Near East University

INTERNATIONAL MARKETING

MARK 402

Licensing, Strategic Alliances, FDI

SESSION 6

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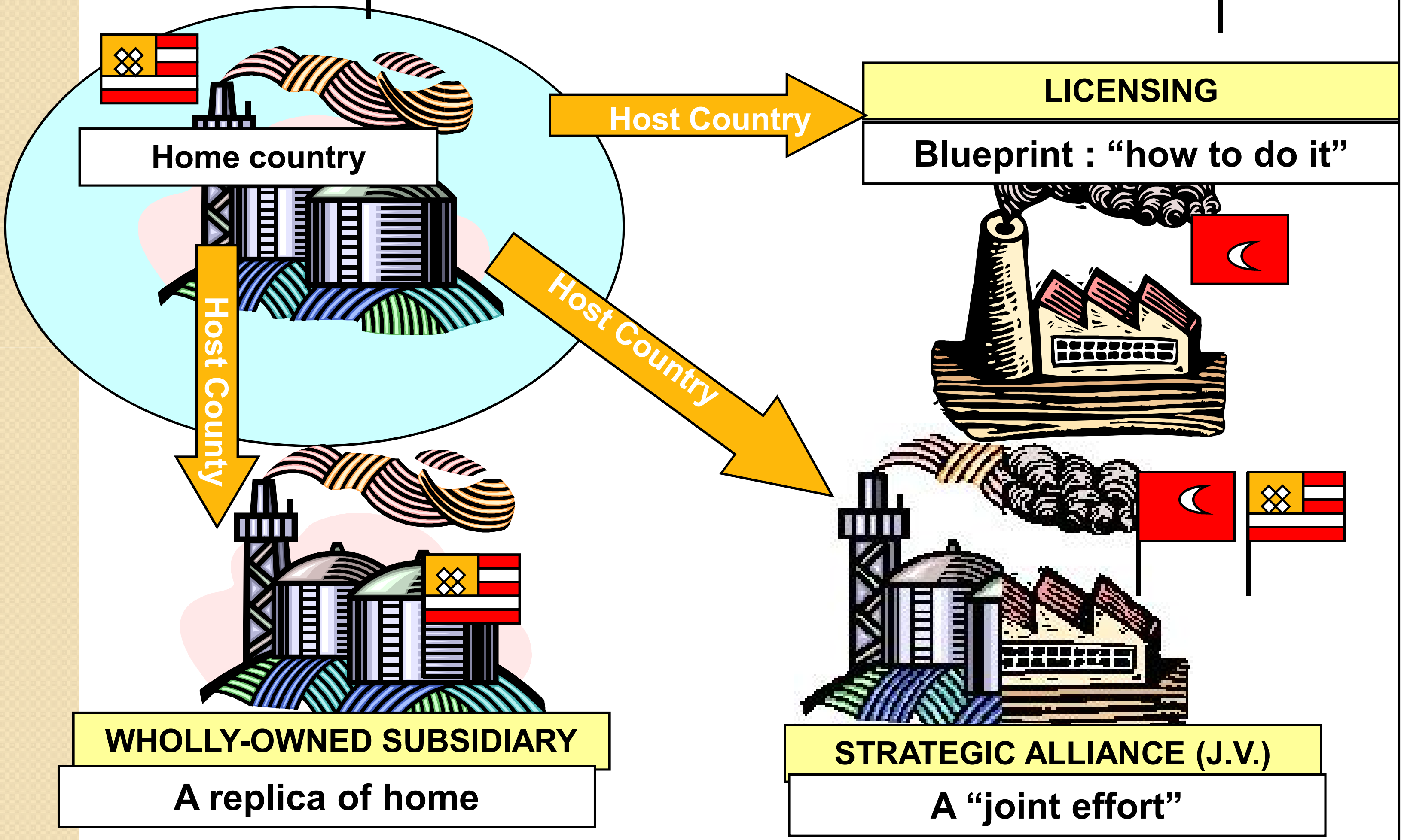
Source:Malhotra and Birks, et al. Chp 6

Three modes of entry



Licensing

- **LICENSING refers to offering a firm's know-how or other intangible asset to a foreign company for a fee, royalty, and/or other type of payment**
  - **Advantages for the new exporter**
    - **The need for local market research is reduced**
    - **The licensee may support the product strongly in the new market**
  - **Disadvantages**
    - **Can lose control over the core competitive advantage of the firm.**
    - **The licensee can become a new competitor to the firm.**

Franchising

- **Definition: franchising is a licensing option where the franchisor offers a local franchisee the use of the business model.**

- **The local franchisee:**
  - **raises the required capital to establish the business,**
  - **obtains real estate and capital investment**
  - **hires local employees, and establishes a place of business.**
- **The franchisor:**
  - **offers the use of a well-known brand name,**
  - **contractual promises of co-op advertising and promotion,**
  - **assistance in finding and analyzing promising locations,**
  - **training and a detailed blueprint for management.**

