International Business Economics

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

Which foreign markets

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

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)

Scale of entry

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

Entry modes

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

Exporting

- **Advantages:**
  - Avoids costs of local manufacturing operations
  - Helps to achieve experience curve and location economies
- **Disadvantages**
  - Transport costs and tariffs
  - Need for a distribution network

Licensing

- **Advantages**
  - To avoid development costs and risks
  - To avoid barriers to investment (i.e. Xerox)
  - Market opportunities (i.e. Coca-Cola and clothing)
- **Disadvantages**
  - Lack of control
  - Intangible assets can be lost (technological know-how. I.e., color TV)

Franchising

- **Advantages**
  - To avoid costs and risks
  - To build a global presence quickly
- **Disadvantages**
  - Inability to support competitive attacks in another country
  - Difficulties to detect poor quality

Joint ventures

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

- **Disadvantages**
  - 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

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

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 there are established or potential competitors

Acquisitions

- **Advantages:**
  - Quick to execute
  - Enable to anticipate competitors
  - Less risky
- **Disadvantages (usually):**
  - The acquiring firm overpays 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)

Greenfield

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

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?

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?

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

Reference

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