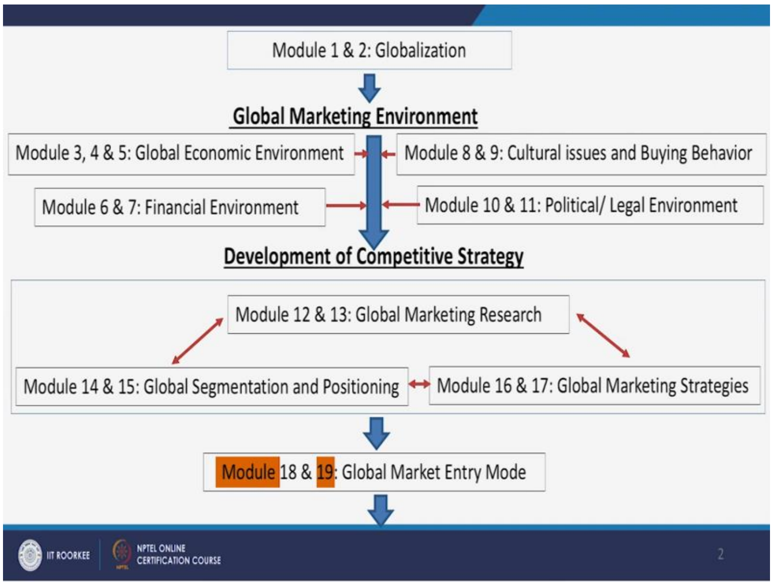
Global Marketing Management
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology - Roorkee

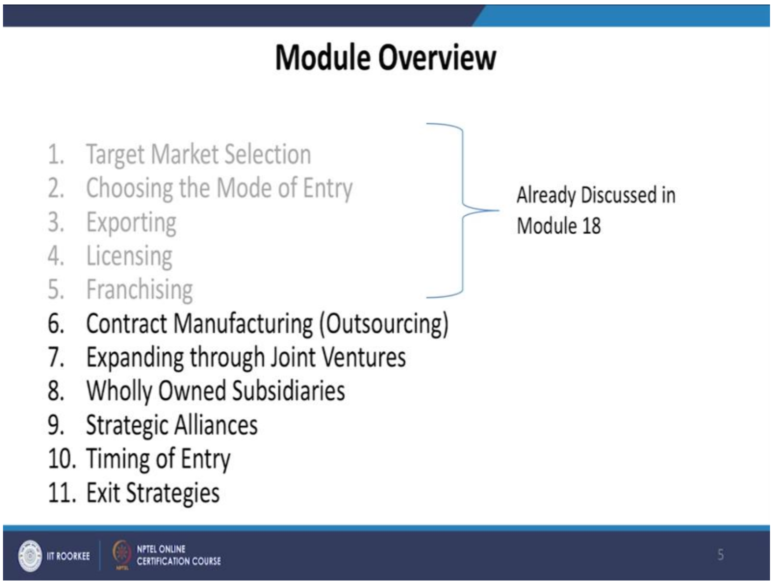
Module - 4
Lecture - 19
Global Market Entry Modes - Part II

Welcome to this course on Global Marketing Management. And we are talking about the various global market entry modes.

(Refer Slide Time: 00:29)



(Refer Slide Time: 00:33)



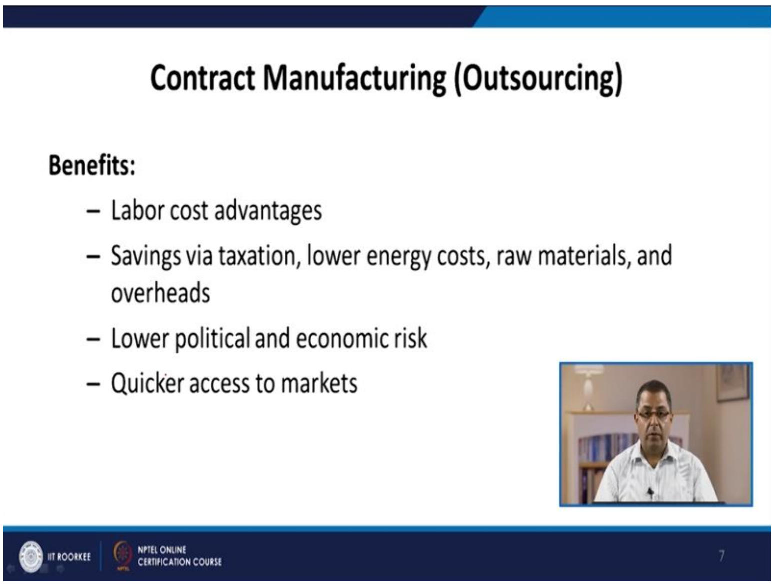
In module 18 we have seen the target market selection, choosing the mode of entry, and we have told about the 3 modes of entry. In this module, that is module 19, we will talk about the rest of the modes of entry and we will also discuss the importance of timing of entry in a particular country and the exit strategies. If your entry strategy is not correct, then you, then the company may have to exit to.

Therefore, we will also be talking about exit strategy. So, basically, we are talking of the various modes of entry, 1. Second, we will talk about, describe them and then talk about some of the more common advantages and disadvantages of those modes of entry. So, now look at the next mode of entry, that is contract manufacturing which is also termed as outsourcing.

(Refer Slide Time: 01:15)

So, it is an arrangement with a local firm to manufacture or assemble parts of a product or the entire product. But the marketing of this product is the responsibility of this international firm. For example, Hindustan Lever, Ponds, Park Davis, etcetera are some of the multinationals which employ this contract manufacturing kind of strategy.

(Refer Slide Time: 01:34)



The benefits are obviously the low cost, the labor cost advantages, saving via taxation, energy cost and raw material overheads. Then, it also has the advantage of lower political and economic risk. And it gives to quicker access to the markets.

(Refer Slide Time: 01:51)

But the problem is that the contract manufacturers may become a future competitor. The productivity standards of the contract manufacturer may be lower. There can be backlash from the company's home market employees regarding HR and labor issues. And the quality of production standards may be poor.

(Refer Slide Time: 02:11)

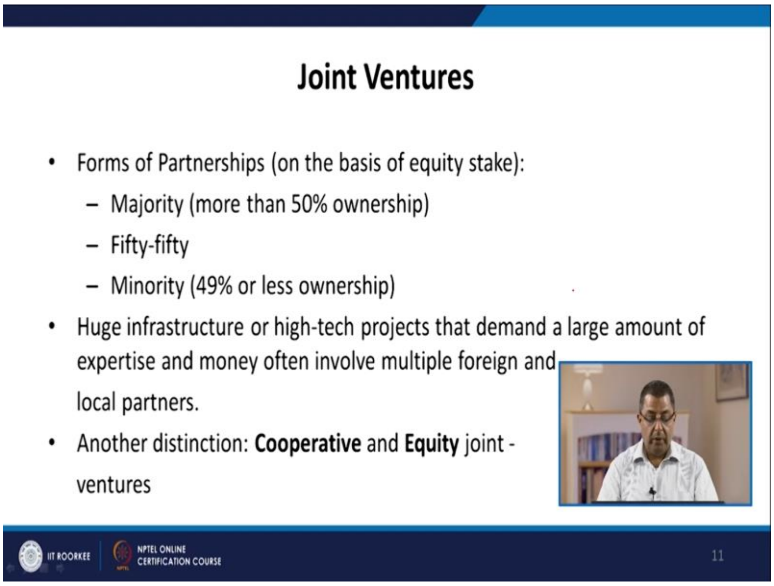
Now, look at what should be the abilities of an ideal subcontractor. First is, he should be flexible, geared towards just-in-time delivery. So, that will reduce cost for the company. He should be able to meet quality standards as specified by the company; should have a solid financial footings; ability to integrate with company's business and they should have contingency plan; contingency plans in case things go wrong. For example, flooding happened in Bangladesh and lots of British clothing manufacturers, they were, they had outsourcing manufacturing of their products to Bangladesh.

(Refer Slide Time: 02:55)

Another type of entry mode is joint ventures. That is the most common form of entry. So, any form of association or partnership which implies collaboration for more than a transitory or a small period of time. So, contract manufacturing outsourcing can be for a small period time but joint ventures are for a longer period time. With a joint venture, the foreign company agrees to share equity or other and other resources with other partners to establish new entity in the host country.

So, here it is important that they establisher new entity. The partners that they typically look for are local companies or the local government authorities, other foreign companies or a mix of local and foreign players. So, they come together and establish a new entity.

