International marketing

Market Entry Strategies - Part 2

A strategic international alliance SIA

- A strategic international alliance is a business relationship established by two or more companies to cooperate out of mutual need and to share risks in achieving a common objective.
- A strategic alliance is also defined as a collaborative agreement between two or more firms to pursue a set of agreed goals, but the firms remain completely independent organizations.

- **Strategic international alliances are sought as a way to decrease weaknesses and increase competitive strengths.**
- **Perhaps the most visible SIAs are now in the airline industry. American Airlines, British Airways, Japan Airlines, are partners in the Oneworld Alliance, which integrates schedules and mileage programs.**

- Competing with Oneworld are the Star Alliance (led by United, Continental, and Lufthansa) and Sky Team (led by Air France, Delta, and KLM).
- International strategic alliances imply that **there is a common objective among partners**; that one partner's weakness is offset by the other's strength; that reaching the objective alone would be too costly, take too much time, or be too risky; and that together their respective strengths make possible what otherwise would be unattainable.

Firms enter into strategic international alliances (SIAs) for several reasons:

- Opportunities for rapid expansion into new markets.
- Access to new technology.
- More efficient production and innovation.
- Reduced marketing costs.
- Strategic competitive moves.
- Access to additional sources of products and capital.
- Evidence suggests that SIAs often contribute nicely to profits.

International Joint Ventures

- Joint venture (JV) is a partnership of two or more participating companies that have joined forces to create a separate legal entity.
- Joint venture is also defined as an enterprise in which two or more investors share ownership and control over property rights and operation.
- An international joint venture (IJV) is a JV composed of two or more firms from different countries.

- **International joint ventures** serve as a means of lessening political and economic risks by the amount of the partner's contribution to the venture.
- **International joint ventures** provide a way to enter markets that pose legal and cultural barriers that is less risky than acquisition of an existing company.
- E.g. a recent Conference Board study indicated that 40 percent of *Fortune* 500 companies were engaged in one or more **international joint ventures.**
- Particularly in telecommunications and Internet markets, joint ventures are increasingly favored.

Characteristics of joint ventures

- There are four characteristics that define joint ventures.

1. Joint ventures are established, separate, legal entities.
2. They acknowledge intent by the partners to share in the management of the joint venture.
3. They are partnerships between legally incorporated entities, such as companies, chartered organizations, or governments, and not between individuals;
4. Equity positions are held by each of the partners.

- In most cases, company resources, circumstances, and the reasons for wanting to do business overseas will determine if a joint venture is the most reasonable way to enter the overseas market.
- For example, firms tend to use joint ventures when they enter markets that are characterized by high legal restrictions or high levels of investment risks.

Factors contribute to success or failure of joint ventures

- There are several factors that contribute to success or failure of joint ventures such as:

1. How control is shared.
2. Relations with parents.
3. Institutional (legal) environments.
4. Marketing capabilities.
5. Experience.
6. The extent to which knowledge is shared across partners.
7. The choice of partners and the qualities of the relationships between the executives are important factors leading to success.

The attractiveness of joint ventures to international marketers

- A joint venture can be attractive to an international marketer:

1. When it enables a company to utilize the specialized skills of a local partner.
2. When it allows the marketer to gain access to a partner's local distribution system.
3. When a company seeks to enter a market where wholly owned activities are prohibited.
4. When it provides access to markets protected by tariffs or quotas.
5. When the firm lacks the capital or personnel capabilities to expand its international activities.

The advantages of Alliances and Joint Ventures

- Improving the efficiency, achieving economies of scale and scope that would be difficult for one firm operating alone to accomplish.
- Sharing of risks: by spreading risks between partners.
- Each partner has access to the knowledge and skills of the others.
- Mitigating political factors because a local partner can be very helpful in dealing with political risk factors such as restrictive legislations.
- Competition may be reduced by working in cooperation with another firm.

The advantages of Alliances and Joint Ventures cont'2

- Higher rate of return and more control over the operations.
- Sharing of resources.
- Access to distribution network.
- Creation of synergy: a synergy is created where the joint skills, resources and experience of the businesses collaborating far exceed those of the two businesses acting independently

The Disadvantages of Alliances and Joint Ventures

- Different cultures and management styles result in poor integration and co-operation.
- The partners don't provide enough leadership and support in the early stages.
- Loss of control over technology and managerial know-how.
- Partners do not have full control of management.
- Sharing of profit "pie”.
- Lack of trust.
- Conflicts with partners over matters such as strategies, resource allocation, transfer pricing, ownership of critical assets like technologies and brand names.

Direct Foreign Investment

- Direct foreign investment is investment within a foreign country.
- The international marketer makes such investments to create or expand a long-term interest in an enterprise with some degree of control.

Factors affect the structure and performance of direct investments

1. Timing—first movers have advantages but are more risky.
2. The growing complexity of contracts.
3. Transaction cost structures.
4. Technology and knowledge transfer.
5. Degree of product differentiation.
6. The previous experiences and cultural diversity of acquired firms.
7. Advertising and reputation barriers.

