

9

Global Market Entry Strategies: Licensing, Investment, and Strategic Alliances

From modest beginnings in Seattle's Pike Street Market, Starbucks Corporation has become a global marketing phenomenon. Today, Starbucks is the world's leading specialty coffee retailer, with 2006 sales of \$7.7 billion. Starbucks' founder and chairman, Howard Schultz, and his management team have used a variety of market entry approaches—including direct ownership as well as licensing and franchising—to create an empire of more than 12,000 coffee cafés in 35 countries. In addition, Schultz has licensed the Starbucks brand name to marketers of noncoffee products, such as ice cream. The company is also diversifying into movies and recorded music. However, coffee remains Starbucks' core business; to reach its ambitious goal of 40,000 shops worldwide, Starbucks is expanding aggressively in key countries. For example, at the end of 2006, Starbucks had 67 branches in 21 German cities; that number is expected to reach 100 by the end of 2007. Starbucks had set a higher growth target for Germany; those plans had to be revised, however, after a joint venture with retailer Karstadt-Quelle was dissolved. Now Starbucks intends to pursue further expansion independently. Despite competition from local chains such as Café Einstein, Cornelius Everke, the head of Starbucks' German operations, says, "We see the potential of several hundred coffee shops in Germany."

Starbucks' relentless pursuit of new market opportunities in Germany and other countries illustrates the fact that most firms face a broad range of strategy alternatives. In the last chapter, we examined exporting and importing as one way to exploit global market opportunities. However, for Starbucks and other companies whose business models include a service component or store experience, exporting (in the conventional sense) is not the best way to "go global." In this chapter, we go beyond exporting to discuss several additional entry mode options that form a continuum. As shown in Figure 9-1, the level of involvement, risk, and financial reward increases as a company moves from market entry strategies such as licensing to joint ventures and, ultimately, various forms of investment.

When a global company seeks to enter a developing country market, there is an additional strategy issue to address: Whether to replicate the strategy that served the company well in developed markets without significant adaptation. This is the issue that Starbucks is facing. To the extent that the objective of entering the market is to achieve penetration, executives at global companies are well advised to consider embracing a mass-market mind-set. This may well mandate an adaptation strategy.¹ Formulating a **market entry strategy** means that management must decide which option or options to use in pursuing opportunities outside the home country. The particular market entry strategy company executives choose will depend on their vision, attitude toward risk, how much investment capital is available, and how much control is sought.

¹ David Arnold, *The Mirage of Global Markets: How Globalizing Companies Can Succeed as Markets Localize* (Upper Saddle River, NJ: Prentice Hall, 2004), pp. 78–79.



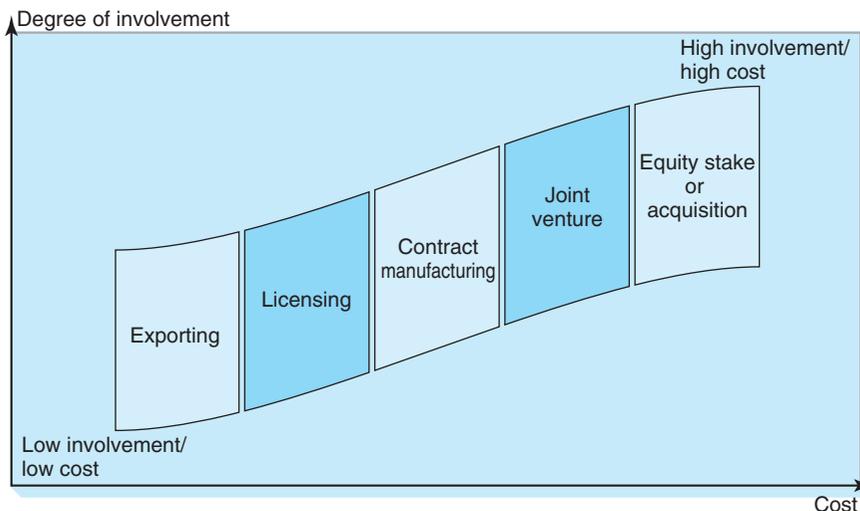
Starbucks opened a small coffee café in Beijing's Forbidden City in 2000. However, in 2007, bowing to criticism that the presence of a Western brand near the former imperial palace was disrespectful, Starbucks closed the shop. The company still has more than 540 other locations in China.

LICENSING

Licensing is a contractual arrangement whereby one company (the licensor) makes a legally protected asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation.² The licensed asset may be a brand name, company name, patent, trade secret, or product formulation. Licensing is widely used in the fashion industry. For example, the namesake companies associated with Bill Blass, Hugo Boss, and other global design icons typically generate

Figure 9-1

Involvement/Risk/Reward of Market Entry Strategies



² Franklin R. Root, *Entry Strategies for International Markets* (New York: Lexington Books, 1994), p. 107.

Licensed merchandise generates nearly \$15 billion in annual revenues for the Walt Disney Company. Thanks to the popularity of the company's theme parks, movies, and television shows, Mickey Mouse, Winnie the Pooh, and other popular characters are familiar faces throughout the world. The president of Disney Consumer Products predicted that the company's license-related revenues will eventually reach \$75 billion.



more revenue from licensing deals for jeans, fragrances, and watches than from their high-priced couture lines. Organizations as diverse as Disney, Caterpillar, the National Basketball Association, and Coca-Cola also make extensive use of licensing. None is an apparel manufacturer; however, licensing agreements allow them to leverage their brand names and generate substantial revenue streams. As these examples suggest, licensing is a global market entry and expansion strategy with considerable appeal. It can offer an attractive return on investment for the life of the agreement, provided that the necessary performance clauses are included in the contract. The only cost is signing the agreement and policing its implementation.

There are two key advantages associated with licensing as a market entry mode. First, because the licensee is typically a local business that will produce and market the goods on a local or regional basis, licensing enables companies to circumvent tariffs, quotas, or similar export barriers discussed in Chapter 8. Second, when appropriate, licensees are granted considerable autonomy and are free to adapt the licensed goods to local tastes. Disney's success with licensing is a case in point. Disney licenses trademarked cartoon characters, names and logos to producers of clothing, toys, and watches for sale throughout the world. Licensing allows Disney to create synergies based on its core theme park, motion picture, and television businesses. Its licensees are allowed considerable leeway to adapt colors, materials, or other design elements to local tastes. In China, licensed goods were practically unknown until a few years ago; by 2001, annual sales of all licensed goods totaled \$600 million. Industry observers expect that figure to more than double by 2010. Similarly, yearly worldwide sales of licensed Caterpillar merchandise are running at \$900 million as consumers make a fashion statement with boots, jeans, and handbags bearing the distinctive black-and-yellow Cat label. Stephen Palmer is the head of London-based Overland Ltd., which holds the worldwide license for Cat apparel. He notes, "Even if people here don't know the brand, they have a feeling that they know it. They have seen Caterpillar tractors from an early age. It's subliminal, and that's why it's working."³

Licensing is associated with several disadvantages and opportunity costs. First, licensing agreements offer limited market control. Because the licensor typically does not become involved in the licensee's marketing program, potential returns from marketing may be lost. The second disadvantage is that the

³ Cecilie Rohwedder and Joseph T. Hallinan, "In Europe, Hot New Fashion for Urban Hipsters Comes from Peoria," *The Wall Street Journal* (August 8, 2001), p. B1.

STRATEGIC DECISION-MAKING *in global marketing*

Sony and Apple

Perhaps the most famous example of the opportunity costs associated with licensing dates back to the mid-1950s, when Sony cofounder Masaru Ibuka obtained a licensing agreement for the transistor from AT&T's Bell Laboratories. Ibuka dreamed of using transistors to make small, battery-powered radios. However, the Bell engineers with whom he spoke insisted that it was impossible to manufacture transistors that could handle the high frequencies required for a radio; they advised him to try making hearing aids. Undeterred, Ibuka presented the challenge to his Japanese engineers who spent many months improving high-frequency output. Sony was not the first company to unveil a transistor radio; a U.S.-built product, the Regency, featured transistors from Texas Instruments and a colorful plastic case. However, it was Sony's high quality, distinctive approach to styling, and marketing savvy that ultimately translated into worldwide success.

Conversely, the *failure* to seize an opportunity to license can also lead to dire consequences. In the mid-1980s, Apple Computer chairman John Sculley decided against a broad licensing program for Apple's famed operating system (OS). Such a

move would have allowed other computer manufacturers to produce Mac-compatible units. Meanwhile, Microsoft's growing world dominance in both OS and applications got a boost in 1985 from Windows, which featured a Mac-like graphic interface. Apple sued Microsoft for infringing on its intellectual property; however, attorneys for the software giant successfully argued in court that Apple had shared crucial aspects of its OS without limiting Microsoft's right to adapt and improve it. Belatedly, in the mid-1990s, Apple began licensing its operating system to other manufacturers. However, the global market share for machines running the Mac OS continues to hover in the low single digits.

The return of Steve Jobs and Apple's introduction of the new iMac in 1998 marked the start of a new era for Apple. More recently, the popularity of the company's iPod digital music players, iTunes Music Store, and the new iPhone have boosted its fortunes. However, Apple's failure to license its technology in the pre-Windows era arguably cost the company tens of billions of dollars. What's the basis for this assertion? Microsoft, the winner in the operating systems war, had a market capitalization of nearly \$300 billion in 2006. By contrast, Apple's 2006 market cap was roughly \$66 billion.

agreement may have a short life if the licensee develops its own know-how and begins to innovate in the licensed product or technology area. In a worst-case scenario (from the licensor's point of view), licensees—especially those working with process technologies—can develop into strong competitors in the local market and, eventually, into industry leaders. This is because licensing, by its very nature, enables a company to “borrow”—that is, leverage and exploit—another company's resources. A case in point is Pilkington, which has seen its leadership position in the glass industry erode as Glaverbel, Saint-Gobain, PPG, and other competitors have achieved higher levels of production efficiency and lower costs.⁴

Companies may find that the upfront easy money obtained from licensing turns out to be a very expensive source of revenue. To prevent a licensor-competitor from gaining unilateral benefit, licensing agreements should provide for a cross-technology exchange among all parties. At the absolute minimum, any company that plans to remain in business must ensure that its license agreements include a provision for full cross licensing (i.e., that the licensee shares its developments with the licensor). Overall, the licensing strategy must ensure ongoing competitive advantage. For example, license arrangements can create export market opportunities and open the door to low-risk manufacturing relationships. They can also speed diffusion of new products or technologies.

Special Licensing Arrangements

Contract manufacturing such as that discussed in Case 8-1 requires a global company—Nike, for example—to provide technical specifications to a subcontractor or local manufacturer. The subcontractor then oversees production. Such arrangements offer several advantages. The licensing firm can specialize in product design and marketing, while transferring responsibility for ownership of manufacturing facilities to contractors and subcontractors. Other advantages include limited commitment of financial and managerial resources and quick entry into

⁴ Charis Gresser, “A Real Test of Endurance,” *Financial Times—Weekend* (November 1–2, 1997), p. 5.

