

 **Advantages:**

* Acquisition can profit instant market access.
* Provides opportunities for technology transfer to parent.

**Disadvantages:**

* Problems may arise from efforts to integrate acquisitions into parent company.
* Requires greatest commitment of capital and managerial effort.
* Investment and ownership may evoke suspicion about foreign company exploitation. American companies in particular may be targets of accusations about “cultural imperialism.” Political risk is higher compared with other entry modes.

4. What is meant by the phrase *global strategic partnership*? In what ways does this form of market entry strategy differ from more traditional forms such as joint ventures?

The three key characteristics are independence subsequent to the formation of the alliance, a sharing of benefits as well as control over task performance, and ongoing contributions by both participants to technology-to-technology and other key strategic areas.

The type of joint ventures described in the chapter represents market entry strategies for a particular country market. For example, a great deal of the foreign direct investment in joint ventures in emerging markets such as India and China is for the purpose of gaining market access and serving the local market. GSPs such as Snecma are designed to serve world markets. The partners pool information, technology, and resources.

According to Perlmutter and Heenan, in a true GSP:

* Two or more companies develop long-term strategies for achieving world leadership.
* The relationship is reciprocal.
* Vision and efforts are truly equal.
* Lateral transfer of resources is essential.
* Participants continue to compete as distinct entities in markets not included in the agreement.

The success factors discussed in the chapter include the following:

* Mission that crates win-win situation
* One company may form different GSPs with various partners; strategy must be thought out in advance
* Partners must be on equal footing in matters of governance.
* Differences in corporate cultures must be explicitly recognized and managed accordingly. Some conflict is to be expected.
* Innovative designs (matrix etc.) may be required
* Appropriate decision-making processes must be adopted.

5. 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?

In its most general sense, the word *keiretsu* refers to connections between different companies. Japanese *Keiretsu* consists of a group of large companies with ties to a powerful bank, such as Mitsubishi Group. In Japan’s automobile industry, *keiretsu* take the form of vertical hierarchical relationships between the automakers and various component-manufacturing groups. Toyota is cited as an example in the chapter; other *keiretsu* include Nissan and Honda. In the consumer electronics industry, *keiretsu* alliances are forged between manufacturers and retailers. Matsushita is a case in point; other *keiretsu* in the electronics industry are the Hitachi Group, the Toshiba Group, and the Sony Group.

The presence of *keiretsu* can make it difficult for foreign companies to gain access to the Japanese market.

6. Which strategic options for market entry or expansion would a small company be likely to pursue? A large company?

Companies must address issues of marketing and value chain management before deciding to enter or expand their share of global markets by means of licensing or some form of direct investment. The particular market entry strategy company executives choose depends on their vision, attitude toward risk, how much investment capital is available, and how much control is sought.

**CASES**

**Case 9-1: Starbuck’s Global Expansion: The Assignment**

**Overview:** From modest beginnings in Seattle’s Pike Street Market, Starbucks Corporation has become a global marketing phenomenon. Today, Starbucks is the world’s leading specialty coffee retailer, with 2008 sales of $10.8 billion. Starbucks founder and chairman Howard Schultz and his management team have used a variety of market entry approaches—including direct ownership as well as licensing and franchising—to create an empire of more than 12,000 coffee cafés in 35 countries. In addition, Schultz has licensed the Starbucks brand name to marketers of noncoffee products such as ice cream. The company is also diversifying into movies and recorded music. However, coffee remains Starbucks core business; to reach the ambitious goal of 40,000 shops worldwide, Starbucks is expanding aggressively in key countries. **S**tarbucks has also been successful in other European countries, including the United Kingdom and Ireland. Greater China—including the mainland, Hong Kong, and Taiwan—represents another strategic growth market for Starbucks.

1. In the United States, about two-thirds of Starbucks outlets are company owned; the remaining one-third are operated by licensees. Outside the United States, the proportions are reversed: about two-thirds are run by licensees or partnerships in which Starbucks has equity stakes. What is the explanation for the two different market expansion strategies?

Starbucks’ relentless pursuit of new market opportunities illustrates the fact that most firms face a broad range of strategy alternatives. for Starbucks and other companies whose business models include a service component or store experience, exporting (in the conventional sense) is not the best way to “go global.” When a global company seeks to enter a developing country market, there is an additional strategy issue to address: whether to replicate the strategy that served the company well in developed markets without significant adaptation. This is the issue that Starbucks is facing. 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. Formulating a market entry strategymeans that management must decide which option or options to use in pursuing opportunities outside the home country. The particular market entry strategy company executives choose will depend on their vision, attitude toward risk, how much investment capital is available, and how much control is sought.

2. In response to the economic downturn, Starbucks recently launched a new line of instant coffee called VIA Ready Brew. The company also developed a breakfast value meal that costs less than $4. Do you agree with these decisions?

Student answer will tend to vary, but good students will cite key marketing mix criteria such as positioning, target markets, pricing, promotion and the “Starbuck’s experience” in their opinion. Also, students will / should cite wage income disparity across parts of the U.S. and other countries in their analysis of the $ 4.00 meal. The key question that needs to be asked, although only time can answer, is will VIA and the $4.00 erode the brand image for its target consumers faster than these two additions will *add* additional consumers?

