Introduction

- Any firm contemplating foreign expansion must struggle with the following decisions
  - Which foreign market(s) to enter, when to enter them, and on what scale
  - Which mode of entry will be utilized
Which Foreign Markets

- The choice must be based on an assessment of a nation’s long-run profit potential.
- The attractiveness of a country depends upon balancing the benefits, costs, and risks associated with doing business in that country.
- Benefits include:
  - Size of market
  - Present wealth of the consumers in the market
  - Likely future wealth of consumers
  - Economic growth rates
Timing the Entry

- Advantages frequently associated with entering a market early are commonly known as first-mover advantages
  - The ability to preempt rivals and capture demand by establishing a strong brand name
  - Ability to build sales volume
  - Ability of early entrants to create switching costs
- Disadvantages associated with entering a foreign market before other international businesses are referred to as first-mover disadvantages
  - Pioneering costs are costs that an early entrant has to bear
  - Possibility that regulations may change
Scale of Entry

- **Large scale entry**
  - Strategic Commitments - a decision that has a long-term impact and is difficult to reverse
  - May cause rivals to rethink market entry
  - May lead to indigenous competitive response

- **Small scale entry**
  - Time to learn about market
  - Reduces exposure risk
Entry Modes

- Firms can use six different methods to enter a market
  - Exporting
  - Turnkey Projects
  - Licensing
  - Franchising
  - Joint Ventures
  - Wholly Owned Subsidiaries
Exporting

- Advantages:
  - Avoids cost of establishing manufacturing operations
  - May help achieve experience curve and location economies
- Disadvantages:
  - May compete with low-cost location manufacturers
  - Possible high transportation costs
  - Tariff barriers
  - Possible lack of control over marketing reps
Turnkey projects

- Advantages:
  - Can earn a return on knowledge asset
  - Less risky than conventional FDI
- Disadvantages:
  - No long-term interest in the foreign country
  - May create a competitor
  - Selling process technology may be selling competitive advantage as well

Contractor agrees to handle every detail of project for foreign client
Licensing: Advantages

- Reduces development costs and risks of establishing foreign enterprise
- Lack capital for venture
- Unfamiliar or politically volatile market
- Overcomes restrictive investment barriers
- Others can develop business applications of intangible property

Agreement where licensor grants rights to intangible property to another entity for a specified period of time in return for royalties.
Franchising

- **Advantages:**
  - Reduces costs and risk of establishing enterprise

- **Disadvantages:**
  - May prohibit movement of profits from one country to support operations in another country
  - Quality control

Franchiser sells intangible property and insists on rules for operating business.
Joint Ventures

• Advantages:
  - Benefit from local partner’s knowledge
  - Shared costs/risks with partner
  - Reduced political risk

• Disadvantages:
  - Risk giving control of technology to partner
  - May not realize experience curve or location economies
  - Shared ownership can lead to conflict
Wholly Owned Subsidiary

- Subsidiaries could be Greenfield investments or acquisitions
- Advantages:
  - No risk of losing technical competence to a competitor
  - Tight control of operations
  - Realize learning curve and location economies
- Disadvantage:
  - Bear full cost and risk
Advantages and Disadvantages of Entry Modes

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Core Competencies and Entry Mode

• The optimal entry mode for firms depends to some degree on the nature of their core competencies
• A distinction can be drawn between firms whose core competency is
  - Technological know-how
  - Management know-how
• The greater the pressures for cost reductions are, the more likely a firm will want to pursue some combination of exporting and wholly owned subsidiaries
Core Competencies and Entry Mode

- **Technological Know-How**
  - Licensing and joint-venture arrangements should be avoided if possible
  - Should probably use a wholly owned subsidiary
  - Exceptions include
    - An arrangement can be structured to reduce the risk of licensees
    - If the technological advantage is only transitory

- **Management Know-How**
  - The firm’s valuable asset is normally a brand name
  - The result is that franchising and subsidiaries are very attractive
  - Often times a joint venture is politically more acceptable
Acquisitions Pros and Cons

**Pro:**
- Quick to execute
- Preempt competitors
- Possibly less risky

**Con:**
- Disappointing results
- Overpay for firm
- Optimism about value creation (hubris)
- Culture clash
- Problems with proposed synergies
Greenfield Ventures
Pros and Cons

- Pro:
  - Can build subsidiary it wants
  - Easy to establish operating routines

- Con:
  - Slow to establish
  - Risky
  - Preemption by aggressive competitors
Acquisition or Greenfield

- **Acquisitions are attractive if:**
  - There are well established firms already in operation
  - Competitors want to enter the region

- **Greenfield ventures are attractive if:**
  - There are no competitors
  - Competitors have a competitive advantage that consists of embedded competencies, skills, routines, and culture
Strategic Alliances

• Cooperative agreements between potential or actual competitors

• Advantages:
  - Facilitate entry into market
  - Share fixed costs
  - Bring together skills and assets that neither company has or can develop
  - Establish industry technology standards

• Disadvantages:
  - Competitors get low cost route to technology and markets
Alliances are popular

- High cost of technology development
- Company may not have skill, money or people to go it alone
- Good way to learn
- Good way to secure access to foreign markets
- Host country may require some local ownership
Global Alliances are Different

- Firms join to attain world leadership
- Each partner has significant strength to bring to the alliance
- A true global vision
- Relationship is horizontal not vertical
- When competing in markets not part of alliance, they retain their own identity
Partner Selection

- Get as much information as possible on the potential partner
- Collect data from informed third parties
  - Former partners
  - Investment bankers
  - Former employees
- Get to know the potential partner before committing
Structuring the Alliance to Reduce Opportunism

- Walling Off Critical Technology
- Establishing Contractual Safeguards
- Agreeing to Swap Valuable Skills and Technologies
- Seeking Credible Commitments

Probability of Opportunism by Alliance Partner Reduced by
Looking Ahead to Chapter 15

- Exporting, Importing, and Countertrade
  - The Promise and Pitfalls of Exporting
  - Improving Export Performance
  - Export and import Financing
  - Export Assistance
  - Countertrade