Wholly owned subsidiary

- A wholly owned subsidiary is an overseas operation that is totally owned and controlled by a multinational corporation (a parent company).
- Example, Starbucks Japan is a wholly owned subsidiary of Starbucks corporation.
- A popular example of a wholly owned subsidiary system is Volkswagen AG, which wholly owns Volkswagen Group of America, Inc. and its distinguished brands: Audi, Bentley, Bugatti, Lamborghini (wholly owned by Audi AG), and Volkswagen.

The advantages of wholly owned subsidiary

- Wholly owned subsidiaries give multinational corporations full control of their operations.
- It is often the ideal solution for companies that do not want to be loaded with all the risks and anxieties associated with other entry modes such as joint venturing.
- The managerial efficiency will be better without outside partners.
- Due to the sole ownership, it has been found that profits can be higher with this venture.
- There are clearer communications and shared visions.

The disadvantages of wholly owned subsidiary

- Wholly owned subsidiaries face a high risk with such a large investment in one area .
- Wholly owned subsidiaries is not very efficient with entering multiple countries or markets.
- The firm bears full cost.
- Many MNCs are quite reluctant to choose this particular mode of entry.

Mergers vs. Acquisitions

- A merger occurs when two firms join together to form one. The new firm will have an increased market share, which helps the firm gain economies of scale and become more profitable. The merger will also reduce competition and could lead to higher prices for consumers.
- Merger is also defined as the combination of two or more than two corporations maintaining the identity of one of the corporation.

- **Acquisitions**, usually involve a larger company absorbing a smaller company, sometimes against the will of the smaller company’s management.
- In recent years, a growing number of multinationals have acquired (fully or in part) their subsidiaries through mergers/acquisitions.

Types of Mergers and Acquisitions

1. Horizontal merger and acquisition involves that two companies operating and competing in the same kind of business activities.

- Horizontal merger and acquisition occurs between two or more firms who are direct competitors of one another. They serve the same market and produce substitute products.

- The goal of a horizontal merger and acquisition is to create a new, larger organization with more market share.
- An example, the merger or acquisition of two soft drink companies. A merger or acquisition between Coca-Cola and the Pepsi beverage division, for example, would be horizontal in nature. The firms are competitors producing similar products.

2. **Vertical merger and acquisition**. It occurs between companies in different stages of production operation in the same industry.

- This type involve a merger or acquisition between a customer and a company or a supplier and a company. **E.g. the merger or acquisition between** an automobile company and a parts supplier. Such a deal would allow the automobile division to obtain better pricing on parts and have better control over the manufacturing process. The parts division, in turn, would be guaranteed a steady stream of business.

3. **Conglomerate merger and acquisition.** It involve that firms engaged in unrelated types of business activities.

- It occurs between non-related companies. Two or more companies in different industries join forces or one takes over the other in order to broaden their range of services and products
- **In this type of merger and acquisition,** firms are not competitors, but use common or related production processes and/or marketing and distribution channels.

- There are two types of conglomerate mergers and acquisition: pure and mixed.
- Pure conglomerate mergers and acquisitions involve firms with nothing in common, while mixed conglomerate mergers and acquisitions involve firms that are looking for product extensions or market extensions.
- E.g. a merger or acquisition between the Walt Disney Company and the American Broadcasting Company.
- The merger between General Electric and NBC television.

- **Conglomerate mergers seldom occur today. However, conglomerate mergers were popular in the U.S. in the 1960s and 1970s. Many conglomerate mergers are divested shortly after they are completed.**

4. **Concentric merger and acquisition:** it occurs between companies in the same or related industries but do not offer the same products or services. In this types of merger and acquisition, the companies may share the same distribution channels.

- Example, the merger or acquisition between auto manufacturer and a motorcycle firms.
- Merger or acquisition between a manufacturer of sport equipment and a manufacturer of leisure wear.

The advantages of Mergers and Acquisitions

- MNCs may choose this route in order to quickly expand resources or construct high-profit products in a new market.
- Purchasing a majority interest in another company is a convenient way to expand.
- Reducing international competition. Mergers can help firms deal with the threat of multinationals and compete on an international scale.
- Increase the efficiency of the company.
- Merger and acquisition are legally simple and do not cost much.

The advantages of Mergers and Acquisitions Cont'2

- An acquisition will quickly build market presence for your company, increasing market share while reducing the competition's stronghold
- Achieving economies of scale: Economies of scale is formed by sharing the resources and services.
- Acquiring a company in the same industry can result in reduced costs due to economies of scale.

Disadvantages of Mergers and Acquisitions

- A merger can reduce competition and give the new firm monopoly power which may lead to increase prices for consumers.
- A merger can lead to less choice for consumers
- A merger can lead to job losses.