7. Entry Strategy and Strategic Alliances

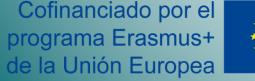


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Basic entry decisions

- 1. Which markets to enter
- 2. When to enter them and on what scale
- 3. Which entry mode to use



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Which foreign markets

- The choice of foreign markets will depend on their <u>long run profit</u> <u>potential</u> (benefits, costs and risks):
 - Size of the market
 - Wealth of consumers
 - Perspectives
 - Political stability
 - Inflation rates
 - Levels of debt
 - **–** ...



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Timing of entry

- 1. Early, before other foreign firms
- 2. Late, after other firms
- First mover advantages:
 - To anticipate rivals
 - Experience curve ahead of rivals
 - Switching costs that tie customers
- First mover disadvantages:
 - Pioneering costs
 - Business failure
 - Promoting and establishing a product (i.e. KFC in China)



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Scale of entry

- Entering on a large scale (rapidly) is a <u>major strategic commitment</u>
 (i.e., attracting customers and distributors, pausing competitors, etc.)
 - Strategic commitment: decision with a <u>long term impact</u> and <u>difficult</u> to reverse
- Small-scale entry <u>limits the firm's exposure</u> to the market



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Entry modes

- 1. Exporting.
- 2. Licensing
- 3. Franchising
- 4. Joint ventures
- 5. Wholly owned subsidiary



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Exporting

Advantages:

- Avoids costs of local manufacturing operations
- Helps to achieve experience curve and location economies

- Transport costs and tariffs
- Need for a distribution network



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Licensing

Advantages

- To avoid development costs and risks
- To avoid barriers to investment (i.e. Xerox)
- Market opportunities (i.e. Coca-Cola and clothing)

- Lack of control
- Intangible assets can be lost (technological know-how. I.e., color TV)



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Franchising

Advantages

- To avoid costs and risks
- To build a global presence quickly

- Inability to support competitive attacks in another country
- Difficulties to detect poor quality



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Joint ventures

Advantages

- Local partner's knowledge (culture, language, political systems, business systems)
- Costs and risks are shared
- Political considerations

- Risk of giving control of technology
- Not enough control to realize experience curve or location economies, or to coordinate strategic moves
- Conflicts and battles for control



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A wholly owned subsidiary

Advantages

- Lower risk of losing control over core competencies
- Global strategic coordination
- Location and experience curve economies

Disadvantages

Full costs and risks



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Greenfield venture or Acquisition?

- 1. A greenfield strategy: build a subsidiary from the ground up
 - Better if the firm needs to transfer organizational competencies, skills, routines, and culture
- 2. An acquisition strategy: acquire an existing company
- (i.e., Daimler-Benz and Chrysler; or Telefónica in Brazil and Argentina)
 - Better if <u>there are established or potential competitors</u>



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Acquisitions

Advantages:

- Quick to execute
- Enable to <u>anticipate competitors</u>
- Less risky

Disadvantages (usually):

- The acquiring firm <u>overpays</u> for the acquired firm
- Inadequate pre-acquisition screening
- Different cultures of the acquiring and acquired firm
- Synergies take much longer than forecast (i.e., because of different cultures)



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Greenfield

- Main advantage: greater ability to build the kind of subsidiary company that it wants (i.e., organizational culture)
- But, they are <u>slower</u>, and <u>riskier</u>



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Activity 1

TESCO'S INTERNATIONAL GROWTH STRATEGY QUESTIONS:

- Describe the situation of Tesco in the early 1990s and the motivation for internationalizing
- Which were the reasons of Tesco for choosing its foreign markets?
 Which was the timing of entry?
- In which foreign markets did Tesco enter? Which were the modes of entry? And the scale of entry?
- Did Tesco succeed in its internationalization strategy? For which reasons?



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Activity 2

GENERAL MOTORS IN CHINA

QUESTIONS

- Entry of General Motors in China. Explain:
- I. Reasons of the choice of the foreign market
- II. Timing of entry
- III. Scale of entry
- IV. Mode of entry and reasons. What are the benefits and the potential risks of this mode of entry?
- Compare the advantages and disadvantages of this mode of entry with:
- I. Licensing the technology to SAIC
- II. Exporting cars from the US
- Why has the joint venture been so successful to date?



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Activity 3

THE GLOBALIZATION OF STARBUCKS

QUESTIONS

Form 4 groups of 4 persons and explain Starbucks' entry mode and strategy in:

- Japan
- Rest of Asia
- The UK
- Switzerland



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Reference

• Hill, Charles W. L. (2014): *International Business. Competing in the global marketplace, 10th edition*. Emerald Group Publishing Limited.