Table 9-1

Worldwide Franchise Activity

Company	Overseas Sites	Countries
7-Eleven	23,652	18
McDonald's	22,571	110
Yum Brands	14,057	100
Doctor's Associates (Subway)	5,962	85
Domino's Pizza	3,038	55
Jani-King International (commercial cleaning)	2,210	20

Source: The Wall Street Journal (Western Edition) by The Wall Street Journal. Copyright 2006 by Dow Jones & Company, Inc. Reproduced with permission of Dow Jones & Company, Inc. in the format Other book via Copyright Clearance Center.

target countries, especially when the target market is too small to justify significant investment.⁵ One disadvantage, as already noted, is that companies may open themselves to public scrutiny and criticism if workers in contract factories are poorly paid or labor in inhumane circumstances. Timberland and other companies that source in low-wage countries are using image advertising to communicate their corporate policies on sustainable business practices.

Franchising is another variation of licensing strategy. A franchise is a contract between a parent company-franchiser and a franchisee that allows the franchisee to operate a business developed by the franchiser in return for a fee and adherence to franchise-wide policies and practices. Table 9-1 lists several U.S.-based franchisers with an extensive network of overseas locations.

Franchising has great appeal to local entrepreneurs anxious to learn and apply Western-style marketing techniques. Franchising consultant William Le Sante suggests that would-be franchisers ask the following questions before expanding overseas:

- Will local consumers buy your product?
- How tough is the local competition?
- Does the government respect trademark and franchiser rights?
- Can your profits be easily repatriated?
- Can you buy all the supplies you need locally?
- Is commercial space available and are rents affordable?
- Are your local partners financially sound and do they understand the basics of franchising?⁶

By addressing these issues, franchisers can gain a more realistic understanding of global opportunities. In China, for example, regulations require foreign franchisers to directly own two or more stores for a minimum of one year before franchisees can take over the business. Intellectual property protection is also a concern in China.⁷

The specialty retailing industry favors franchising as a market entry mode. For example, there are more than 1,800 Body Shop stores around the world; franchisees operate 90 percent of them. Franchising is also a cornerstone of global growth in the fast-food industry; McDonald's reliance on franchising to expand globally is a case in point. The fast-food giant has a well-known global brand name and a business system that can be easily replicated in multiple country markets. Crucially, McDonald's headquarters has learned the wisdom of leveraging local market knowledge by granting franchisees considerable leeway to tailor restaurant interior designs and menu offerings to suit country-specific preferences and tastes (see Case 1-1). Generally speaking, however, franchising is a market entry strategy that is typically executed with less localization than licensing.

When companies do decide to license, they should sign agreements that anticipate more extensive market participation in the future. Insofar as is possible, a

"One of the key things licensees bring to the business is their knowledge of the local marketplace, trends, and consumer preferences. As long as it's within the guidelines and standards, and it's not doing anything to compromise our brand, we're very willing to go along with it."⁸

Paul Leech, COO, Allied Domecq
Quick Service Restaurants

⁵ Root, p. 138.

⁶ Eve Tahmincioglu, "It's Not Only the Giants with Franchises Abroad," *The New York Times* (February 12, 2004), p. C4.

⁷ Richard Gibson, "ForeNign Flavors," *The Wall Street Journal* (September 26, 2006), p. R8. Root, p. 138.

⁸ Sarah Murray, "Big Names Don Camouflage," *Financial Times* (February 5, 2004), p. 9.



Doctor's Associates, based in Milford, Connecticut, owns the Subway brand. The company relies almost exclusively on franchising as it expands around the globe; currently, more than 27,000 Subway locations invite customers to "Eat fresh," including this one in Saudi Arabia.

company should keep options and paths open for other forms of market participation. Many of these forms require investment and give the investing company more control than is possible with licensing.

INVESTMENT

After companies gain experience outside the home country via exporting or licensing, the time often comes when executives desire a more extensive form of participation. In particular, the desire to have partial or full ownership of operations outside the home country can drive the decision to invest. **Foreign direct investment (FDI)** figures reflect investment flows out of the home country as companies invest in or acquire plants, equipment, or other assets. Foreign direct investment allows companies to produce, sell, and compete locally in key markets. Examples of FDI abound: Honda is building a \$550 million assembly plant in Greensburg, Indiana; IKEA has spent nearly \$2 billion to open stores in Russia, and South Korea's LG Electronics purchased a 58 percent stake in Zenith Electronics. Each of these represents foreign direct investment.

The final years of the twentieth century were a boom time for cross-border mergers and acquisitions. At the end of 2000, cumulative foreign investment by U.S. companies totaled \$1.2 trillion. The top three target countries for U.S. investment were the United Kingdom, Canada, and the Netherlands. Investment in the United States by foreign companies also totaled \$1.2 trillion; the United Kingdom, Japan, and the Netherlands were the top three sources of investment.⁹ Investment in developing nations also grew rapidly in the 1990s. For example, as noted in earlier chapters, investment interest in the BRIC nations is increasing, especially in the automobile industry and other sectors critical to the countries' economic development.

Foreign investments may take the form of minority or majority shares in joint ventures, minority or majority equity stakes in another company, or, as in the case of Sandoz and Gerber, outright acquisition. A company may choose to use a combination of these entry strategies by acquiring one company, buying an equity stake in another,

⁹ Maria Borga and Raymond J. Mataloni, Jr., "Direct Investment Positions for 2000: Country and Industry Detail," *Survey of Current Business* 81, no. 7 (July 2001), pp. 16–29.

"Drive your way" is the advertising slogan for Hyundai Motor Company, South Korea's leading automaker. In a press statement, Hyundai chairman Chung Mong Koo noted, "Our new brand strategy is designed to ensure that we reach industry-leading levels, not only in terms of size but also in terms of customer perception and overall brand value." To better serve the U.S. market, Hyundai recently invested \$1 billion in an assembly plant in Montgomery, Alabama. The plant will produce two models, the popular Sonata sedan and the Santa Fe SUV.

New processes and technologies are driving our focus on quality and reliability.

America's most advanced assembly plant has begun production in Alabama.

The all-new 2006 Sonata will offer the most standard safety features in its class.

Today, America's most advanced assembly plant opens. It's a \$1.1 billion commitment to the American market. A state-of-the-art factory designed to deliver the next generation of Hyundais as well as create thousands of new jobs. And it's here that everything we know about quality and reliability will find its way into every new car and SUV we build. Beginning with the totally new, completely redesigned 2006 Sonata. It's a Hyundai like you've never seen before.

HYUNDAI
Drive your way™

HyundaiUSA.com

HYUNDAI AND HYUNDAI MODEL NAMES ARE REGISTERED TRADEMARKS OF HYUNDAI MOTOR AMERICA. ALL RIGHTS RESERVED. ©2005 HYUNDAI MOTOR AMERICA.

and operating a joint venture with a third. In recent years, for example, UPS has made more than 16 acquisitions in Europe and has also expanded its transportation hubs.

Joint Ventures

A joint venture with a local partner represents a more extensive form of participation in foreign markets than either exporting or licensing. Strictly speaking, a **joint venture** is an entry strategy for a single target country in which the partners share ownership of a newly created business entity.¹⁰ This strategy is attractive for several reasons. First and foremost is the sharing of risk. By pursuing a joint venture entry strategy, a company can limit its financial risk as well as its exposure to political uncertainty. Second, a company can use the joint venture experience to learn about a new market environment. If it succeeds in becoming an insider, it may later increase the level of commitment and exposure. Third, joint ventures allow

¹⁰ Root, p. 309.

the rest of the story

Starbucks

Starbucks has also been successful in other European countries, including the United Kingdom and Ireland. This success comes despite competition from local rivals such as Ireland's *Insomnia Coffee Company* and *Bewley's* and the fact that per capita consumption of roasted coffee in the two countries is the lowest in Europe. In January 2004, Starbucks opened its first outlets in Paris. CEO Howard Schultz acknowledged that the decision to target France was a gutsy move; relations between the United States and France had been strained because of political differences regarding President Bush's Iraq policy. Moreover, café culture has long been an entrenched part of the city's heritage and identity. The French prefer dark espresso, and the conventional wisdom is that Americans don't know what good coffee is. As one Frenchman put it, "American coffee, it's only water. We call it *jus des chaussette*—'sock juice.'"

Greater China—including the mainland, Hong Kong, and Taiwan—represents another strategic growth market for Starbucks. Starting with one store in Beijing at the China World Trade Center that opening in 1999, Starbucks now has more than 400 locations. Starbucks has faced several different types of challenges in this part of the world. First of all, government regulations forced the company to partner with local firms. After the regulations were eased, Starbucks stepped up its rate of expansion, focusing on metropolises such as Beijing and Shanghai.

Another challenge comes from the traditional Chinese tea-house. One rival, *Real Brewed Tea*, aims to be "the Starbucks of tea." A related challenge is the perceptions and preferences of the Chinese, who do not care for coffee. Those who had tasted coffee were only familiar with the instant variety. Faced with one of global marketing's most fundamental questions—adapt offerings for local appeal or attempt to change local tastes—Starbucks hopes to educate the Chinese about coffee.

Chinese consumers exhibit different behavior patterns than in Starbucks' other locations. For one thing, most orders are consumed in the cafés; in the United States, by contrast, most patrons order drinks for carryout. (In the United States, Starbucks is opening hundreds of new outlets with drive-through service) Also, store traffic in China is heaviest in the afternoon. This behavior is consistent with Starbucks' research findings, which indicated that the number one reason the Chinese go to cafés is to have a place to gather.

Sources: Janet Adamy, "Different Brew: Eyeing a Billion Tea Drinkers, Starbucks Pours It on in China," The Wall Street Journal (November 29, 2006), pp. A1, A12; Gerhard Hegmann and Birgit Dengel, "Starbucks Looks to Step Up Openings in Germany," Financial Times (September 5, 2006), p. 23; Steven Gray, "Fill 'Er Up—With Latte," The Wall Street Journal (January 6, 2006), pp. A9, A10; John Murray Brown and Jenny Wiggins, "Coffee Empire Expands Reach by Pressing Its Luck in Ireland," Financial Times (December 15, 2005), p. 21; Gray and Ethan Smith, "New Grind: At Starbucks, a Blend of Coffee and Music Creates a Potent Mix," The Wall Street Journal (July 19, 2005), pp. A1, A11; Noelle Knox, "Paris Starbucks Hopes to Prove U.S. Coffee Isn't 'Sock Juice'," USA Today (January 16, 2004), p. 3B.

partners to achieve synergy by combining different value chain strengths. One company might have in-depth knowledge of a local market, an extensive distribution system, or access to low-cost labor or raw materials. Such a company might link up with a foreign partner possessing well-known brands or cutting-edge technology, manufacturing know-how, or advanced process applications. A company that lacks sufficient capital resources might seek partners to jointly finance a project. Finally, a joint venture may be the only way to enter a country or region if government bid award practices routinely favor local companies, if import tariffs are high, or if laws prohibit foreign control but permit joint ventures.