(Refer Slide Time: 03:45)

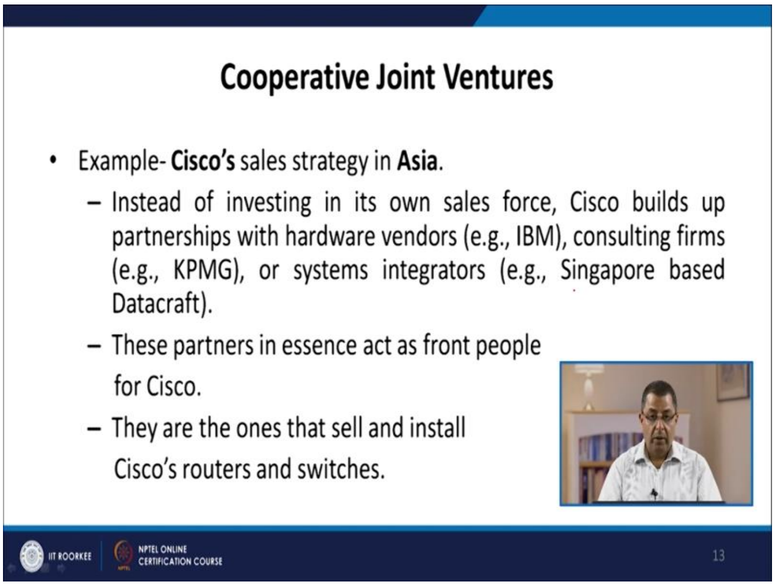


The various forms of partnership on the basis of equity are majority partners, that is more than 50% ownership. Then there can be 50-50 ownership or minority less than 49% of ownership. Huge infrastructure or high-tech projects that demand a large amount of expertise and money, often involve multiple foreign and local partners. Another distinction is between the cooperative and equity joint ventures.

(Refer Slide Time: 04:13)

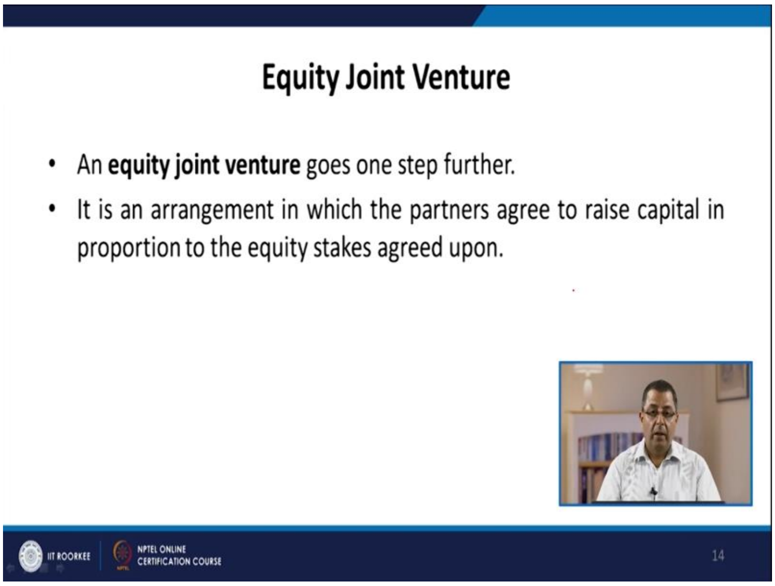
The cooperative joint venture is an agreement for the partners to collaborate but does not involve any kind of equity investments. For example, 1 partner might contribute manufacturing technology, whereas the other partner may provide access to the distribution channel. And the example is Cisco's sales strategy in Asia.

(Refer Slide Time: 04:34)



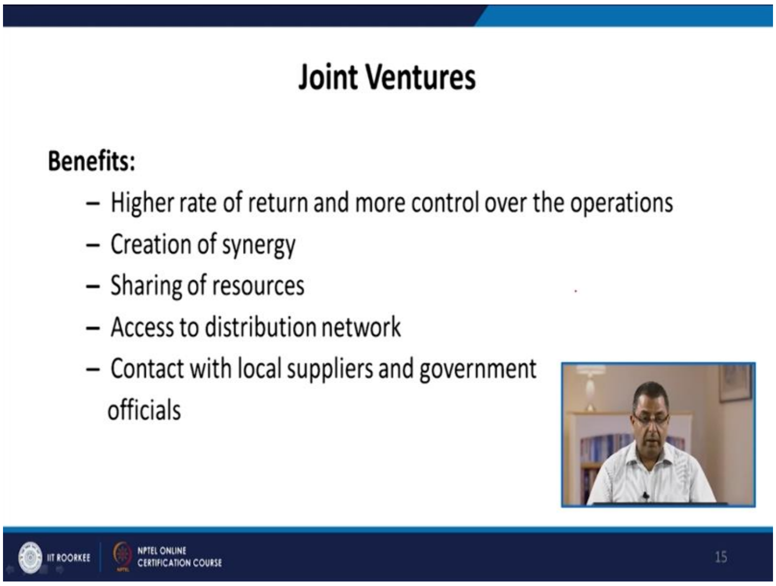
So, what Cisco did was, instead of investing in their own sales force, they build a partnership with hardware vendors for example, IBM and consulting firms like KPMG; or systems integrators for example, Singapore based Datacraft. These partners in essence act as front people for Cisco. They are the ones that sell and install Cisco routers and switches.

(Refer Slide Time: 04:59)



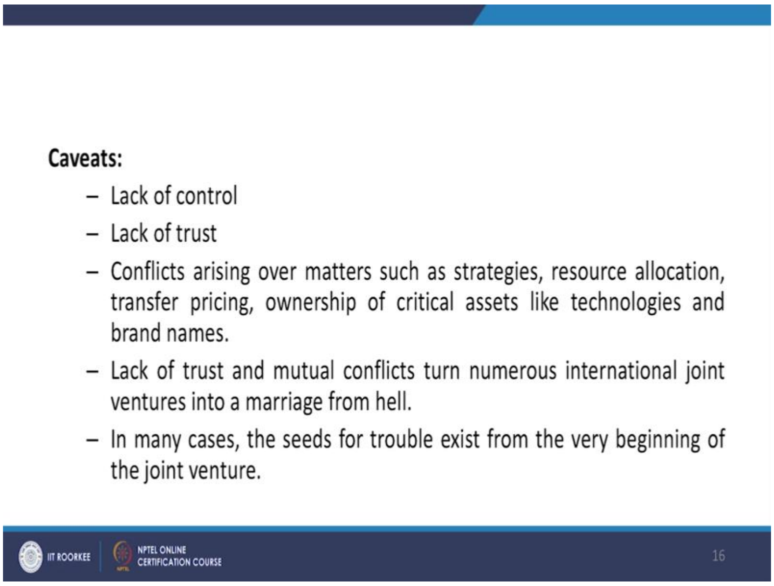
Then, another find, another form of joint ventures can be equity joint ventures and it goes a step further. So, in this arrangement, partners agree to raise capital in proportion to the equity stake agreed upon. So, it can be less than 50, it can be more than 50, it can be 50-50.

(Refer Slide Time: 05:17)



The benefits of joint ventures are that it gives higher rate of return and more control over the operations of the company. Then it leads to creation of synergy, sharing of resources, access to distribution network, contact with local suppliers and the government officials.

(Refer Slide Time: 05:35)



But the, but again the problem is that of lack of control over the operations, lack of trust between the partners. Conflicts arising over matters such as strategies, resource allocation, transfer pricing, ownership of critical assets like technologies and brand name. So, lack of trust and mutual conflicts turn numerous international joint ventures into marriage from hell. And in many cases the seed of trouble exist from the very beginning of the joint ventures.

(Refer Slide Time: 06:03)

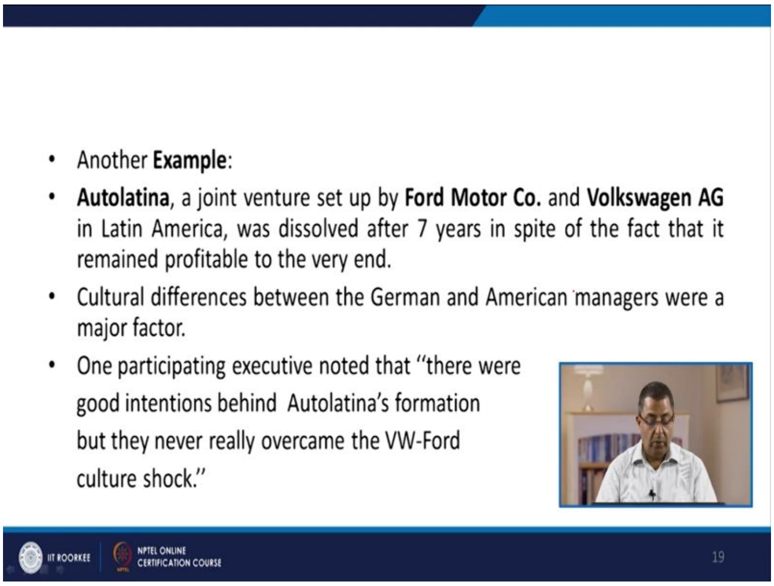
Conflicting Objective in Chinese Joint Ventures

	Foreign Partner	*Chinese Partner*
Planning	Retain business flexibility	Maintain congruency between the venture and the state economic plan
Contracts	Unambiguous, detailed, and enforceable	Ambiguous, brief, and adaptable
Negotiations	Sequential, issue by issue	Holistic and heuristic
Staffing	Maximize productivity; fewest people per given output level	Employ maximum number of local people
Technology	Match technical sophistication to the organization and its environment	Gain access to the most advanced technology as quickly as possible
Profits	Maximize in long term; repatriate over time	Reinvest for future modernization; maintain foreign exchange reserves
Inputs	Minimize unpredictability and poor quality of supplies	Promote domestic sourcing
Process	Stress high quality	Stress high quantity
Outputs	Access and develop domestic market	Export to generate foreign currency
Control	Reduce political and economic controls on decision making	Accept technology and capital but preclude foreign authority infringement on sovereignty and ideology

Now, you see that there can be various kind of objectives of the various partners. And the, in this slide we are talking about conflicting objectives in Chinese joint ventures. So, in planning, the foreign partners, they retain business flexibility while the Chinese partners want to maintain congruency between the venture and the state economic plan. In contracts, foreign partners wants unambiguous, detailed and ambiguous and enforceable plans contracts while the Chinese want ambiguous, brief and adaptable contracts.