Franchising pros and cons

- **The Franchisor:**
- **Pro: The franchisor typically gets income as a royalty on gross revenues.**
- **Con: The franchisor needs to establish controls over the use of the brand name and the level of quality provided by the local operation.**
- **The Franchisee:**
- **Pro: The franchisee can start a business with limited capital and benefit from the business experience of the franchiser.**
- **Con: The franchiser's ability to dictate many facets of business operation limits local adaptation.**

Close-up: Fast Food Franchising

E.g. McDonalds, Wendy's, Dunkin Donuts, Yum (Pizza Hut, KFC, Taco Bell)

- **Has been growing in the last two decades**
- **Mitigates risk of financial exposure in other country markets**
- **Common method of penetrating new markets, leveraging existing brand names**
- **Firms provide pre-planning tools to entice local investors, including location advice.**
- **Coop advertising of the brand name**

Franchising a la McDonalds: Pros and Cons

- **Advantages**
  - **The basic "product" sold is a well-recognized brand name (50-50 split on advertising costs).**
  - **The franchisor provides various production and marketing support services to the franchisee (potatoes in Russia).**
  - **The local franchisee raises the necessary capital and manages the franchise .**
- **Disadvantages**
  - **Careful and continuous quality control is necessary to maintain the integrity of the brand name (Paris problem).**

Strategic Alliances

- Strategic Alliances (SAs)
  - Typically a collaborative arrangement between firms, sometimes competitors, across borders
    - Based on sharing of vital information, assets, and technology between the partners
    - Have the effect of weakening the tie between potential ownership advantages and company control

Equity and Non-Equity SAs

Equity Strategic Alliances

– **Joint Ventures**

Non-equity Strategic Alliances:

– **Distribution Alliances**

– **Manufacturing Alliances**

– **Research and Development Alliances**

Equity Alliances: Joint Ventures

- **Joint Ventures**
  - **Involve the transfer of capital, manpower, and usually some technology from the foreign partner to an existing local firm.**
  - **Examples include Rank-Xerox, 3M-Sumitomo, several China entries where a government-controlled company is the partner.**
  - **This was the typical arrangement in past alliances – the equity investment allowed both partners to share both risks and rewards.**
  - **Today non-equity alliances are common.**

Rationale for Non-Equity Alliances

- **Tangible economic gains at lower risk**
- **Access to technology**
- **Markets are reached without a long buildup of relationships in channels**
- **Efficient manufacturing made possible without investment in a new plant**

SA's allow two companies to undertake missions impossible for one individual firm to undertake.

- **Strategic Alliances constitute an efficient economic response to changed conditions.**

FDI: Acquisitions

- Instead of a "greenfield" investment, the company can enter by acquiring an existing local company.
- Advantages
  - Speed of penetration
  - Quick market penetration of the company's products
- Disadvantages
  - Existing product line and new products to be introduced might not be compatible
  - Can be looked at unfavorably by the government, employees, or others
  - Necessary re-education of the sales force and distribution channels

Entry Modes and Local Marketing Control

- The local marketing can be controlled to varying degrees, quite independent of the entry mode chosen. The typical global firm maintains a sales subsidiary to manage the local marketing. Examples:

	marketing control		
mode of entry	**independent agent**	**joint with alliance partner**	**own sales subsidiary**
exporting	Absolut vodka in the US	Toshiba EMI in Japan	Volvo in the US
licensing	Disney in Japan	Microsoft in Japan	Nike in Asia
strategic alliance	autos in China	EuroDisney	Black&Decker in China
FDI	Goldstar in the US	Mitsubishi Motors in US	P&G in the EU

The Internationalization Stages

- **Internationalization Stages**
  - **Stage 1 – Indirect exporting, licensing**
  - **Stage 2 – Direct exporter, via independent distributor**
  - **Stage 3 – Establishing foreign sales subsidiary**
  - **Stage 4 – Local assembly**
  - **Stage 5 – Foreign production**

Takeaway

Trade barriers will typically force the firm to un-bundle its value chain & engage in non-exporting modes of entry, such as licensing or strategic alliances -

- or invest in a wholly owned manufacturing subsidiary.

Takeaway

Licensing & strategic alliances may dilute firm specific advantages through transfer of know-how, but the need for partners with local knowledge and the need to reduce a firm's risk exposure offsets this.

Takeaway

The optimal mode of entry is to find a way over entry barriers, then to make trade-offs between strategic posture and the product/market situation.

Takeaway

In the past, foreign expansion started with culturally similar countries leveraging existing know-how in similar markets.

Now, with a higher commitment to international markets, we observe firms that are "born global". These firms sell abroad from the start.

Takeaway

When rapid entry into several countries is important, firms follow a “sprinkler” strategy, entering countries simultaneously.

Past patterns followed a less risky but slower “waterfall” strategy where firms gradually expand from country to country.

Takeaway

Controlling the local marketing effort:

• By establishing a sales subsidiary in the market country, the firm can control the local marketing effort quite independent of which particular mode entry mode has been chosen.