Many companies have experienced difficulties when attempting to enter the Japanese market. Anheuser-Busch's experience in Japan illustrates both the interactions of the entry modes discussed so far and the advantages and disadvantages of the joint venture approach. Access to distribution is critical to success in the Japanese market; Anheuser-Busch first entered by means of a licensing agreement with Suntory, the smallest of Japan's four top brewers. Although Budweiser had become Japan's top-selling imported beer within a decade, Bud's market share in the early 1990s was still less than 2 percent. Anheuser-Busch then created a joint venture with Kirin Brewery, the market leader. Anheuser-Busch's 90 percent stake in the venture entitled it to market and distribute beer produced in a Los Angeles brewery through Kirin's channels. Anheuser-Busch also had the option to use some of Kirin's brewing capacity to brew Bud locally. For its part, Kirin was well positioned to learn more about the global market for beer from the world's largest brewer. By the end of the decade, however, Bud's market share hadn't increased and the venture was losing money. On January 1, 2000, Anheuser-Busch dissolved the joint venture and eliminated most of the associated job positions in Japan; it reverted instead to a licensing agreement with Kirin. The lesson for consumer products marketers

BRIC Briefing Book

Joint Ventures

Joint venture investment in the BRIC nations is growing rapidly. China is a case in point; for many companies, the price of market entry is the willingness to pursue a joint venture with a local partner. Procter & Gamble has several joint ventures in China. China Great Wall Computer Group is a joint venture factory in which IBM is the majority partner with a 51 percent stake. In automotive joint ventures, the Chinese government limits foreign companies to minority stakes. Despite this, Japan's Isuzu Motors has been a joint venture partner with Jiangling Motors for more than a decade. The venture produces 20,000 pickup trucks and one-ton trucks annually.

As indicated in Table 9-2, in 1995 General Motors pledged \$1.1 billion for a joint venture with Shanghai Automotive Industry to build Buicks for government and business use. GM was selected after giving high-level Chinese officials a tour of GM's operations in Brazil and agreeing to the government's conditions regarding technology transfer and investment capital. In 1997, GM was chosen by the Chinese government as the sole Western partner in a joint venture in Guangzhou that will build smaller, less expensive cars for the general public. Other global carmakers competing with GM for the project were BMW, Mercedes-Benz, Honda Motor, and Hyundai Motor.

Russia represents a huge, barely tapped market for a number of industries. The number of joint ventures is increasing. In 1997, GM became the first Western automaker to begin assembling vehicles in Russia. To avoid hefty tariffs that pushed the street price of an imported Blazer over \$65,000, GM invested in a 25-75 joint venture with the government of the autonomous Tatarstan republic. Elaz-GM assembled Blazer sport utility vehicles from imported components until the end of 2000. Young Russian professionals were expected to snap up the vehicles as long as the price was less than \$30,000. However, after about 15,000 vehicles had been sold, market demand evaporated. At the end of 2001, GM terminated the joint venture.

GM executives are counting on better results with AvtoVAZ, the largest carmaker in the former Soviet Union. AvtoVAZ is home to Russia's top technical design center and also has access to low-cost Russian titanium and other materials. GM originally intended to assemble a stripped-down, reengineered car based on its Opel model. However, market research revealed that a "Made in Russia" car would only be acceptable if it sported a very low sticker price; GM had anticipated a price of approximately \$15,000. The same research pointed GM toward an opportunity to put the Chevrolet nameplate on a redesigned domestic model, the Niva. With GM's financial aid, the Chevrolet Niva was launched in fall 2002; another model, the Viva, was launched in 2004. In addition to GM, several other automakers are joining with Russian partners. BMW Group AG has already begun the local manufacture of its 5-series sedans; Renault SA is producing Megane and Clio Symbol models at a plant near Moscow. Fiat SpA and Ford also anticipate starting production at joint venture plants. Some other recent joint venture alliances are outlined in Table 9-2.

Sources: Keith Naughton, "How GM Got the Inside Track in China," *Business Week* (November 6, 1995), pp. 56-57; Gregory L. White, "Off Road: How the Chevy Name Landed on SUV Using Russian Technology," *The Wall Street Journal* (February 20, 2001), pp. A1, A8.

considering market entry in Japan is clear. It may make more sense to give control to a local partner via a licensing agreement rather than making a major investment.¹¹

The disadvantages of joint venturing can be significant. Joint venture partners must share rewards as well as risks. The main disadvantage associated with joint ventures is that a company incurs very significant costs associated with control and coordination issues that arise when working with a partner. (However, in some instances, country-specific restrictions limit the share of capital help by foreign companies.)

A second disadvantage is the potential for conflict between partners. These often arise out of cultural differences, as was the case in a failed \$130 million joint venture between Corning Glass and Vitro, Mexico's largest industrial manufacturer. The venture's Mexican managers sometimes viewed the Americans as too direct and aggressive; the Americans believed their partners took too much time to make important decisions.¹² Such conflicts can multiply when there are several partners in the venture. Disagreements about third-country markets

¹¹ Yumiko Ono, "Beer Venture of Anheuser, Kirin Goes Down Drain on Tepid Sales," *The Wall Street Journal* (November 3, 1999), p. A23.

¹² Anthony DePalma, "It Takes More Than a Visa to Do Business in Mexico," *The New York Times* (June 26, 1994), sec. 3, p. 5.

where partners face each other as actual or potential competitors can lead to “divorce.” To avoid this, it is essential to work out a plan for approaching third-country markets as part of the venture agreement.

A third issue, also noted in the discussion of licensing, is that a dynamic joint venture partner can evolve into a stronger competitor. Many developing countries are very forthright in this regard. Yuan Sutai, a member of China’s Ministry of Electronics Industry, told *The Wall Street Journal*, “The purpose of any joint venture, or even a wholly-owned investment, is to allow Chinese companies to learn from foreign companies. We want them to bring their technology to the soil of the People’s Republic of China.”¹³ GM and South Korea’s Daewoo Group formed a joint venture in 1978 to produce cars for the Korean market. By the mid-1990s, GM had helped Daewoo improve its competitiveness as an auto producer, but Daewoo chairman Kim Woo-Choong terminated the venture because its provisions prevented the export of cars bearing the Daewoo name.¹⁴

As one global marketing expert warns, “In an alliance you have to learn skills of the partner, rather than just see it as a way to get a product to sell while avoiding a big investment.” Yet, compared with U.S. and European firms, Japanese and Korean firms seem to excel in their ability to leverage new knowledge that comes out of a joint venture. For example, Toyota learned many new things from its partnership with GM—about U.S. supply and transportation and managing American workers—that have been subsequently applied at its Camry plant in Kentucky. However, some American managers involved in the venture complained that the manufacturing expertise they gained was not applied broadly throughout GM. To the extent that this complaint has validity, GM has missed opportunities to leverage new learning. Still, many companies have achieved great successes in joint ventures. Gillette, for example, has used this strategy to introduce its shaving products in the Middle East and Africa.

Investment via Ownership or Equity Stake

The most extensive form of participation in global markets is investment that results in either an equity stake or full ownership. An **equity stake** is simply an investment; if the investing company acquires fewer than 50 percent of the total

Companies Involved	Purpose of Joint Venture
GM (United States), Toyota (Japan)	NUMMI—a jointly operated plant in Fremont, California
GM (United States), Shanghai Automotive Industry (China)	50–50 joint venture to build assembly plant to produce 100,000 mid-sized sedans for Chinese market beginning in 1997 (total investment of \$1 billion)
GM (United States), Hindustan Motors (India)	Joint venture to build up to 20,000 Opel Astras annually (GM’s investment \$100 million)
GM (United States), governments of Russia and Tatarstan	25–75 joint venture to assemble Blazers from imported parts and, by 1998, to build a full assembly line for 45,000 vehicles (total investment \$250 million)
Ford (United States), Mazda (Japan)	Joint operation of a plant in Flat Rock, Michigan
Ford (United States), Mahindra & Mahindra Ltd. (India)	50–50 joint venture to build Ford Fiestas in Indian state of Tamil Nadu (\$800 million)
Chrysler (United States), BMW (Germany)	50–50 joint venture to build a plant in South America to produce small-displacement 4-cylinder engines (\$500 million)

Table 9-2

Market Entry and Expansion by Joint Venture

¹³ David P. Hamilton, “China, With Foreign Partners’ Help, Becomes a Budding Technology Giant,” *The Wall Street Journal* (December 7, 1995), p. A10.

¹⁴ “Mr. Kim’s Big Picture,” *Economist* (September 16, 1995), pp. 74–75.

shares, it is a minority stake; ownership of more than half the shares makes it a majority equity position. **Full ownership**, as the name implies, means the investor has 100 percent control. This may be achieved by a start-up of new operations, known as **greenfield operations** or **greenfield investment**, or by a merger or acquisition of an existing enterprise. According to Thomson Financial Securities Data, worldwide merger and acquisition (M&A) deals worth nearly \$3 trillion were struck in 2000. Significantly, about one-third of these were cross-border transactions. M&A activity in Europe and Latin America grew at a faster rate than in the United States. In recent years, the media and telecommunications industry sectors have been among the busiest for M&A worldwide. Ownership requires the greatest commitment of capital and managerial effort and offers the fullest means of participating in a market. Companies may move from licensing or joint venture strategies to ownership in order to achieve faster expansion in a market, greater control, or higher profits. In 1991, for example, Ralston Purina ended a 20-year joint venture with a Japanese company to start its own pet food subsidiary. Monsanto and Bayer AG, the German pharmaceutical company, are two other companies that have also recently disbanded partnerships in favor of wholly owned subsidiaries in Japan.

If government restrictions prevent majority or 100 percent ownership by foreign companies, the investing company will have to settle for a minority equity stake. In Russia, for example, the government restricts foreign ownership in joint ventures to a 49 percent stake. A minority equity stake may also suit a company's business interests. For example, Samsung was content to purchase a 40 percent stake in computer maker AST. As Samsung manager Michael Yang noted, "We thought 100 percent would be very risky, because any time you have a switch of ownership, that creates a lot of uncertainty among the employees."¹⁵ In other instances, the investing company may start with a minority stake and then increase its share. In 1991, Volkswagen AG made its first investment in the Czech auto industry by purchasing a 31 percent share in Skoda. By 1995, Volkswagen had increased its equity stake to 70 percent (the government of the Czech Republic owns the rest). Similarly, Ford purchased a

Sony Ericsson is a 50:50 joint venture between Sweden's Telefonaktiebolaget LM Ericsson, the world's leading manufacturer of wireless telecom equipment, and Japanese consumer electronics giant Sony Corporation. Sony Ericsson's logo is a green circular symbol that is used as a "verb" in print ads for a new line of Walkman phones. Headlines include "I [logo] music," "I [logo] my long commute," and "I [logo] it loud." The campaign can also be localized, as evident from this outdoor ad in Brazil.



¹⁵ Ross Kerber, "Chairman Predicts Samsung Deal Will Make AST a Giant," *Los Angeles Times* (March 2, 1995), p. D1.