The what the foreign partners want in technologies to match technological sophistication to the organization and its environment, while the Chinese partners they want to gain access to most advanced technology as quick as possible. So, these are some of the conflicting objectives that are outlined in this slide.

(Refer Slide Time: 07:00)



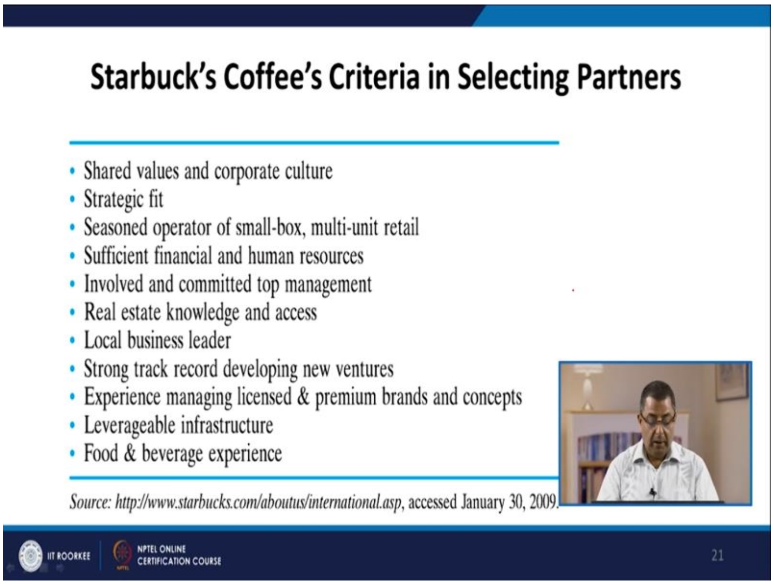
Now, look at the example. Autolatina, a joint venture set up by Ford motor company and Volkswagen AG in Latin America was dissolved after 7 years in spite of the fact that it remained profitable to the very end. Cultural differences between German and American managers were a major factor for that. 1 participating executive noted that there were good intentions behind Autolatina's formation, but they never really overcome the Volkswagen Ford and Ford cultural shock.

(Refer Slide Time: 07:36)

What are the drivers for a successful international joint ventures? So, the very first and the most important is to pick the right partner and have clear objectives from the beginning. And therefore, you also have to, if they are coming from, if the partners are coming from different countries, then there is a need to bridge the cultural gap. And to gain top managerial commitment and respect; use incremental approach.

And create a launch team during the launch phase, so that the team is able to build and maintain strategic alignment, create a governance system, manage the economic interdependencies and build the organization for the joint ventures.

(Refer Slide Time: 08:20)



Now, look at the Starbuck Coffee's criteria in selecting partners. So, the first is the shared value and corporate culture. Then is the strategic between, strategic fit between the Starbuck and the overseas partner. It should be a seasoned operator of small box, multi-unit retail; should have sufficient financial and human resources; involved and committed top management to this joint venture.

They should have real estate knowledge and access to the real estate; they should be local business leaders; have a strong track record in developing new ventures; they should have experience in managing licensed and premium brands and concepts; they are able to leverage infrastructure and they should have food and beverage experience. And this is taken from this website.

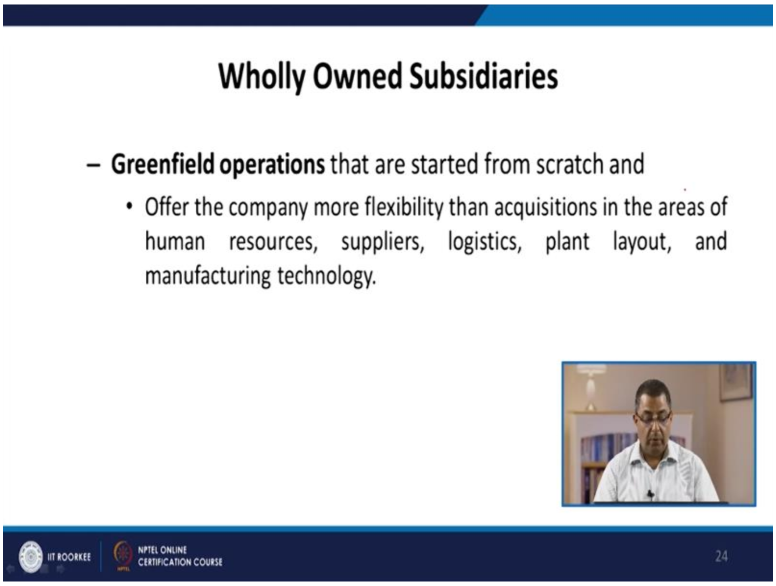
(Refer Slide Time: 09:11)

Another important market entry mode are global wholly owned subsidiaries. So, companies with long term and sustainable interest in the foreign market normal establish fully owned manufacturing facilities. So, companies now their fully owned subsidiaries. Those companies who have a long-term and sustainable interest in this foreign market. The factors encouraging the establishment of production facilities in foreign market that they include the trade barriers, difference in the production and other cost; and the government policies.

(Refer Slide Time: 09:44)

Ownership strategies in foreign markets can take 2 routes. 1 is acquisitions, that you buy something where the MNCs buy up existing companies and provide quick access to the local market and good way to get access to the local brands.

(Refer Slide Time: 09:58)



Or other can be greenfield operations that are started from scratch and offer the company more flexibility than acquisitions in the area of human resources, suppliers, logistics, plant layout, manufacturing technology and culture.

(Refer Slide Time: 10:13)

The benefits of a wholly owned subsidiary is that it gives the most control over the operations and thus giving higher profits. It also shows strong commitment to the local market on the part of the company. Allow the investor to manage and control marketing production and sourcing decisions.

(Refer Slide Time: 10:31)

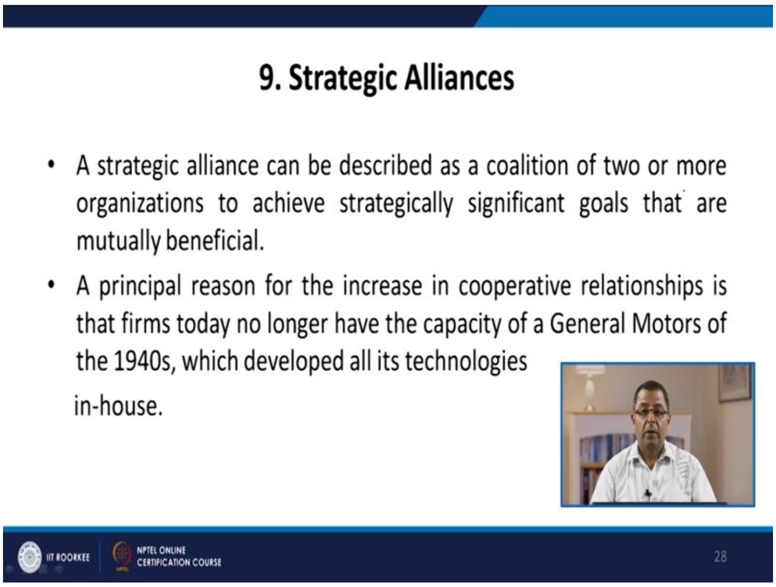
But, the problem is, the problems are, the there are several risk of full ownership. Developing a foreign presence without the support of a third party. Then there is a risk of nationalization, issue of culture and economic sovereignty of the host country.

(Refer Slide Time: 10:48)

Open hostility towards foreign companies can also complicate acquisition plans. For example, a joint $10.5 billion bid by Cadbury and Nestle to buy Hershey's food; and this is the U.S. chocolate manufacturer; got derailed in part of strong opposition from for a foreign takeover from the local communities. So, that is why this went, this was not able to get through. Wholly owned subsidiaries may not be allowed or favored in some countries, particularly in low priority areas.

So, obviously, government wants more investment in higher priority areas as compared to low priority areas. And wholly owned subsidiaries means more investments. Moreover, this method demands sufficient financial and managerial resources on part of the company. Therefore, that increases the risk.