3. In the long run, which company is more likely to win the global “coffee wars,” Starbucks or McDonald’s?

Pure conjecture on everyone’s part in trying to answer this question, although, the “depth” of resources available to McDonald’s gives them a decisive advantage.

**Ford Bets Billions on Jaguar**

**Overview: I**n 2008, Tata Motors paid the Ford Motor Company $2.3 billion for U.K.-based automakers Land Rover and Jaguar. Jaguar’s new owners face challenges of their own. Some have criticized the acquisition on the grounds that the brands are not compatible with the low-cost cars, trucks, and commercial vehicles that have long been Tata’s mainstays.

1. Assess Ford’s decision to introduce the X-Type to broaden Jaguar’s appeal from niche player to major competitor in the luxury segment.

In 2001, the long-awaited “baby Jaguar,” the $30,000 X-Type compact sport 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. Jaguar’s S-type represented the venerable automaker’s bid to become a mainstream luxury nameplate and double its North American sales to 80,000 cars each year. In terms of styling, the $45,000 S-Type recalls the classic Jaguar designs of the 1950s and 1960s. Worldwide, Jaguar executives hoped to quadruple sales from 50,000 units to 200,000 by 2003. Unfortunately, that goal proved to be unrealistic.

The strategy used for the distribution of the X-Type was not the one that needed to be used for the distribution of luxury cars. Ford’s management used the strategy of low-cost and public availability for the car that was supposed to compete with exclusive and expensive cars. Involvement of the general Ford strategy (the one used for American cars) to the distribution of the luxury cars could even worsen the public attitude toward Jaguars and make them less attractive for financially secure individuals, the potential buyers of the brand.

2. Tata Motors recently introduced the Nano, the world’s least expensive car. The Nano fits Tata's strategic goal of building a low-cost car for the Indian market. Can Tata succeed in targeting both the very low end of the auto market as well as the high end?

Yes, as long as Tata Motors understands the concepts of international marketing and producing products for niche markets and not try to “become everything to everyone”.

3. Do you think Jaguar and Land Rover will prosper under the ownership of Tata Motors?

Tata Motors must leverage its distribution system to allow it to use both the Jaguar and Land Rover networks around the world to even attempt at prosperity. Likewise, Jaguar and Land Rover need to pursue the strategy of “tying” into the strengths of Tata Motors in India buy increasing their dealer network and capitalizing on the growing middle and upper middle class Indian population.

**TEACHING TOOLS AND EXERCISES**

**Additional Cases:** “Samsung Electronic Co.: Global Marketing Operations”. John A. Quelch; anna Harrington: *HBS* 504051.

**Activities:** Students should be preparing or presenting their Cultural-Economic Analysis and Marketing Plan for their country and product as outlined in Chapter 1.

Students will find an example of company that has been / has altered its marketing and investment strategy(s) to compete in the global market. Students will explain why the strategy is being changed.

**Out-Of-Class Reading:** Bamford, James, David Ernst, and David G. Fubini. “Launching a World-Class Joint Venture,” *Harvard Business Review* 82, no. 2 (February 2004) pp. 91-100.

**Debate**: The Merits of the *Keiretsu.* Divide the class into two teams. Team A: The *keiretsu* violates anti-trust laws because it is anti-competitive. Team B: American companies should increase alliances patterned after the Japanese *keiretsu* because of Japanese success in the auto and electronics industries. Each team has 10 minutes to prepare, 5 minutes to present its arguments, and 5 minutes to refute the opposing team.

**SUGGESTED READINGS**

## Books

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Harbison, John R. and Peter Pekar. *Smart Alliances: A Practical Guide to Repeatable Success.* San Francisco: Jossey-Bass, 1998.

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Rugman, Alan. *The End of Globalization.* New York: Amacom, 2001.

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Beamish, Paul W. “The Characteristics of Joint Ventures in the People’s Republic of China.” *Journal of International Marketing* 1, no. 2 (1993), pp.29-48.

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Kim, W. Chan and Peter Hwang. “Global Strategy and Multinationals’ Entry Mode Choice.” *Journal of International Business Studies* 23, no. 1 (1992), pp. 29-54.

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Lin, Xiaohua, and Richard Germain. “Sustaining Satisfactory Joint Venture Relationships: The Role of Conflict Resolution Strategy.” *Journal of International Business Studies* 29, no. 1 (1998), pp. 179-196.

McDougall, Patricia. “New Venture Strategies: An Empirical Identification of Eight ‘Archetypes’ of Competitive Strategies for Entry.” *Strategic Management Journal* 11, no. 6 (October 1990), pp. 447-467.

Nair, Ajit S., and Edwin R. Stafford. “Strategic alliances in China: Negotiating the Barriers.” *Long Range Planning* 31, no. 1 (February 1998), pp. 139-146.

Reuer, Jeffrey. “The Dynamics and Effectiveness of International Joint Ventures.” *European Management Journal* 16, no. 2 (April 1998), pp. 160-168.

Sargent, John. “Getting to Know the Neighbors: *Grupos* in Mexico.” *Business Horizons* (November-December 2001), pp.16-24.

Shama, Avraham. “Entry Strategies of U.S. firms to the Newly Independent

States, Baltic States, and Eastern European Countries.” *California Management Review* 37 (Spring 1995) pp. 90-109.

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