Investing Company (Home Country)	Investment (Share, Amount, Date)
General Motors (United States)	Suzuki Motor Co. (Japan, 3.5% stake, 1981; increased to 10%, 1998, increased to 20%, \$490 million, 2000) Fuji Heavy Industries (Japan, 20% stake, \$1.4 billion, 1999) Saab Automobiles AB (Sweden, 50% stake, \$500 million, 1990; remaining 50%, 2000)
Volkswagen AG (Germany)	Skoda (Czech Republic, 31% stake, \$6 billion, 1991; increased to 50.5%, 1994; currently owns 70% stake)
Ford (USA)	Mazda Motor Corp. (Japan, 25% stake, 1979; increased to 33.4%, \$408 million, 1996)
DaimlerChrysler (Germany and United States)	Mitsubishi Motors Corp. (Japan, 34% stake, 2000)
Renault SA (France)	Nissan Motors (Japan, 35% stake, \$5 billion, 2000)
Proton (Malaysia)	Lotus Cars (Great Britain, 80% stake, \$100 million, 1996)

Table 9-3

Investment in Equity Stake

25 percent stake in Mazda in 1979; in 1996, Ford spent another \$408 million to raise its stake to 33.4 percent.

Large-scale direct expansion by means of establishing new facilities can be expensive and require a major commitment of managerial time and energy. However, political or other environmental factors sometimes dictate this approach. For example, Japan's Fuji Photo Film Company invested hundreds of millions of dollars in the United States after the U.S. government ruled that Fuji was guilty of dumping (i.e., selling photographic paper at substantially lower prices than in Japan). As an alternative to greenfield investment in new facilities, acquisition is an instantaneous—and sometimes, less expensive—approach to market entry or expansion. Although full ownership can yield the additional advantage of avoiding communication and conflict of interest problems that may arise with a joint venture or coproduction partner, acquisitions still present the demanding and challenging task of integrating the acquired company into the worldwide organization and coordinating activities.

Tables 9-3, 9-4, and 9-5 provide a sense of how companies in the automotive industry utilize a variety of market entry options discussed previously, including equity stakes, investments to establish new operations, and acquisition. Table 9-3 shows that GM favors minority stakes in non-U.S. automakers; from 1998 through 2000, the company spent \$4.7 billion on such deals. Ford spent twice as much on acquisitions. Despite the fact that GM losses from the deals resulted in substantial write-offs, the strategy reflects management's skepticism about making big mergers work. As GM chairman and CEO Rick Wagoner said, "We could have bought 100 percent of somebody, but that probably wouldn't have been a good use of capital." Meanwhile, the investments in minority stakes are finally paying off: The company enjoys scale-related savings in purchasing, it has gained access

Investing Company (Home Country)	Investment (Location)
Bayerische Motoren Werke AG (Germany)	\$400 million auto assembly plant (South Carolina, United States, 1995)
Mercedes-Benz AG (Germany)	\$300 million auto assembly plant (South Carolina, United States)
Hyundai	\$1.1 billion auto assembly and manufacturing facility producing Sonata and Santa Fe models (Georgia, United States, 2005)
Toyota (Japan)	\$3.4 billion manufacturing plant producing Camry, Avalon, and minivan models (Kentucky, United States); \$400 million engine plant (West Virginia, United States)

Table 9-4

Investment to Establish New Operations

Table 9-5

Market Entry and Expansion by Acquisition

Acquiring Company	Target (Country, Date, Amount)
Daimler Benz (Germany)	Merger with Chrysler Corporation (United States, 1998, \$40 billion)
Volkswagen AG (Germany)	Sociedad Española de Automoviles de Turisme (SEAT, Spain, \$600 million, purchase completed in 1990)
BMW (Germany)	Rover (United Kingdom, \$1.2 billion, 1994)
Ford Motor Company (United States)	Jaguar (United Kingdom, \$2.6 billion, 1989)
Paccar (United States)	Volvo car unit (Sweden, \$6.5 billion, 1999)
	DAF Trucks (Netherlands, \$543 million, 1996)

to diesel technology, and Saab produced a new model in record time with the help of Subaru.¹⁶

What is the driving force behind many of these acquisitions? It is globalization. In cases like Gerber, management realizes that the path to globalization cannot be undertaken independently. Management at Helene Curtis Industries came to a similar realization and agreed to be acquired by Unilever. Ronald J. Gidwitz, president and CEO, said, "It was very clear to us that Helene Curtis did not have the capacity to project itself in emerging markets around the world. As markets get larger, that forces the smaller players to take action."¹⁷ Still, management's decision to invest abroad sometimes clashes with investors' short-term profitability goals. Although this is an especially important issue for publicly held U.S. companies, there is an increasing trend toward foreign investment by U.S. companies. For example, cumulative U.S. direct investment in Canada between 1994 and 2003 totaled \$228 billion.

Several of the advantages of joint ventures also apply to ownership, including access to markets and avoidance of tariff or quota barriers. Like joint ventures, ownership also permits important technology experience transfers and provides a company with access to new manufacturing techniques. For example, the Stanley Works, a tool maker with headquarters in New Britain, Connecticut, has acquired more than a dozen companies since 1986, among them is Taiwan's National Hand Tool/Chiro Company, a socket wrench manufacturer and developer of a "cold-forming" process that speeds up production and reduces waste. Stanley is now using that technology in the manufacture of other tools. Former chairman Richard H. Ayers presided over the acquisitions and envisioned such global cross-fertilization and "blended technology" as a key benefit of globalization.¹⁸ In 1998, former GE executive John Trani succeeded Ayers as CEO; Trani brought considerable experience with international acquisitions, and his selection was widely viewed as evidence that Stanley intended to boost global sales even more.

The alternatives discussed here—licensing, joint ventures, minority or majority equity stake, and ownership—are points along a continuum of alternative strategies for global market entry and expansion. The overall design of a company's global strategy may call for combinations of exporting-importing, licensing, joint ventures, and ownership among different operating units. Avon Products uses both acquisition and joint ventures to enter developing markets. Similarly, Jamont, a European paper-products company, utilizes both joint ventures and acquisitions. A company's strategy preference may change over time. For example, Borden ended licensing and joint venture arrangements for branded food products in Japan and set up its own production, distribution,

¹⁶ James Mackintosh, "GM Stands By Its Strategy for Expansion," *Financial Times* (February 2, 2004), p. 5.

¹⁷ Richard Gibson and Sara Calian, "Unilever to Buy Helene Curtis for \$770 Million," *The Wall Street Journal* (February 19, 1996), p. A3.

¹⁸ Louis Uchitelle, "The Stanley Works Goes Global," *The New York Times* (July 23, 1989), sec. 3, pp. 1, 10.



While U.S. Commerce Secretary Carlos Gutierrez was in China for trade talks in 2006, Home Depot announced it would acquire the HomeWay do-it-yourself chain. China's home-improvement market generates an estimated \$50 billion in annual sales and is growing at double-digit rates. Home Depot, which also has operations in Mexico and Canada, is experiencing a business slowdown in the U.S. market. According to Annette Verschuren, president of Home Depot's Asian operations, the company's China strategy will include further acquisitions to fuel revenue growth.

and marketing capabilities for dairy products. Meanwhile, in nonfood products, Borden has maintained joint venture relationships with Japanese partners in flexible packaging and foundry materials.

It can also be the case that competitors within a given industry pursue different strategies. For example, Cummins Engine and Caterpillar both face very high costs—in the \$300 to \$400 million range—for developing new diesel engines suited to new applications. However, the two companies vary in their strategic approaches to the world market for engines. Cummins management looks favorably on collaboration; also, the company's relatively modest \$6 billion in annual revenues presents financial limitations. Thus, Cummins prefers joint ventures. The biggest joint venture between an American company and the Soviet Union linked Cummins with the KamAZ truck company in Tatarstan. The joint venture allowed the Russians to implement new manufacturing technologies while providing Cummins with access to the Russian



“OK, but just suppose China *did* make a takeover move on our B-school.”

Gerber

Gerber Products is the undisputed leader in the U.S. baby food market. Despite a 70 percent market share, Gerber faces a mature market and stagnant growth at home. Because 9 out of 10 of the world's births take place outside the United States, Gerber executives hoped to make international sales a greater part of the company's \$1.17 billion in annual revenues. Overall, Gerber's international sales increased 150 percent between 1989 and 1993, from \$86.5 million to \$216.1 million.

Still, a combination of changing market conditions, management inconsistency, and decisions that didn't pay off slowed Gerber's globalization effort for two decades. Gerber entered the Latin American market in the 1970s, but then it closed down operations in Venezuela in the wake of government-imposed price controls. Management's focus on the U.S. market resulted in a series of diversifications into nonfood categories that were not successful. Meanwhile, management was not willing to sacrifice short-term quarterly earnings growth to finance an international effort. As Michael A. Cipollaro, Gerber's former president of international operations, remarked, "If you are going to sow in the international arena today to reap tomorrow, you couldn't have that [earnings] growth on a regular basis." In the 1980s, Gerber pursued a strategy of licensing the manufacture and distribution of its baby food products to other companies. In France, for example, Gerber selected CPC International as a licensee.

Unfortunately, Gerber couldn't force its licensees to make baby food a priority business. In France, for example, baby food represented a meager 2 percent of CPC's European revenues. When CPC closed down its French plant, Gerber had to find another manufacturing source. It bought a stake in a Polish factory, but production was held up for months while quality improvements were made. The delay ended up costing Gerber its market position in France.

Belatedly, Gerber discovered that strong competitors already dominated many markets around the globe. Heinz has about one-third of the \$1.5 billion baby food market outside the United States; Gerber's share of the global market is 17 percent.

Competitors with less global share than Gerber—including France's BSN Group (15 percent market share), and Switzerland's Nestlé SA (8 percent)—have been aggressively building brand loyalty. In France, for example, parents traveling with infants can get free baby food and diapers through Nestlé's system of roadside changing stations. Another barrier is that many European mothers think homemade baby food is healthier than food from a jar.

Meanwhile, Gerber's global efforts were interrupted by the resignations of several key executives. Cipollaro, the chief of international operations, left, as did the vice president for Europe and the international director of business development. Gerber's management team was forced to rethink its strategy: In May 1994, it agreed to an acquisition by Sandoz AG, a \$10.3 billion Swiss pharmaceutical and chemical company. As market analyst David Adelman noted, "It was very expensive for Gerber to build business internationally. This was one of the driving reasons why Gerber wanted to team up with a larger company."

Some industry analysts expressed doubts about the logic behind the acquisition. London broker Peter Smith said, "I'm sorry: Baby food and anticancer drugs don't really come together." Nevertheless, the deal gave Gerber immediate access to a global marketing and distribution network that is particularly strong in developing countries such as China and India. Sandoz, which faces expiring patents for some of its most profitable drugs, instantly assumed a strong position in the U.S. nutrition market. In 2007, Nestlé acquired Gerber for \$5.5 billion; plans call for increasing Gerber's market share both at home and abroad.