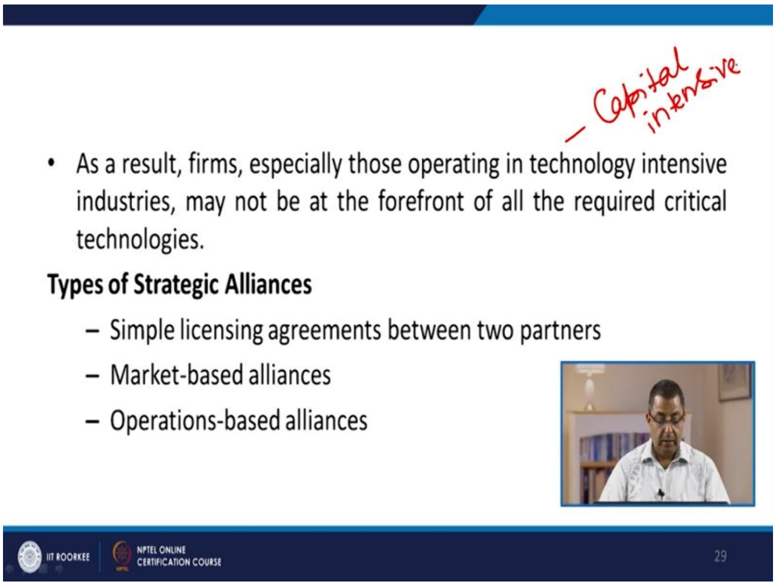
(Refer Slide Time: 11:46)



Now, a umbrella term for all these kinds of arrangement entry modes and where you can couple where you can put other some newer kind of arrangements also are called as a strategic alliances. So, they can be described as a coalition of 2 or more organizations to achieve strategically significant goals that are mutually beneficial. So, any kind of arrangement that leads to the coalition of 2 or more organizations to achieve strategically significant goals which should be mutually beneficial are called as a strategic alliances.

The principal reason for the increase in cooperative relationships is that, firms today no longer have the capacity of a General Motor of the 40s, which developed all its technology in house. So, they need to have technology, they need to have money, they need to have brands. Therefore, the companies, they enter into strategic alliances with each other.

(Refer Slide Time: 12:51)



As a result, firm especially those operating in technology intensive industries. And technology intensive industries means that it is more capital intensive, lots of money is required for developing technology. So, the firms may not have all those all that kind of money. In that case, in order to remain at the forefront of all the required critical technologies, these strategic alliances are required. The various types of a strategic alliances are: a simple licensing arrangement between 2 partners, market-based alliances or operations-based alliances.

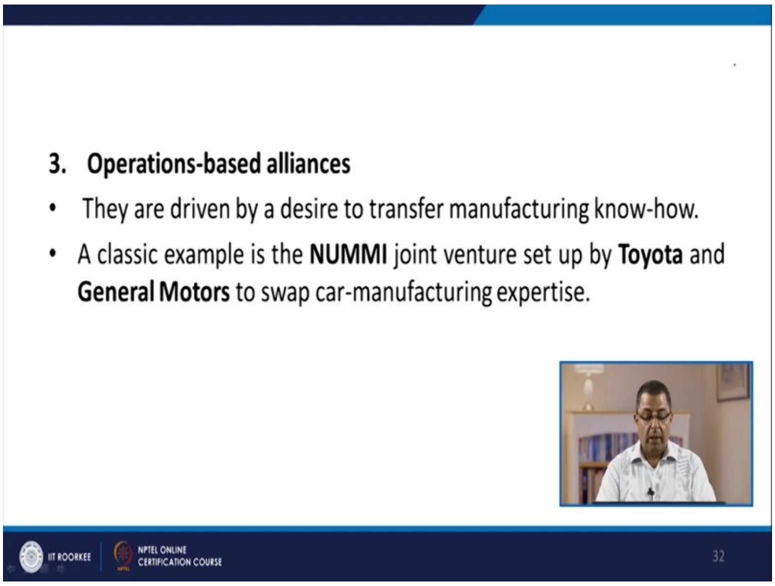
(Refer Slide Time: 13:34)

So, alliance based on technology swaps simple licensing arrangement. So, they are the most common in high-tech industries. Given the sky rocketing cost of new product development strategic alliances offer a means for the company to pool their resources and learn from one another. Such alliance must be struck from the position of strength. Bargaining chips must be patents that the company holds.

(Refer Slide Time: 14:00)

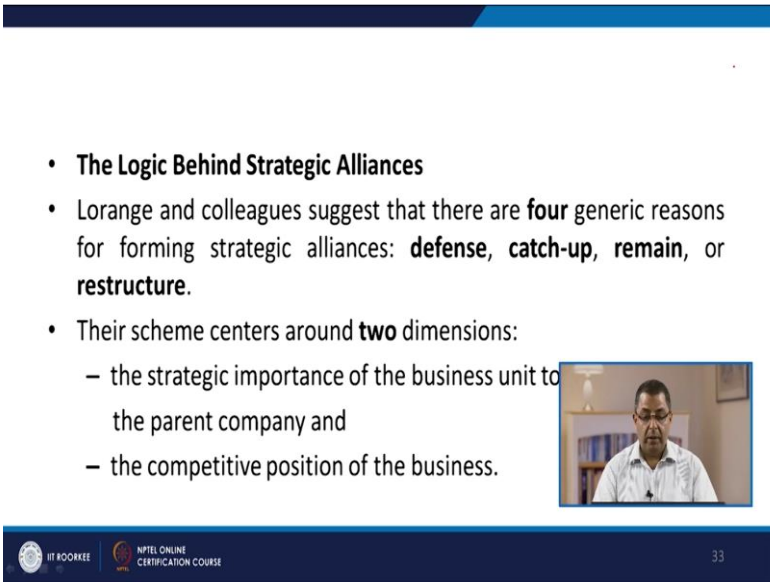
Then there are several types of marketing based alliances that involves market-based assets and resources such as access to the distribution channel and trademarks. The case in point is the partnership established by Coca Cola and Nestle to market ready to drink coffees and teas under the Nescafe and Nestea brand names. This deal allowed the 2 partners to combine a well-established brand name with the access to a vast proven distribution network. So, Coca Cola had the distribution network, while the Nestle had that kind of Coffee brand, so they came together for this winning combination.

(Refer Slide Time: 14:40)



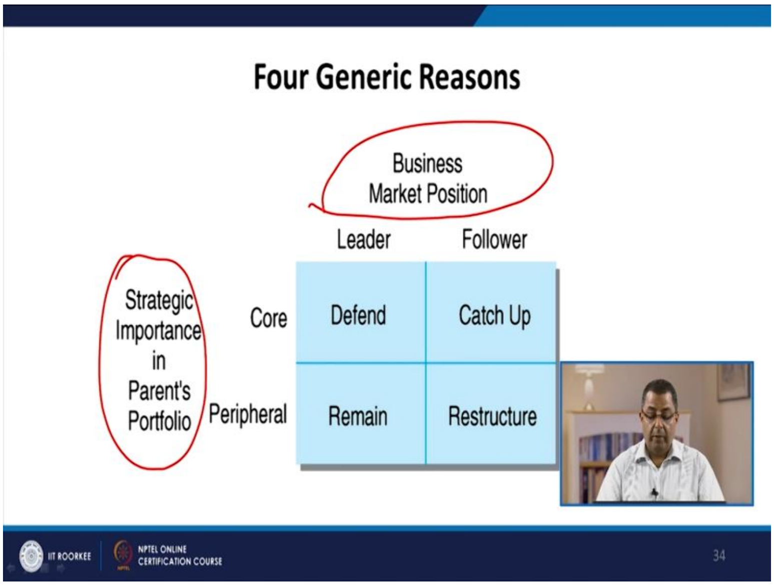
Then there are certain operations-based alliances. They are driven by desire to transfer manufacturing know-how. A classic example is the NUMMI joint venture setup by Toyota and General Motors to swap car manufacturing expertise.

(Refer Slide Time: 14:57)



The logic behind strategic alliances can so the it can be categorized into 4 generic reason for forming strategic alliances. The 4 reasons are the defense, catch-up, remain or restructure. And their scheme centers around 2 dimensions.

(Refer Slide Time: 15:20)

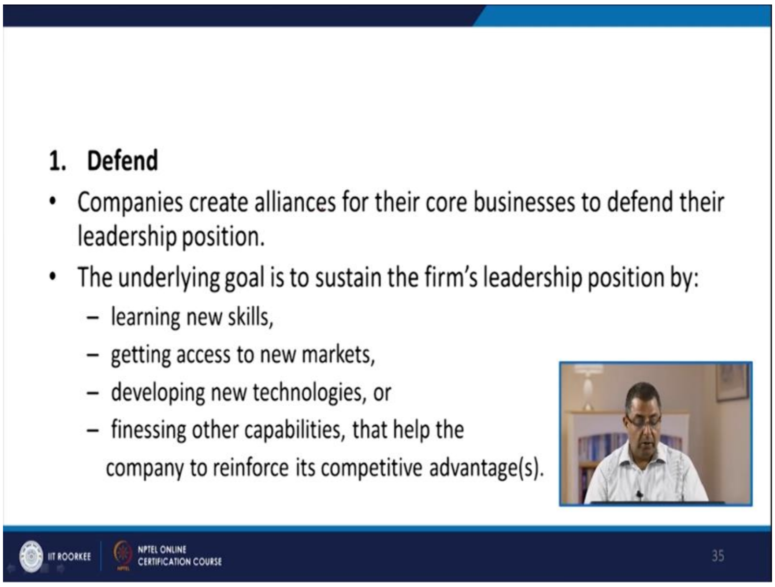


1 dimension is the strategic importance in the parent’s portfolio. So, that is on the y-axis. And on the x-axis we have business market position. So, and in, business market position can be that of leader and follower, while the strategic importance in parent portfolio can be core or peripheral. And this gives us 4 strategies. So, a business when the business market position is

that of a leader and the importance in parent portfolio is core, then you have to, then the company have to defend that.

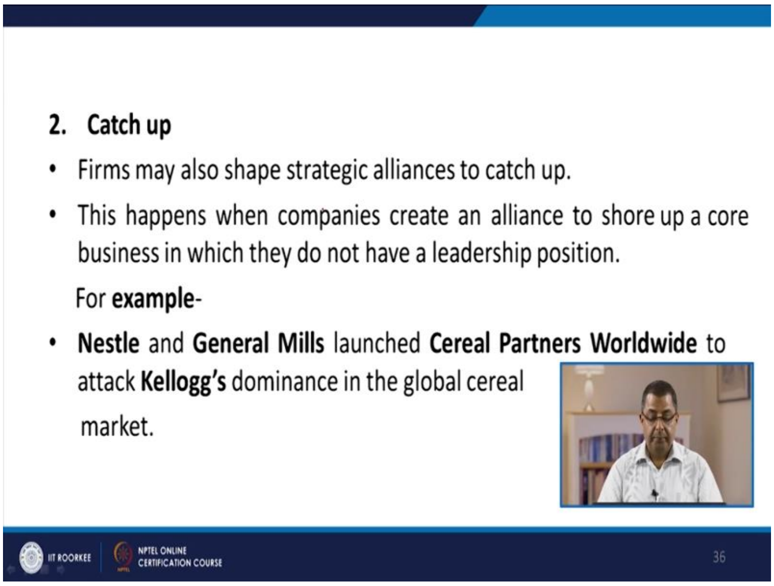
Similarly, when the business market position is that of a follower and it is core to the com parent's portfolio, then the company has to do catch-up. When the business market position is that of a leader, but the importance in parent's portfolio is peripheral, so there the company has to remain in this situation. While, when the business market position is that of a follower and the importance is peripheral, so therefore there is a need to restructure.

(Refer Slide Time: 16:27)



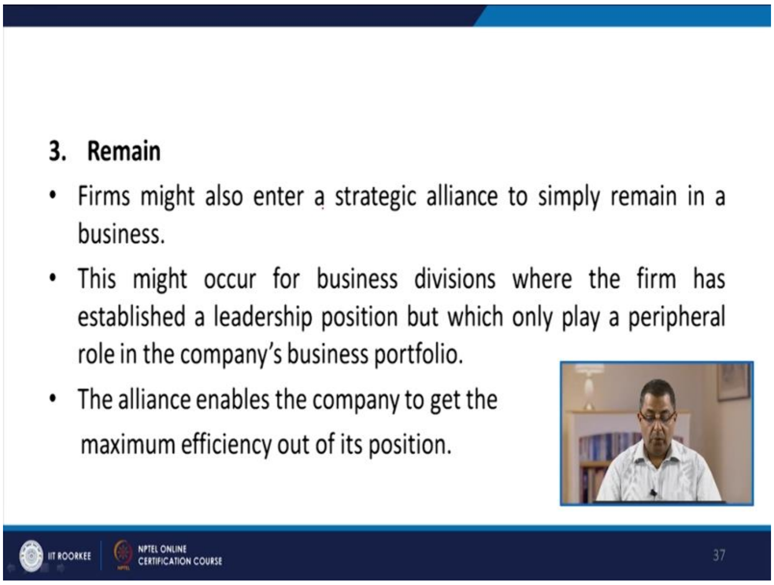
So, let us look at this defend in some more detail. So, companies create alliances for their core businesses to defend their leadership position. The underlying goal is to sustain the firm's leadership position by learning new skills, getting access to new markets or developing new technologies or finessing other capabilities that help the company to reinforce its competitive advantage.

(Refer Slide Time: 16:56)



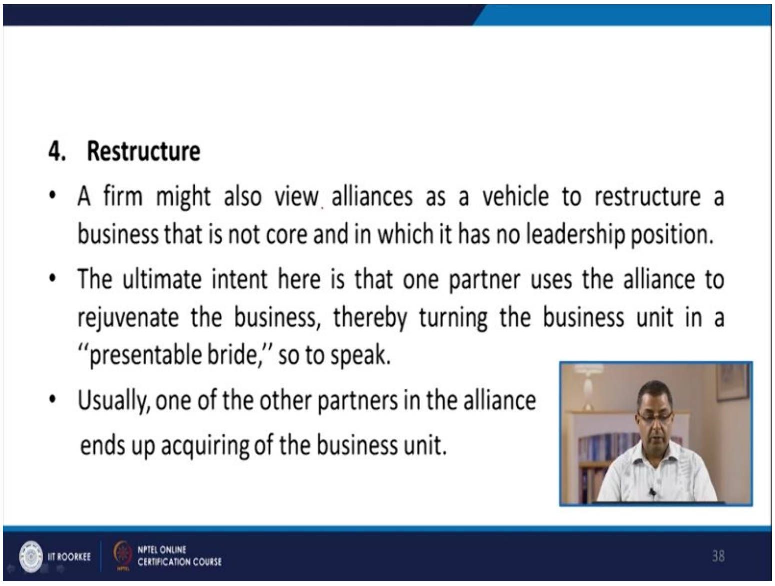
Catch up means that the firms may also shape strategic alliances to catch up; catch up on what they do not have. This happens when company create an alliance to shore a core business in which they do not have a leadership position. For example, Nestle and General Mills launched Cereal Partners Worldwide to attack Kellogg's dominance in the global cereal market. So, Kellogg's was dominant. Therefore, Nestle and General Mills, they came together to catch up with Kellogg.

(Refer Slide Time: 17:29)



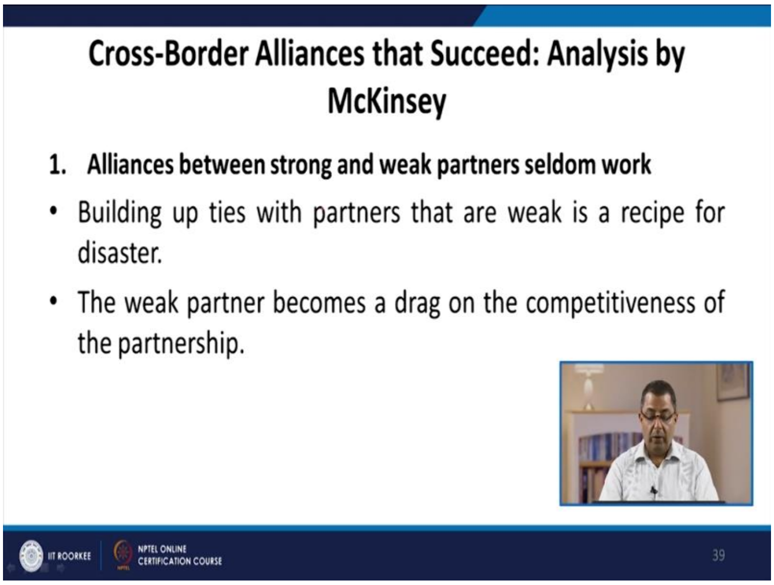
The third option is to remain. Firm might also enter a strategic alliance to simply remain in a business. This might occur for business divisions where the firm has established a leadership position but which only play a peripheral role in the parent company's portfolio. The alliance enable the companies to get the maximum efficiency of its position.

(Refer Slide Time: 17:49)



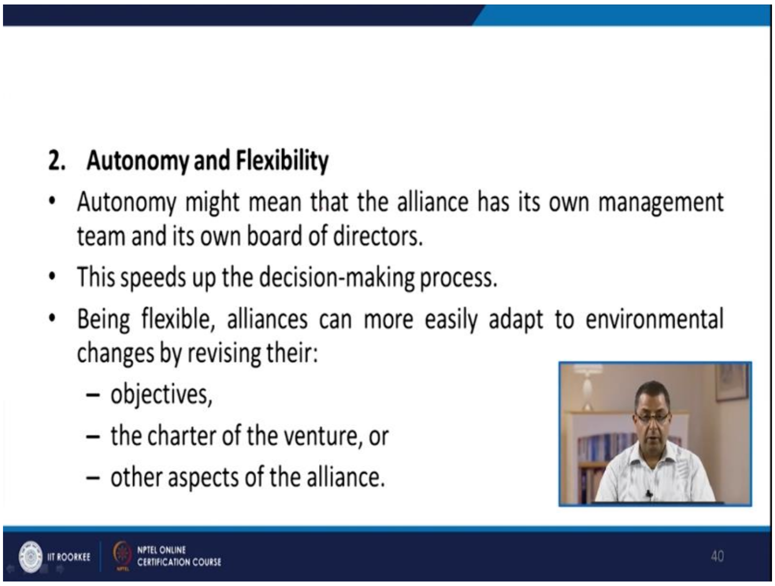
The last strategy is that to restructure. The firm might also view alliances as a vehicle to restructure a business that is not core. And in which they have no leadership positions. The ultimate intent here is that 1 partner uses the alliance to rejuvenate the business, thereby turning the business unit into a presentable bride. So, to speak, usually one of the other partners in the alliance ends up acquiring of the business unit.