Sources: Jennifer Reingold, "The Pope of Basel," *Financial World* (July 18, 1995), pp. 36–38; Margaret Studer, "Sandoz AG Is Foraging for Additional Food Holdings," *The Wall Street Journal* (February 21, 1995), p. B4; Richard Gibson, "Growth Formula: Gerber Missed the Boat in Quest to Go Global, So It Turned to Sandoz," *The Wall Street Journal* (May 24, 1994), pp. A1, A7; Leah Rickard and Laurel Wentz, "Sandoz Opens World for Gerber," *Advertising Age* (May 30, 1994), p. 4; Margaret Studer and Ron Winslow, "Sandoz, Under Pressure, Looks to Gerber for Protection," *The Wall Street Journal* (May 25, 1994), p. B3.

market. Cummins also has joint ventures in Japan, Finland, and Italy. Management at Caterpillar, by contrast, prefers the higher degree of control that comes with full ownership. The company has spent more than \$2 billion in recent years on purchases of Germany's MaK, British engine maker Perkins, and others. Management believes that it is often less expensive to buy existing firms than to develop new applications independently. Also, Caterpillar is concerned about safeguarding proprietary knowledge that is basic to manufacturing in its core construction equipment business.¹⁹

GLOBAL STRATEGIC PARTNERSHIPS

In Chapter 8 and the first half of Chapter 9, we surveyed the range of options—exporting, licensing, joint ventures, and ownership—traditionally used by companies wishing either to enter global markets for the first time or to expand their

¹⁹ Peter Marsh, "Engine Makers Take Different Routes," *Financial Times* (July 14, 1998), p. 11.

activities beyond present levels. However, recent changes in the political, economic, sociocultural, and technological environments of the global firm have combined to change the relative importance of those strategies. Trade barriers have fallen, markets have globalized, consumer needs and wants have converged, product life cycles have shortened, and new communications technologies and trends have emerged. Although these developments provide unprecedented market opportunities, there are strong strategic implications for the global organization and new challenges for the global marketer. Such strategies will undoubtedly incorporate—or may even be structured around—a variety of collaborations. Once thought of only as joint ventures with the more dominant party reaping most of the benefits (or losses) of the partnership, cross-border alliances are taking on surprising new configurations and even more surprising players.

Why would any firm—global or otherwise—seek to collaborate with another firm, be it local or foreign? For example, despite its commanding 37 percent share of the global cellular handset market, Nokia recently announced that it would make the source code for its proprietary Series 60 software available to competing handset manufacturers such as Siemens AG. Why did Nokia's top executives decide to collaborate, thereby putting the company's competitive advantage with software development (and healthy profit margins) at risk? As noted, a "perfect storm" of converging environmental forces is rendering traditional competitive strategies obsolete. Today's competitive environment is characterized by unprecedented degrees of turbulence, dynamism, and unpredictability; global firms must respond and adapt quickly. To succeed in global markets, firms can no longer rely exclusively on the technological superiority or core competence that brought them past success. In the twenty-first century, firms must look toward new strategies that will enhance environmental responsiveness. In particular, they must pursue "entrepreneurial globalization" by developing flexible organizational capabilities, innovating continuously, and revising global strategies accordingly."²⁰ In the second half of this chapter, we will focus on global strategic partnerships. In addition, we will examine the Japanese *keiretsu* and various other types of cooperation strategies that global firms are using today.

THE NATURE OF GLOBAL STRATEGIC PARTNERSHIPS

The terminology used to describe the new forms of cooperation strategies varies widely. The phrases **collaborative agreements**, **strategic alliances**, **strategic international alliances**, and **global strategic partnerships (GSPs)** are frequently used to refer to linkages between companies from different countries to jointly pursue a common goal. This terminology can cover a broad spectrum of interfirm agreements, including joint ventures. However, the strategic alliances discussed here exhibit three characteristics (see Figure 9-2).²¹

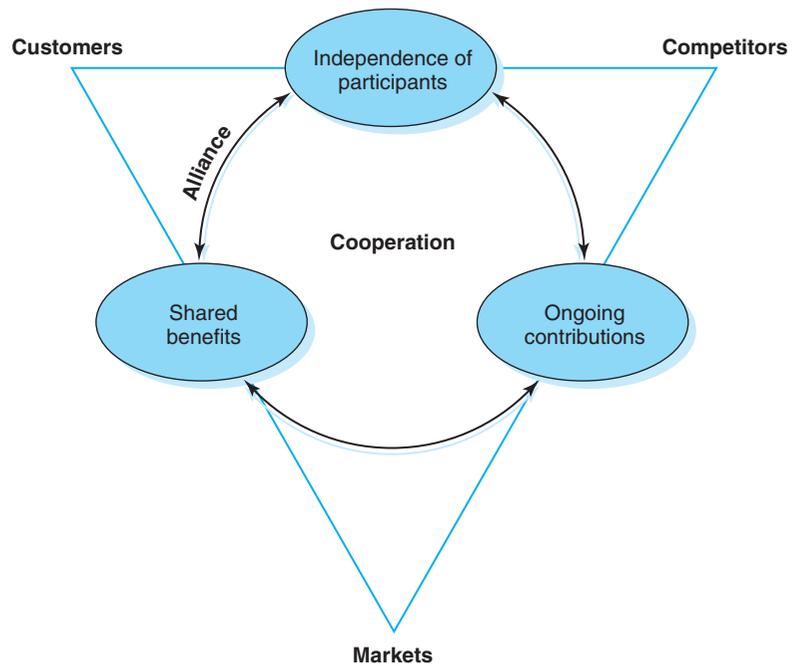
1. The participants remain independent subsequent to the formation of the alliance.
2. The participants share the benefits of the alliance as well as control over the performance of assigned tasks.
3. The participants make ongoing contributions in technology, products, and other key strategic areas.

²⁰ Michael Y. Yoshino and U. Srinivasa Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995), p. 51.

²¹ Yoshino and Rangan, p. 5. For an alternative description see Riad Ajami and Dara Khambata, "Global Strategic Alliances: The New Transnationals," *Journal of Global Marketing* 5, no. 1/2, (1991), pp. 55–59.

Figure 9-2

Three Characteristics of Strategic Alliances



According to estimates, the number of strategic alliances has been growing at a rate of 20 percent to 30 percent since the mid-1980s. The upward trend for GSPs comes in part at the expense of traditional cross-border mergers and acquisitions. Since the mid-1990s, a key force driving partnership formation is the realization that globalization and the Internet will require new inter-corporate configurations. Table 9-6 lists some of the GSPs that have been formed recently.

Roland Smith, chairman of British Aerospace, offers a straightforward reason why a firm would enter into a GSP: "A partnership is one of the quickest and cheapest ways to develop a global strategy."²² Like traditional joint ventures, GSPs have some disadvantages. Partners share control over assigned tasks, a situation that creates management challenges. Also, there are potential risks associated with strengthening a competitor from another country.

Despite these drawbacks, GSPs are attractive for several reasons. First, high product development costs in the face of resource constraints may force a company to seek one or more partners; this was part of the rationale for Sony's partnership with Samsung to produce flat-panel TV screens. Second, the technology requirements of many contemporary products mean that an individual company

Table 9-6

Examples of Global Strategic Partnerships

Name of Alliance or Product and Web Address	Major Participants	Purpose of Alliance
S-LCD	Sony Corp., Samsung Electronics Co.	Produce flat-panel LCD screens for high-definition televisions.
Beverage Partners Worldwide	Coca-Cola and Nestlé	Offer new coffee, tea, and herbal beverage products in "rejuvenation" category.
Star Alliance www.star-alliance.com	United Airlines, Air Canada, SAS, Lufthansa, Thai Airways International, and Varig Airlines	Create a global travel network by linking airlines and providing better service for international travelers.

²² Main, p. 121.



The Star Alliance is a global network that brings together United Airlines and carriers in a number of different countries. Passengers booking a ticket on any Alliance member can easily connect with other carriers for smooth travel to more than 130 countries. A further benefit for travelers is the fact that frequent flyer miles earned can be redeemed on any Alliance member.

may lack the skills, capital, or know-how to go it alone.²³ Third, partnerships may be the best means of securing access to national and regional markets. Fourth, partnerships provide important learning opportunities; one expert regards GSPs as a “race to learn.” Professor Gary Hamel of the London Business School has observed that the partner that proves to be the fastest learner can ultimately dominate the relationship.²⁴

As noted earlier, GSPs differ significantly from the market entry modes discussed in the first half of the chapter. Because licensing agreements do not call for continuous transfer of technology or skills among partners, such agreements are not strategic alliances.²⁵ Traditional joint ventures are basically alliances focusing on a single national market or a specific problem. The Chinese joint venture described previously between GM and Shanghai Automotive fits this description; the basic goal is to make cars for the Chinese market. A true global strategic partnership is different; it is distinguished by five attributes.²⁶ S-LCD, Sony’s strategic alliance with Samsung, offers a good illustration of each attribute.²⁷

1. *Two or more companies develop a joint long-term strategy aimed at achieving world leadership by pursuing cost-leadership, differentiation, or a combination of the two.* Samsung and Sony are jockeying with each other for leadership in the global television market. One key to profitability in the flat-panel TV market is being the cost leader in panel production. S-LCD is a \$2 billion joint venture to produce 60,000 panels per month.

²³ Kenichi Ohmae, “The Global Logic of Strategic Alliances,” *Harvard Business Review* 67, no. 2 (March–April 1989), p. 145.

²⁴ Main, p. 122.

²⁵ Michael Y. Yoshino and U. Srinivasa Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995), p. 6.

²⁶ Howard V. Perlmutter and David A. Heenan, “Cooperate to Compete Globally,” *Harvard Business Review* 64, no. 2 (March–April 1986), p. 137.

²⁷ Discussion is adapted from Phred Dvorak and Evan Ramstad, “TV Marriage: Behind Sony-Samsung Rivalry, An Unlikely Alliance Develops,” *The Wall Street Journal* (January 3, 2006), pp. A1, A6.

2. *The relationship is reciprocal. Each partner possesses specific strengths that it shares with the other; learning must take place on both sides.* Samsung is a leader in the manufacturing technologies used to create flat-panel TVs. Sony excels at parlaying advanced technology into world-class consumer products; its engineers specialize in optimizing TV picture quality. Jang Insik, Samsung's chief executive, says, "If we learn from Sony, it will help us in advancing our technology."
3. *The partners' vision and efforts are truly global, extending beyond home countries and the home regions to the rest of the world.* Sony and Samsung are both global companies that market global brands throughout the world.
4. *The relationship is organized along horizontal, not vertical, lines. Continual transfer of resources laterally between partners is required, with technology sharing and resource pooling representing norms.* Jang and Sony's Hiroshi Murayama speak by telephone on a daily basis; they also meet face-to-face each month to discuss panel making.
5. When competing in markets excluded from the partnership, the participants retain their national and ideological identities.

SUCCESS FACTORS

Assuming that a proposed alliance meets these five prerequisites, it is necessary to consider six basic factors deemed to have significant impact on the success of GSPs: mission, strategy, governance, culture, organization, and management.²⁸

1. *Mission.* Successful GSPs create win-win situations, where participants pursue objectives on the basis of mutual need or advantage.
2. *Strategy.* A company may establish separate GSPs with different partners; strategy must be thought out up front to avoid conflicts.
3. *Governance.* Discussion and consensus must be the norms. Partners must be viewed as equals.
4. *Culture.* Personal chemistry is important, as is the successful development of a shared set of values. The failure of a partnership between Great Britain's General Electric Company and Siemens AG was blamed in part on the fact that the former was run by finance-oriented executives, the latter by engineers.
5. *Organization.* Innovative structures and designs may be needed to offset the complexity of multicountry management.
6. *Management.* GSPs invariably involve a different type of decision making. Potentially divisive issues must be identified in advance and clear, unitary lines of authority established that will result in commitment by all partners.