(Refer Slide Time: 18:23)



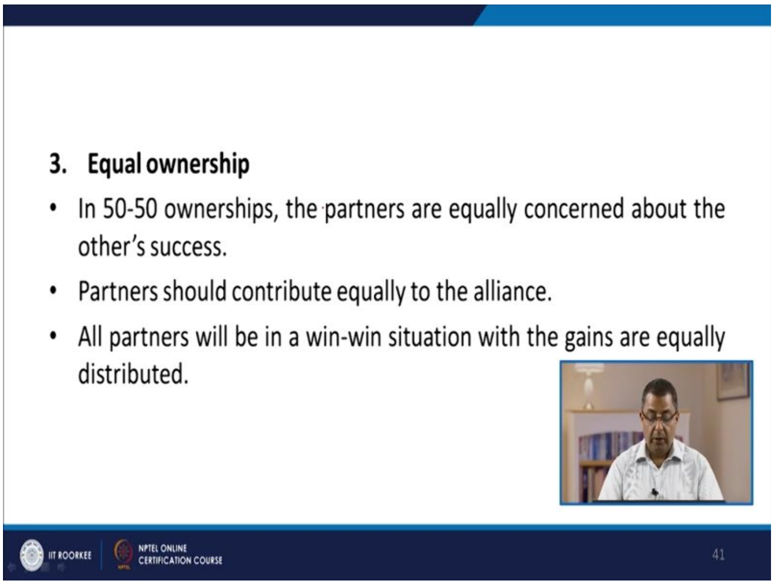
Now, which kind of cross-border alliances succeed? Let us look at a analysis done by McKinsey. So, alliances between strong and weak partners, this seldom work. Building up ties with partners that are weak is a recipe for disaster. So, there is a alliances between 2 equals. The week partners becomes a drag on the competitiveness of the partnership.

(Refer Slide Time: 18:48)



Another success factor is autonomy and flexibility. Autonomy might mean that the alliance has its own management team and its own board of directors. This speeds up the decision-making process. Being flexible alliances can more easily adapt to environmental changing, changes by revising their objectives, the charter of the venture or the other aspects of the alliance.

(Refer Slide Time: 19:15)

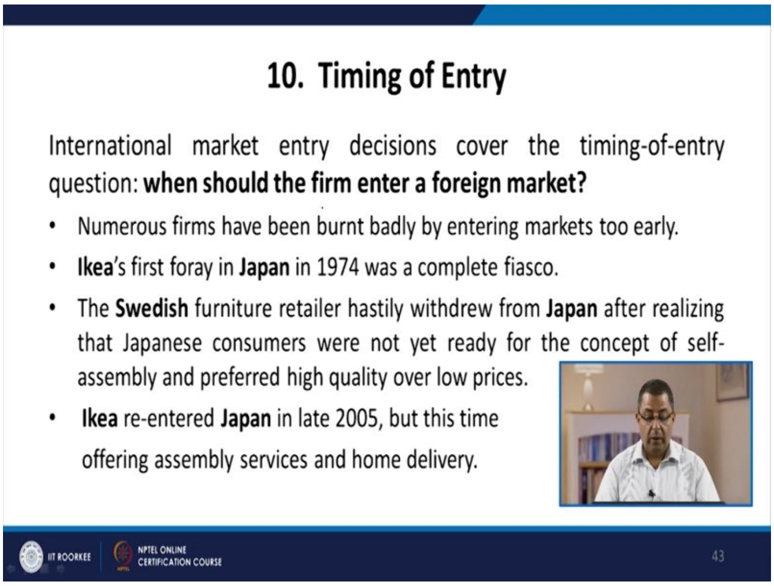


Equal ownership: In a 50/50 ownerships, partner are equally concerned about the other's success. And partners, they also contribute equally to the alliance. All partners will be in a win-win situation when the gains are equally distributed.

(Refer Slide Time: 19:29)

Other success factors include commitment and support of the top management; strong alliance managers are the key to success; alliances between partners that are related in terms of products, technology and markets. So, there should be some kind of synergy between partners. Have similar cultures, asset size and venturing experience and tend to start on a narrow basis and broaden over time.

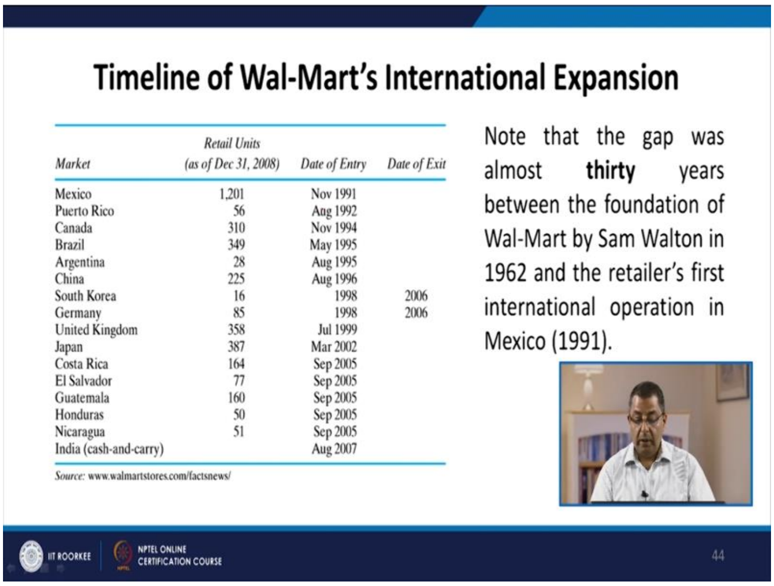
(Refer Slide Time: 19:53)



Now, another important thing that determines the success of a venture is the timing of venture. If the entry, if the timing of entry is correct, then the chances of this venture being successful are higher as compared to the otherwise. So, it is not only important, which markets you enter and with which kind of entry mode, but also at what time you enter is equally important. So, international market entry decisions cover the timing of entry positions.

When should the firm enter a foreign market. It, should it be today, should it be in 3 months later or in 2019 or 20? So, numerous factors, numerous firm have been burnt badly by entering markets too early. IKEA's first foray in Japan in 1974 was a complete fiasco. The Swedish furniture retailer hastily withdrew from Japan after realizing that Japanese consumers were not yet ready for the concept of self-assembly and preferred high-quality over low prices. IKEA reentered Japan in the late 2005 after more than 30 years. But this time, offering assembly service and home delivery.

(Refer Slide Time: 21:07)



Market	*Retail Units (as of Dec 31, 2008)*	*Date of Entry*	*Date of Exit*
Mexico	1,201	Nov 1991	
Puerto Rico	56	Aug 1992	
Canada	310	Nov 1994	
Brazil	349	May 1995	
Argentina	28	Aug 1995	
China	225	Aug 1996	
South Korea	16	1998	2006
Germany	85	1998	2006
United Kingdom	358	Jul 1999	
Japan	387	Mar 2002	
Costa Rica	164	Sep 2005	
El Salvador	77	Sep 2005	
Guatemala	160	Sep 2005	
Honduras	50	Sep 2005	
Nicaragua	51	Sep 2005	
India (cash-and-carry)		Aug 2007	

Source: www.walmartstores.com/factsnews/

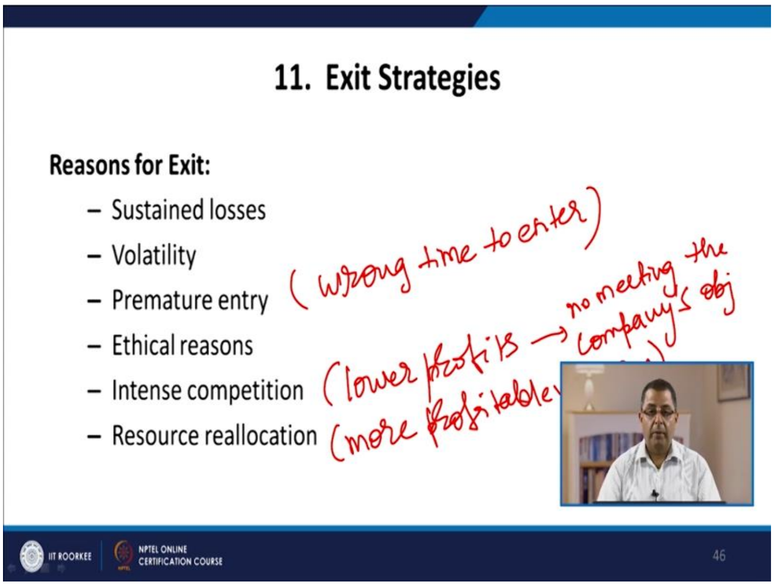
This shows the timeline of Walmart's international expansion. So, it entered into Mexico in 1, in November 2001, in Puerto Rico in 1992 and similarly in India, that was on cash and carry was in August 2007. While in South Korea and Germany they had to they entered in 1998 and exited in 2006. Note that, the gap was almost 30 years between the foundation of Walmart by Sam Walton in 1962 and the retailer's first international operation in Mexico in 1991. So, this it was about 30 years that it, that they took to venture into international operations.

(Refer Slide Time: 21:52)

Now, look at the factors that affect the global launch of a new product or service. Launch in the home market. Microsoft launched the Xbox video game console first in its home market. Then in Japan and then they came back in to Europe. Launch in a foreign market: Products are not always pioneered in the company's home market. Volkswagen New Beetle was first rolled out in United States and later on it was rolled out in Germany.

So, while Microsoft, they launched Xbox first in their own country, then they went to Japan and then to Europe. While Volkswagen, they launched New Beetle in United States and then in Germany. Toyota luxury car, marque Lexus was launched in July 2005 in Japan. More than 15 years after it 1989 debut in the United States. So, they first went to United States. And after 15 years, they came back to Japan, although Toyota is a Japanese company.

(Refer Slide Time: 22:57)



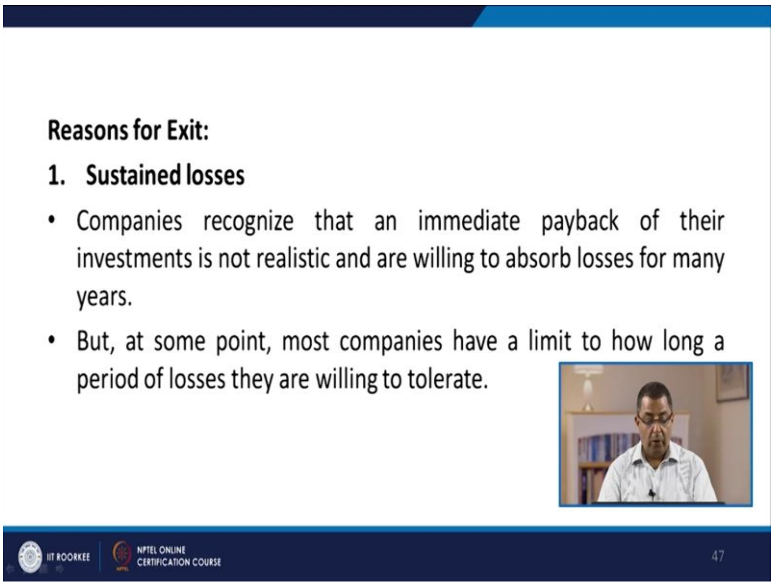
So, 1 is that you have done all kind of things, everything is going well. But, maybe just because of bad luck, you have to exit. In addition to bad luck, there can be a number of other reasons also. But, let us assume that every decision was taken correctly and just because of bad luck you are not doing good and therefore you need to exit. So, exit is also equally important as compared to entry.

Because, it will determine how and when you may reenter the same market. As you have seen in the example given earlier, where IKEA reentered in Japan after in 2005 after more than 30 years. So, there can be several reasons for exit. 1 is sustained losses; currency volatility; premature entry, that is the wrong time to enter. There can be ethical reasons, for example, bribery. The company may not want to give bribes and grease the palm.

Or, there can be intense competition. It means lower profits. And this may lead to not meeting the company's objectives. So, the company objective was to want 10% profits while because of increased competition they are earning only 8% profits over a sustained period. And then, resource reallocation. So, companies, they want to reallocate resources to more profitable ventures.

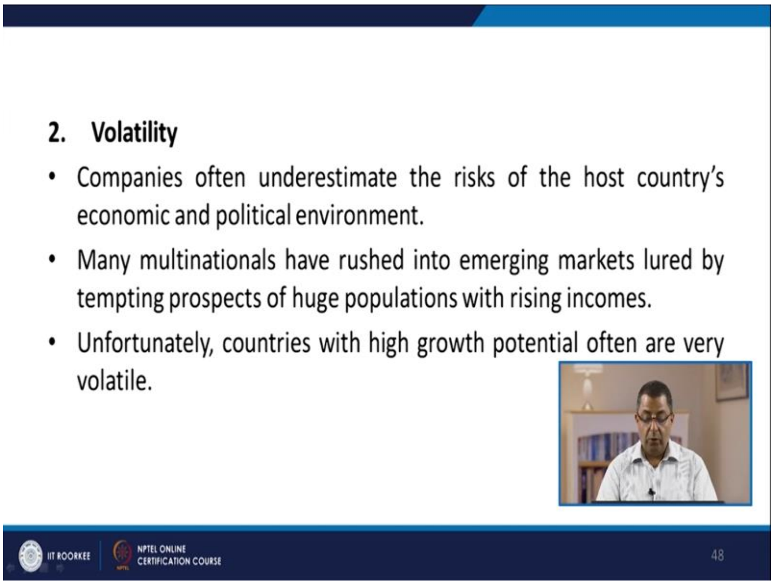
Because resources are scarce, so company has to decide where to allocate how much resources. So, obviously if a venture is not doing well, then they would, the company would like to take the resources from there and invest them somewhere else.

(Refer Slide Time: 25:06)



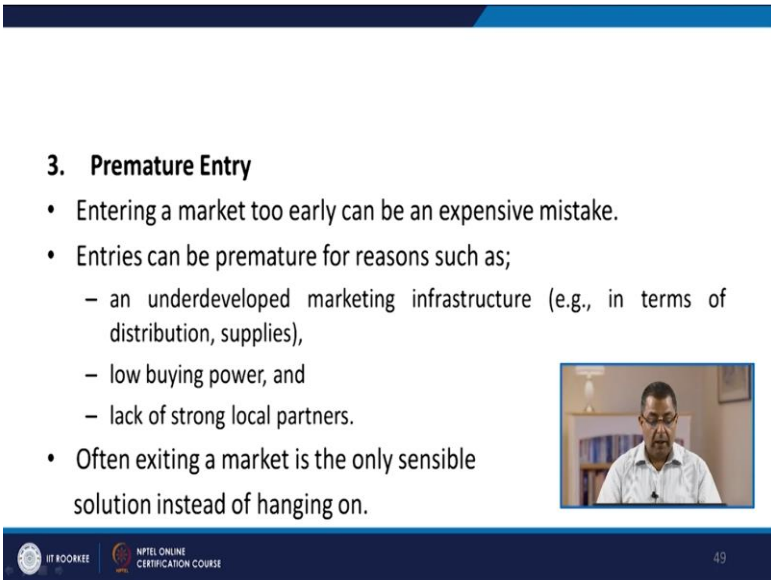
So, the company, the sustained losses means that the company recognize that an immediate payback of their investment is not realistic and are willing to absorb losses for many years. But at the same point, some companies have a limit to how long a period of loss that they are willing to tolerate and after that they will like to exit.

(Refer Slide Time: 25:28)



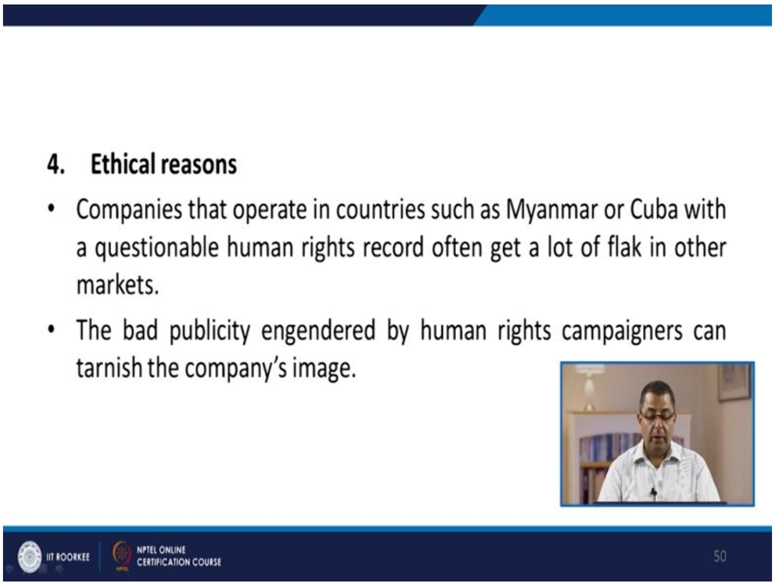
Volatility: companies often underestimate the risk of the host country economic and political environment. Many multinationals have rushed into emerging markets lured by prospects of huge population with increasing income and thereby huge markets. Unfortunately, countries with high growth potential often are very volatile.