Companies forming GSPs must keep these factors in mind. Moreover, the following four principles will guide successful collaborators. First, despite the fact that partners are pursuing mutual goals in some areas, partners must remember that they are competitors in others. Second, harmony is not the most important measure of success—some conflict is to be expected. Third, all employees, engineers, and managers must understand where cooperation ends and competitive compromise begins. Finally, as noted earlier, learning from partners is critically important.²⁹

²⁸ Perlmutter and Heenan, p. 137.

²⁹ Gary Hamel, Yves L. Doz, and C. K. Prahalad, "Collaborate with Your Competitors—and Win," *Harvard Business Review* 67, no. 1 (January–February 1989), pp. 133–139.

The issue of learning deserves special attention. As one team of researchers notes,

The challenge is to share enough skills to create advantage vis-à-vis companies outside the alliance while preventing a wholesale transfer of core skills to the partner. This is a very thin line to walk. Companies must carefully select what skills and technologies they pass to their partners. They must develop safeguards against unintended, informal transfers of information. The goal is to limit the transparency of their operations.³⁰

Alliances with Asian Competitors

Western companies may find themselves at a disadvantage in GSPs with an Asian competitor, especially if the latter's manufacturing skills are the attractive quality. Unfortunately for Western companies, manufacturing excellence represents a multifaceted competence that is not easily transferred. Non-Asian managers and engineers must also learn to be more receptive and attentive—they must overcome the “not-invented-here” syndrome and begin to think of themselves as students, not teachers. At the same time, they must learn to be less eager to show off proprietary lab and engineering successes. To limit transparency, some companies involved in GSPs establish a “collaboration section.” Much like a corporate communications department, this department is designed to serve as a gatekeeper through which requests for access to people and information must be channeled. Such gatekeeping serves an important control function that guards against unintended transfers.

A 1991 report by McKinsey and Company shed additional light on the specific problems of alliances between Western and Japanese firms.³¹ Often, problems between partners had less to do with objective levels of performance than with a feeling of mutual disillusionment and missed opportunity. The study identified four common problem areas in alliances gone wrong. The first problem was that each partner had a “different dream”; the Japanese partner saw itself emerging from the alliance as a leader in its business or entering new sectors and building a new basis for the future; the Western partner sought relatively quick and risk-free financial returns. Said one Japanese manager, “Our partner came in looking for a return. They got it. Now they complain that they didn't build a business. But that isn't what they set out to create.”

A second area of concern is the balance between partners. Each must contribute to the alliance and each must depend on the other to a degree that justifies participation in the alliance. The most attractive partner in the short run is likely to be a company that is already established and competent in the business with the need to master, say, some new technological skills. The best long-term partner, however, is likely to be a less competent player or even one from outside the industry.

Another common cause of problems is “frictional loss,” caused by differences in management philosophy, expectations, and approaches. All functions within the alliance may be affected, and performance is likely to suffer as a consequence. Speaking of his Japanese counterpart, a Western businessperson said, “Our partner just wanted to go ahead and invest without considering whether there would be a return or not.” The Japanese partner stated that “the foreign partner took so long to decide on obvious points that we were always too slow.” Such differences often lead to frustration and time-consuming debates that stifle decision making.

³⁰ Hamel, Doz, Prahalad, p. 136.

³¹ Kevin K. Jones and Walter E. Schill, “Allying for Advantage,” *The McKinsey Quarterly* no. 3 (1991), pp. 73–101.

Last, the study found that short-term goals can result in the foreign partner limiting the number of people allocated to the joint venture. Those involved in the venture may perform only two- or three-year assignments. The result is “corporate amnesia,” that is, little or no corporate memory is built up on how to compete in Japan. The original goals of the venture will be lost as each new group of managers takes their turn. When taken collectively, these four problems will almost ensure that the Japanese partner will be the only one in it for the long haul.

CFM International, GE, and SNECMA: A Success Story

Commercial Fan Moteur (CFM) International, a partnership between GE’s jet engine division and Snecma, a government-owned French aerospace company, is a frequently cited example of a successful GSP. GE was motivated, in part, by the desire to gain access to the European market so it could sell engines to Airbus Industrie; also, the \$800 million in development costs was more than GE could risk on its own. While GE focused on system design and high-tech work, the French side handled fans, boosters, and other components. In 2004, the French government sold a 35 percent stake in Snecma; in 2005, Sagem, an electronics maker, acquired Snecma. The combined companies are known as Safran. Today, the Snecma division has operations throughout the world and more than 300 commercial and military customers worldwide including Boeing, Airbus, and the United States Air Force. In 2006, Snecma generated sales of €3.4 billion.

The alliance got off to a strong start because of the personal chemistry between two top executives, GE’s Gerhard Neumann and the late General René Ravaut of Snecma. The partnership thrives despite each side’s differing views regarding governance, management, and organization. Brian Rowe, senior vice president of GE’s engine group, has noted that the French like to bring in senior executives from outside the industry, whereas GE prefers to bring in experienced people from within the organization. Also, the French prefer to approach problem solving with copious amounts of data, and Americans may take a more intuitive approach. Still, senior executives from both sides of the partnership have been delegated substantial responsibility.

Boeing and Japan: A Controversy

In some circles, GSPs have been the target of criticism. Critics warn that employees of a company that becomes reliant on outside suppliers for critical components will lose expertise and experience erosion of their engineering skills. Such criticism is often directed at GSPs involving U.S. and Japanese firms. For example, a proposed alliance between Boeing and a Japanese consortium to build a new fuel-efficient airliner, the 7J7, generated a great deal of controversy. The project’s \$4 billion price tag was too high for Boeing to shoulder alone. The Japanese were to contribute between \$1 billion and \$2 billion; in return, they would get a chance to learn manufacturing and marketing techniques from Boeing. Although the 7J7 project was shelved in 1988, a new wide body aircraft, the 777, was developed with about 20 percent of the work subcontracted out to Mitsubishi, Fuji, and Kawasaki.³²

³² John Holusha, “Pushing the Envelope at Boeing,” *The New York Times* (November 10, 1991), sec. 3, pp. 1, 6.

Critics envision a scenario in which the Japanese use what they learn to build their own aircraft and compete directly with Boeing in the future—a disturbing thought since Boeing is a major exporter to world markets. One team of researchers has developed a framework outlining the stages that a company can go through as it becomes increasingly dependent on partnerships:³³

- Stage One: Outsourcing of assembly for inexpensive labor
- Stage Two: Outsourcing of low-value components to reduce product price
- Stage Three: Growing levels of value-added components move abroad
- Stage Four: Manufacturing skills, designs, and functionally related technologies move abroad
- Stage Five: Disciplines related to quality, precision-manufacturing, testing, and future avenues of product derivatives move abroad
- Stage Six: Core skills surrounding components, miniaturization, and complex systems integration move abroad
- Stage Seven: Competitor learns the entire spectrum of skills related to the underlying core competence

Yoshino and Rangan have described the interaction and evolution of the various market entry strategies in terms of cross-market dependencies (Figure 9-2).³⁴ Many firms start with an export-based approach as described in Chapter 8. For example, the striking success of Japanese firms in the automobile and consumer electronics industries can be traced back to an export drive. Nissan, Toyota, and Honda initially concentrated production in Japan, thereby achieving economies of scale. Eventually, an export-driven strategy gives way to an affiliate-based one. The various types of investment strategies described previously—equity stake, investment to establish new operations, acquisitions, and joint ventures—create operational interdependence within the firm. By operating in different markets, firms have the opportunity to transfer production from place to place, depending on exchange rates, resource costs, or other considerations. Although at some companies, foreign

		Scale	Operational	Scope
Less complex More complex	Export-based	X		
	Affiliate-based	X	X	
	Network-based	X	X	X

Figure 9-3

Evolution and Interaction of Entry Strategies

Source: Adapted from Michael Y. Yoshino and U. Srinivasa Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995), p. 51.

³³ David Lei and John W. Slocum Jr., "Global Strategy, Competence-Building and Strategic Alliances," *California Management Review* 35, no. 1 (Fall 1992), pp. 81–97.

³⁴ Michael A. Yoshino and U. Srinivasa Rangan, *Strategic Alliances: An Entrepreneurial Approach to Globalization* (Boston: Harvard Business School Press, 1995), pp. 56–59.

affiliates operate as autonomous fiefdoms (the prototypical multinational business with a polycentric orientation), other companies realize the benefits that operational flexibility can bring. The third and most complex stage in the evolution of a global strategy comes with management's realization that full integration and a network of shared knowledge from different country markets can greatly enhance the firm's overall competitive position. As implied by Figure 9-3, as company personnel opt to pursue increasingly complex strategies, they must simultaneously manage each new interdependency as well as preceding ones. The stages described here are reflected in the evolution of Taiwan's Acer Group as described in Case 1-2.

INTERNATIONAL PARTNERSHIPS IN DEVELOPING COUNTRIES

Central and Eastern Europe, Asia, India, and Mexico offer exciting opportunities for firms that seek to enter gigantic and largely untapped markets. An obvious strategic alternative for entering these markets is the strategic alliance. Like the early joint ventures between U.S. and Japanese firms, potential partners will trade market access for know-how. Other entry strategies are also possible, of course; in 1996, for example, Chrysler and BMW agreed to invest \$500 million in a joint venture plant in Latin America capable of producing 400,000 small engines annually. While then-Chrysler chairman Robert Eaton was skeptical of strategic partnerships, he believed that limited forms of cooperation such as joint ventures make sense in some situations. Eaton said, "The majority of world vehicle sales are in vehicles with engines of less than 2.0 liters, outside of the United States. We have simply not been able to be competitive in those areas because of not having a smaller engine. In the international market, there's no question that in many cases such as this, the economies of scale suggest you really ought to have a partner."³⁵

Assuming that risks can be minimized and problems overcome, joint ventures in the transition economies of Central and Eastern Europe could evolve at a more accelerated pace than past joint ventures with Asian partners. A number of factors combine to make Russia an excellent location for an alliance: There is a well-educated workforce, and quality is very important to Russian consumers. However, several problems are frequently cited in connection with joint ventures in Russia; these include organized crime, supply shortages, and outdated regulatory and legal systems in a constant state of flux. Despite the risks, the number of joint ventures in Russia is growing, particularly in the services and manufacturing sectors. In the early-post Soviet era, most of the manufacturing ventures were limited to assembly work, but higher value-added activities such as component manufacture are now being performed.