(Refer Slide Time: 25:49)



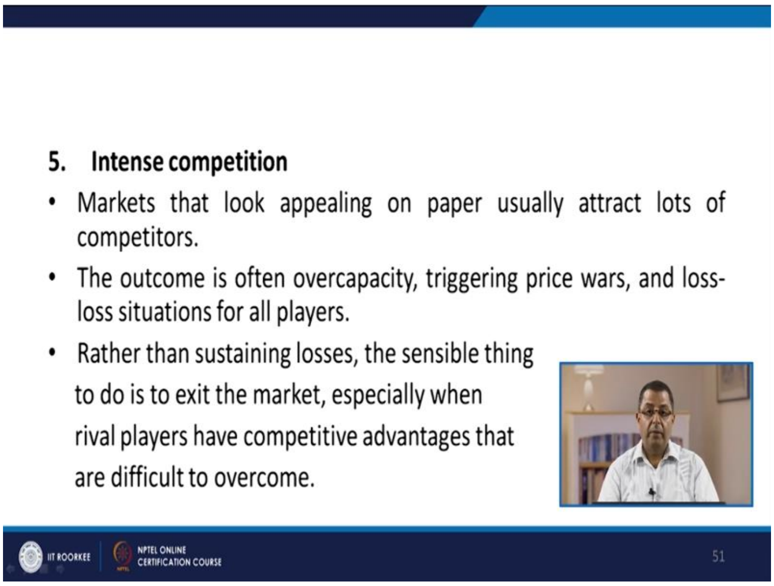
Then, another reason was premature entry. So, entering a market too early can be an expensive mistake. Entries can be premature for a variety of reasons, such as an underdeveloped marketing infrastructure in terms of distribution and supplies. There can be low buying power and lack of strong local partners. Often exiting a market is a only sensible solution instead of hanging on.

(Refer Slide Time: 26:14)



There can be ethical reasons. Companies that operate in countries such as Myanmar or Cuba with a questionable human rights record, often gets a lot of flak in other markets. The bad publicity engendered by human rights campaigners can tarnish the company's image.

(Refer Slide Time: 26:31)

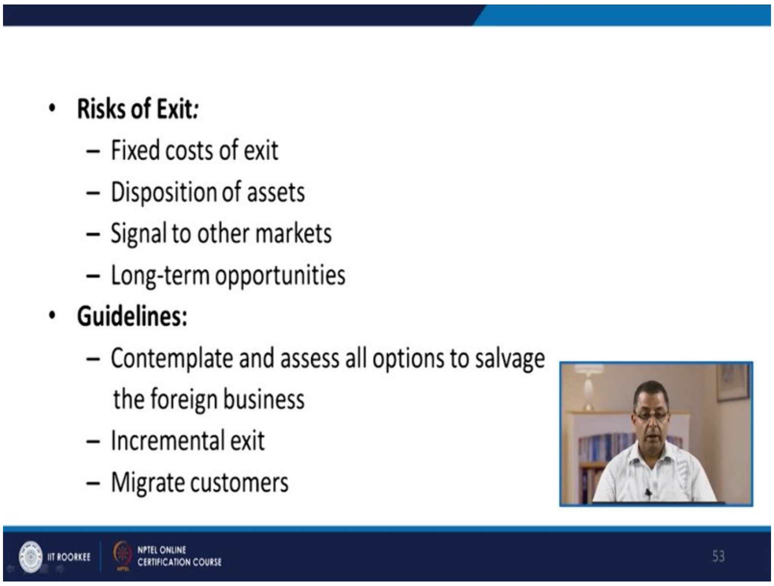


Then, there can be intense competition, markets that look appealing on paper, usually attract lots of competition. The outcome is often overcapacity that triggers price wars and loss-loss situation for all players. Rather than sustaining losses, the sensible thing to do is to exit the market, especially when rival players have competitive advantages that are difficult to overcome.

(Refer Slide Time: 26:56)

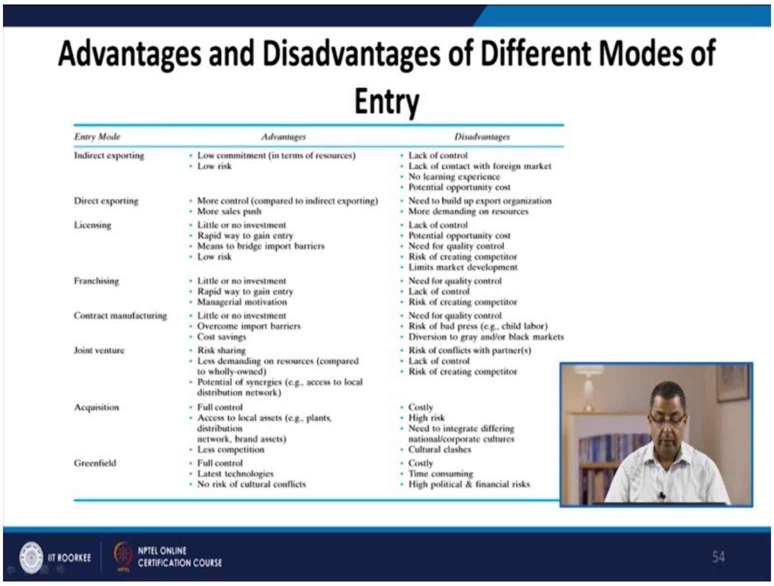
The next reason can be resource reallocation. A strategic review of foreign operations often leads to a shake-up of the company's country portfolio spurring the multinationals to reallocate its resources across markets. Poor results from global operations are often a symptom of over expansion.

(Refer Slide Time: 27:17)



The risk associated with exit are the fixed cost of exit. So, you have invested lots of money and then all those money will go waste. Disposition of assets: so, you may not get, the company which want to exit may not get the right valuation for the assets, then it also sends bad signal to other markets that this company is not here to stay and that leads to sacrificing of the long term opportunities. The guidelines to overcome all this is to contemplate and assess options to salvage the situation in the foreign business and do incremental exit and migrate customers.

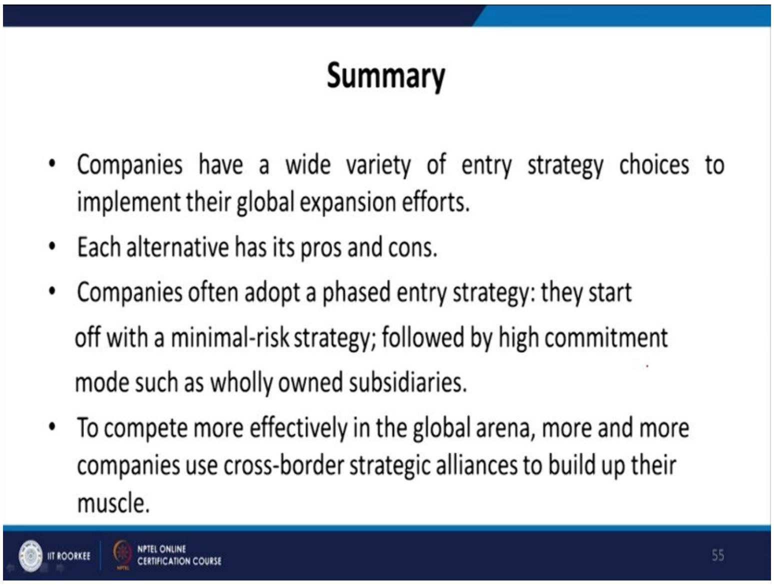
(Refer Slide Time: 27:58)



Entry Mode	*Advantages*	*Disadvantages*
Indirect exporting	• Low commitment (in terms of resources) • Low risk	• Lack of control • Lack of contact with foreign market • No learning experience • Potential opportunity cost
Direct exporting	• More control (compared to indirect exporting) • More sales push	• Need to build up export organization • More demanding on resources
Licensing	• Little or no investment • Rapid way to gain entry • Means to bridge import barriers • Low risk	• Lack of control • Potential opportunity cost • Need for quality control • Risk of creating competitor • Limits market development
Franchising	• Little or no investment • Rapid way to gain entry • Managerial motivation	• Need for quality control • Lack of control • Risk of creating competitor
Contract manufacturing	• Little or no investment • Overcome import barriers • Cost savings	• Need for quality control • Risk of bad press (e.g., child labor) • Diversion to gray and/or black markets
Joint venture	• Risk sharing • Less demanding on resources (compared to wholly-owned) • Potential of synergies (e.g., access to local distribution network)	• Risk of conflicts with partner(s) • Lack of control • Risk of creating competitor
Acquisition	• Full control • Access to local assets (e.g., plants, distribution network, brand assets) • Less competition	• Costly • High risk • Need to integrate differing national/corporate cultures • Cultural clashes
Greenfield	• Full control • Latest technologies • No risk of cultural conflicts	• Costly • Time consuming • High political & financial risks

The advantages and disadvantages of different modes of entry are summarized in the, in this slide.

(Refer Slide Time: 26:07)



Now, to sum up, companies had a wide variety of entry strategy choices to implement their global expansion efforts. So, therefore the company should evaluate the pros and cons of each of those entry. those mode of entry before deciding on which mode to adopt. Although, it is also possible that the company may be choosing more than one mode of entry in the same country or mode of 1 mode of entry across its various operations across the world.

So, companies often adopt a phased entry strategy. They start off with a minimum risk strategy, that is indirect exporting, followed by high commitment mode such as wholly owned subsidiaries. So, it is a step-by-step process. First to test the markets. And then, later on they go in for wholly owned subsidiaries, so that they can have more control over their operations. They can earn more profit, but at the same time the risk also increases.

Therefore, it is important that they choose the mode of entry very cautiously. To complete more effectively in the global arena, more and more companies use cross-border strategic alliances to build up their muscle. So, slowly and steadily they keep on testing the market. And then, over a period of time they build their muscle through strategic alliances. And these are the 2 books that has been used for the discussion on global market entry modes. Thank you.

(Refer Slide Time: 29:33)