A Central European market with interesting potential is Hungary. Hungary already has the most liberal financial and commercial system in the region. It has also provided investment incentives to Westerners, especially in high-tech industries. Like Russia, this former communist economy has its share of problems. Digital's recent joint venture agreement with the Hungarian Research Institute for Physics and the state-supervised computer systems design firm Szamalk is a case in point. Although the venture was formed so Digital would

³⁵ Angelo B. Henderson, "Chrysler and BMW Team Up to Build Small-Engine Plant in South America," *The Wall Street Journal* (October 2, 1996), p. A4.

be able to sell and service its equipment in Hungary, the underlying importance of the venture was to stop the cloning of Digital's computers by Central European firms.

COOPERATIVE STRATEGIES IN JAPAN: *KEIRETSU*

Japan's *keiretsu* represents a special category of cooperative strategy. A *keiretsu* is an interbusiness alliance or enterprise group that, in the words of one observer, "resembles a fighting clan in which business families join together to vie for market share."³⁶ *Keiretsu* exist in a broad spectrum of markets, including the capital market, primary goods markets, and component parts markets.³⁷ *Keiretsu* relationships are often cemented by bank ownership of large blocks of stock and by cross-ownership of stock between a company and its buyers and nonfinancial suppliers. Further, *keiretsu* executives can legally sit on each other's boards, and share information, and coordinate prices in closed-door meetings of "presidents' councils." Thus, *keiretsu* are essentially cartels that have the government's blessing. While not a market entry strategy per se, *keiretsu* played an integral role in the international success of Japanese companies as they sought new markets.

Some observers have disputed charges that *keiretsu* have an impact on market relationships in Japan and claim instead that the groups primarily serve a social function. Others acknowledge the past significance of preferential trading patterns associated with *keiretsu* but assert that the latter's influence is now weakening. Although it is beyond the scope of this chapter to address these issues in detail, there can be no doubt that, for companies competing with the Japanese or wishing to enter the Japanese market, a general understanding of *keiretsu* is crucial. Imagine, for example, what it would mean in the United States if an automaker (e.g., GM), an electrical products company (e.g., GE), a steelmaker (e.g., USX), and a computer firm (e.g., IBM) were interconnected, rather than separate, firms. Global competition in the era of *keiretsu* means that competition exists not only among products, but between different systems of corporate governance and industrial organization.³⁸

As the hypothetical example from the United States suggests, some of Japan's biggest and best-known companies are at the center of *keiretsu*. For example, several large companies with common ties to a bank are at the center of the Mitsui Group and Mitsubishi Group. These two, together with the Sumitomo, Fuyo, Sanwa, and DKB groups make up the "big six" *keiretsu* (in Japanese, *roku dai kigyo shudan* or six big industrial groups). The big six strive for a strong position in each major sector of the Japanese economy; because intragroup relationships often involve shared stockholdings and trading relations, the big six are sometimes known as *horizontal keiretsu*.³⁹ Annual revenues in each group are in the hundreds of billions of dollars. In absolute terms, *keiretsu* constitute a small percentage of all Japanese companies. However, these alliances can effectively block foreign suppliers from entering the market and result in higher prices to Japanese consumers, while at the same time resulting in corporate stability, risk sharing, and long-term

³⁶ Robert L. Cutts, "Capitalism in Japan: Cartels and Keiretsu," *Harvard Business Review* 70, no. 4 (July–August 1992), p. 49.

³⁷ Michael L. Gerlach, "Twilight of the *Keiretsu*? A Critical Assessment," *Journal of Japanese Studies* 18, no. 1 (Winter 1992), p. 79.

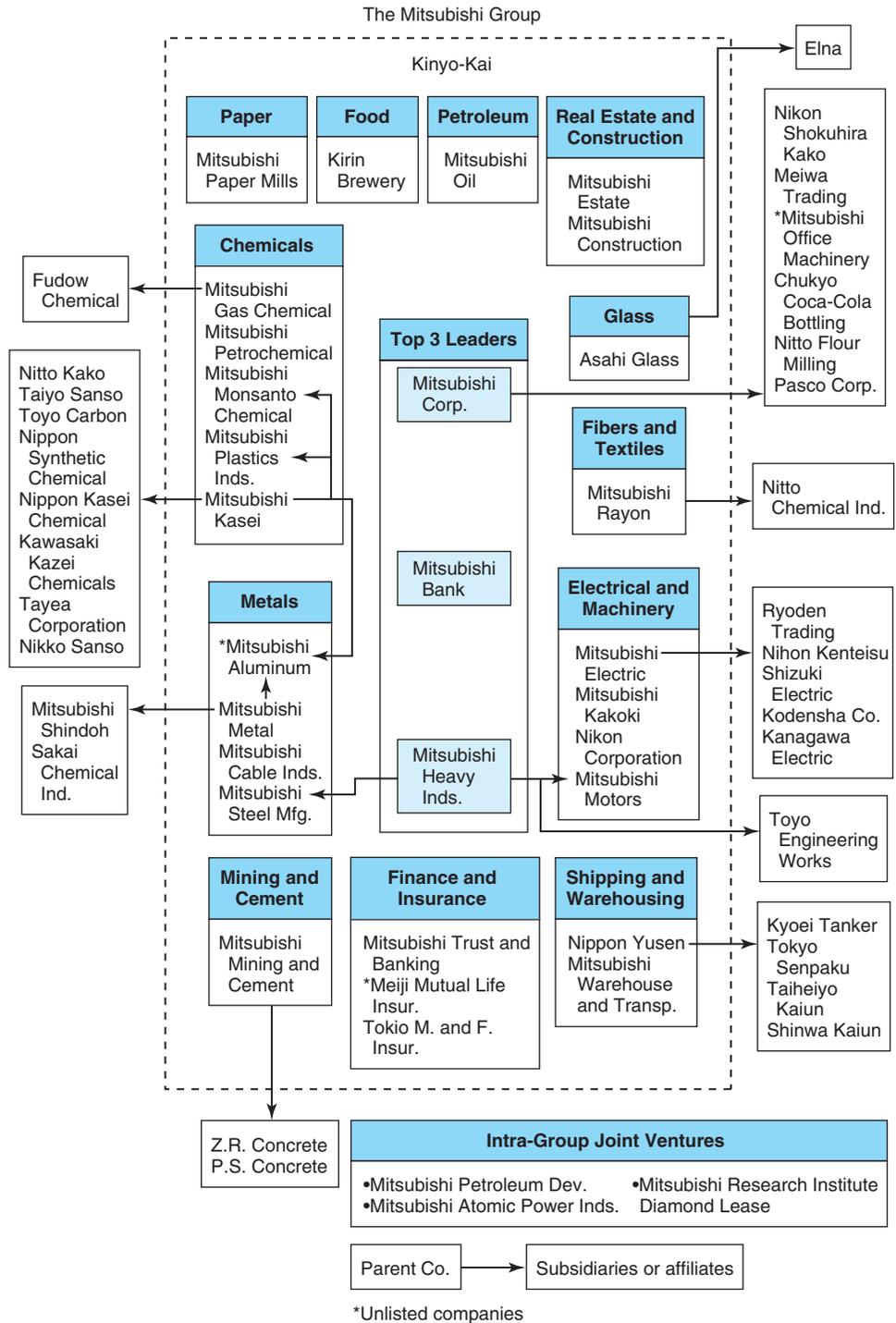
³⁸ Ronald J. Gilson and Mark J. Roe, "Understanding the Japanese Keiretsu: Overlaps Between Corporate Governance and Industrial Organization," *Yale Law Journal* 102, no. 4 (January 1993), p. 883.

³⁹ Kenichi Miyashita and David Russell, *Keiretsu: Inside the Hidden Japanese Conglomerates* (New York: McGraw-Hill, 1996), p. 9.

Figure 9-4

Mitsubishi Group's Keiretsu Structure

Source: Adapted from Collins and Doorley Teaming Up for the 90s. Deloitte & Touche, 1991.



employment. The Mitsubishi Group's *keiretsu* structure is shown in detail in Figure 9-4.

In addition to the big six, several other *keiretsu* have formed, bringing new configurations to the basic forms described previously. *Vertical* (i.e., supply and distribution) *keiretsu* are hierarchical alliances between manufacturers and retailers. For example, Matsushita controls a chain of 25,000 National stores in Japan through which it sells its Panasonic, Technics, and Quasar brands. About half of Matsushita's domestic sales are generated through the National chain, 50 percent to 80 percent of whose inventory consists of Matsushita's brands. Japan's other

major consumer electronics manufacturers, including Toshiba and Hitachi, have similar alliances. (Sony's chain of stores is much smaller and weaker by comparison.) All are fierce competitors in the Japanese market.⁴⁰

Another type of manufacturing *keiretsu* consists of vertical hierarchical alliances between automakers and suppliers and component manufacturers. Intergroup operations and systems are closely integrated, with suppliers receiving long-term contracts. Toyota, for example, has a network of about 175 primary and 4,000 secondary suppliers. One supplier is Koito; Toyota owns about one-fifth of Koito's shares and buys about half of its production. The net result of this arrangement is that Toyota produces about 25 percent of the sales value of its cars, compared with 50 percent for GM. Manufacturing *keiretsu* show the gains that can result from an optimal balance of supplier and buyer power. Because Toyota buys a given component from several suppliers (some are in the *keiretsu*, some are independent), discipline is imposed down the network. Also, since Toyota's suppliers do not work exclusively for Toyota, they have an incentive to be flexible and adaptable.⁴¹

The *keiretsu* system ensured that high-quality parts were delivered on a just-in-time basis, a key factor in the high quality for which Japan's auto industry is well known. However, as U.S. and European automakers have closed the quality gap, larger Western parts makers are building economies of scale that enable them to operate at lower costs than small Japanese parts makers. Moreover, the stock holdings that Toyota, Nissan, and others have in their supplier network ties up capital that could be used for product development and other purposes. At Nissan, for example, a new management team from France recently began divesting some of the company's 1,300 *keiretsu* investments.⁴²

Some observers have questioned whether *keiretsu* violate antitrust laws. As many observers have noted, the Japanese government frequently puts the interests of producers ahead of the interests of consumers. The *keiretsu* were formed in the early 1950s as regroupings of four large conglomerates—*zaibatsu*—that dominated the Japanese economy until 1945. *Zaibatsu* were dissolved after the occupational forces introduced antitrust as part of the reconstruction. Today, Japan's Fair Trade Commission appears to favor harmony rather than pursuing anticompetitive behavior. As a result, the U.S. Federal Trade Commission has launched several investigations of price fixing, price discrimination, and exclusive supply arrangements. Hitachi, Canon, and other Japanese companies have also been accused of restricting the availability of high-tech products in the U.S. market. The Justice Department has considered prosecuting the U.S. subsidiaries of Japanese companies if the parent company is found guilty of unfair trade practices in the Japanese market.⁴³

How Keiretsu Affect American Business: Two Examples

Clyde Prestowitz provides the following example to show how *keiretsu* relationships have a potential impact on U.S. businesses. In the early 1980s, Nissan was in the market for a supercomputer to use in car design. Two vendors under consideration were Cray, the worldwide leader in supercomputers at the time, and Hitachi, which had no functional product to offer. When it appeared that

⁴⁰ The importance of the chain stores is eroding due to increasing sales at mass merchandisers not under the manufacturers' control.

⁴¹ "Japanology, Inc. -Survey," *Economist* (March 6, 1993), p. 15.

⁴² Norihiko Shirouzu, "U-Turn: A Revival at Nissan Shows There's Hope for Ailing Japan Inc.," *The Wall Street Journal* (November 16, 2000), pp. A1, A10.

⁴³ Rappoport, p. 84.

the purchase of a Cray computer was pending, Hitachi executives called for solidarity; both Nissan and Hitachi were members of the same big six *keiretsu*, the Fuyo group. Hitachi essentially mandated that Nissan show preference to Hitachi, a situation that rankled U.S. trade officials. Meanwhile, a coalition within Nissan was pushing for a Cray computer; ultimately, thanks to U.S. pressure on both Nissan and the Japanese government, the business went to Cray.

Prestowitz describes the Japanese attitude toward this type of business practice:⁴⁴

. . . It respects mutual obligation by providing a cushion against shocks. Today Nissan may buy a Hitachi computer. Tomorrow it may ask Hitachi to take some of its redundant workers. The slightly lesser performance it may get from the Hitachi computer is balanced against the broader considerations. Moreover, because the decision to buy Hitachi would be a favor, it would bind Hitachi closer and guarantee slavish service and future Hitachi loyalty to Nissan products. . . . This attitude of sticking together is what the Japanese mean by the long-term view; it is what enables them to withstand shocks and to survive over the long term.⁴⁵

Because *keiretsu* relationships are crossing the Pacific and directly affecting the American market, U.S. companies have reason to be concerned with *keiretsu* outside the Japanese market as well. According to 1991 data compiled by Dodwell Marketing Consultants, in California alone *keiretsu* own more than half of the Japanese-affiliated manufacturing facilities. But the impact of *keiretsu* extends beyond the West Coast. Illinois-based Tenneco Automotive, a maker of shock absorbers and exhaust systems, does a great deal of worldwide business with the Toyota *keiretsu*. In 1990, however, Mazda dropped Tenneco as a supplier to its U.S. plant in Kentucky. Part of the business was shifted to Tokico Manufacturing, a Japanese transplant and a member of the Mazda *keiretsu*; a non-*keiretsu* Japanese company, KYB Industries, was also made a vendor. A Japanese auto executive explained the rationale behind the change: "First choice is a *keiretsu* company, second choice is a Japanese supplier, third is a local company."⁴⁶

COOPERATIVE STRATEGIES IN SOUTH KOREA: CHAEBOL

South Korea has its own type of corporate alliance groups, known as *chaebol*. Like the Japanese *keiretsu*, *chaebol* are composed of dozens of companies, centered around a central bank or holding company, and dominated by a founding family. However, *chaebol* are a more recent phenomenon; in the early 1960s, Korea's military dictator granted government subsidies and export credits to a select group of companies. By the 1980s, Daewoo, Hyundai, LG, and Samsung had become leading producers of low-cost consumer electronics products. The *chaebol* were a driving force behind South Korea's economic miracle; GNP increased from \$1.9 billion in 1960 to \$238 billion in 1990. Since the economic crisis of 1997, however, South Korean President Kim Dae Jung has pressured *chaebol* leaders to

⁴⁴ For years, Prestowitz has argued that Japan's industry structure—*keiretsu* included—gives its companies unfair advantages. A more moderate view might be that any business decision must have an economic justification. Thus, a moderate would caution against overstating the effect of *keiretsu*.

⁴⁵ Clyde Prestowitz, *Trading Places: How We Are Giving Our Future to Japan and How to Reclaim It* (New York: Basic Books, 1989), pp. 299–300.

⁴⁶ Carla Rappoport, "Why Japan Keeps on Winning," *Fortune* (July 15, 1991), p. 84.

initiate reform. Prior to the crisis, the *chaebol* had become bloated and heavily leveraged; recently, some progress has been made in improving corporate governance, changing corporate cultures, and reducing debt levels.⁴⁷

TWENTY-FIRST CENTURY COOPERATIVE STRATEGIES: TARGETING THE DIGITAL FUTURE

Increasing numbers of companies in all parts of the world are entering into alliances that resemble *keiretsu*. The phrase *digital keiretsu* is frequently used to describe alliances between companies in several industries—computers, communications, consumer electronics, and entertainment—that are undergoing transformation and convergence. These processes are the result of tremendous advances in the ability to transmit and manipulate vast quantities of audio, video, and data and the rapidly approaching era of a global electronic “superhighway” composed of fiber optic cable and digital switching equipment.

One U.S. technology alliance, Sematech, is unique in that it is the direct result of government industrial policy. The U.S. government, concerned that key companies in the domestic semiconductor industry were having difficulty competing with Japan, agreed to subsidize a consortium of 14 technology companies beginning in 1987. Sematech was originally comprised of 700 employees, some permanent and some on loan from IBM, AT&T, Advanced Micro Devices, Intel, and other companies. The task facing the consortium was to save the U.S. chipmaking equipment industry, whose manufacturers were rapidly losing market share in the face of intense competition from Japan. Although initially plagued by attitudinal and cultural differences between different factions, Sematech eventually helped chipmakers try new approaches with their equipment vendors. By 1991, the Sematech initiative, along with other factors such as the economic downturn in Japan, reversed the market share slide of the semiconductor equipment industry. Sematech’s creation heralded a new era in cooperation among technology companies. As the company has expanded internationally, its membership roster has expanded to include Agere Systems, Conexant, Hewlett-Packard, Hynix, Infineon, Motorola, Philips, STMicroelectronics, and Taiwan Semiconductor. Companies in a variety of industries are pursuing similar types of alliances.

Beyond Strategic Alliances

The “relationship enterprise” is said to be the next stage of evolution of the strategic alliance. Groupings of firms in different industries and countries, they will be held together by common goals that encourage them to act almost as a single firm. Cyrus Freidheim, former vice chairman of the Booz Allen Hamilton consulting firm, outlined an alliance that, in his opinion, might be representative of an early relationship enterprise. He suggests that, within the next few decades, Boeing, British Airways, Siemens, TNT, and Snecma might jointly build several new airports in China. As part of the package, British Airways and TNT would be granted preferential routes and landing slots, the Chinese government would contract to buy all its aircraft from Boeing/Snecma, and Siemens would provide air traffic control systems for all 10 airports.⁴⁸

More than the simple strategic alliances we know today, relationship enterprises will be super-alliances among global giants, with revenues approaching

⁴⁷ “The Chaebol Spurn Change,” *Economist* (July 27, 2000), pp. 59–60.

⁴⁸ “The Global Firm: R.I.P.” *Economist* (February 6, 1993), p. 69.

\$1 trillion. They would be able to draw on extensive cash resources, circumvent antitrust barriers, and, with home bases in all major markets, enjoy the political advantage of being a “local” firm almost anywhere. This type of alliance is not driven simply by technological change but by the political necessity of having multiple home bases.

Another perspective on the future of cooperative strategies envisions the emergence of the “virtual corporation.” As described in a *Business Week* cover story, the virtual corporation “will seem to be a single entity with vast capabilities but will really be the result of numerous collaborations assembled only when they’re needed.”⁴⁹ On a global level, the virtual corporation could combine the twin competencies of cost effectiveness and responsiveness; thus, it could pursue the “think globally, act locally” philosophy with ease. This reflects the trend toward “mass customization.” The same forces that are driving the formation of the digital *keiretsu*—high-speed communication networks, for example—are embodied in the virtual corporation. As noted by William Davidow and Michael Malone in their book *The Virtual Corporation*, “The success of a virtual corporation will depend on its ability to gather and integrate a massive flow of information throughout its organizational components and intelligently act upon that information.”⁵⁰

Why has the virtual corporation suddenly burst onto the scene? Previously, firms lacked the technology to facilitate this type of data management. Today’s distributed databases, networks, and open systems make possible the kinds of data flow required for the virtual corporation. In particular, these data flows permit superior supply chain management. Ford provides an interesting example of how technology is improving information flows among the far-flung operations of a single company. Ford’s \$6 billion “world car”—known as the Mercury Mystique and Ford Contour in the United States, the Mondeo in Europe—was developed using an international communications network linking computer workstations of designers and engineers on three continents.⁵¹

MARKET EXPANSION STRATEGIES

Companies must decide whether to expand by seeking new markets in existing countries or, alternatively, seeking new country markets for already identified and served market segments.⁵² These two dimensions in combination produce four **market expansion strategy** options, as shown in Table 9-7. Strategy 1, **country and market concentration**, involves targeting a limited number of customer segments in a few countries. This is typically a starting point for most companies. It matches company resources and market investment needs. Unless a company is large and

Table 9-7

Market Expansion Strategies

		Market	
		Concentration	Diversification
Country	Concentration	1. Narrow focus	2. Country focus
	Diversification	3. Country diversification	4. Global diversification

⁴⁹ John Byrne, “The Virtual Corporation,” *Business Week* (February 8, 1993), p. 103.

⁵⁰ William Davidow and Michael Malone, *The Virtual Corporation: Structuring and Revitalizing the Corporation for the 21st Century* (New York: HarperBusiness, 1993), p. 59.

⁵¹ Julie Edelson Halpert “One Car, Worldwide, with Strings Pulled from Michigan,” *The New York Times* (August 29, 1993), sec. 3, p. 7.

⁵² This section draws on I. Ayal and J. Zif, “Market Expansion Strategies in Multinational Marketing,” *Journal of Marketing* 43 (Spring 1979), pp. 84–94; and “Competitive Market Choice Strategies in Multinational Marketing,” *Columbia Journal of World Business* (Fall 1978), pp. 72–81.

endowed with ample resources, this strategy may be the only realistic way to begin.

In Strategy 2, **country concentration and market diversification**, a company serves many markets in a few countries. This strategy was implemented by many European companies that remained in Europe and sought growth by expanding into new markets. It is also the approach of the American companies that decide to diversify in the U.S. market as opposed to going international with existing products or creating new global products. According to the U.S. Department of Commerce, the majority of U.S. companies that export limit their sales to five or fewer markets. This means that U.S. companies typically pursue Strategies 1 or 2.

Strategy 3, **country diversification and market concentration**, is the classic global strategy whereby a company seeks out the world market for a product. The appeal of this strategy is that, by serving the world customer, a company can achieve a greater accumulated volume and lower costs than any competitor and, therefore, have an unassailable competitive advantage. This is the strategy of the well-managed business that serves a distinct need and customer category.

Strategy 4, **country and market diversification**, is the corporate strategy of a global, multibusiness company such as Matsushita. Overall, Matsushita is multicountry in scope and its various business units and groups serve multiple segments. Thus, at the level of corporate strategy, Matsushita may be said to be pursuing Strategy 4. At the operating business level, however, managers of individual units must focus on the needs of the world customer in their particular global market. In Table 9-7, this is Strategy 3—country diversification and market concentration. An increasing number of companies all over the world are beginning to see the importance of market share not only in the home or domestic market but also in the world market. Success in overseas markets can boost a company's total volume and lower its cost position.

summary

Companies that wish to move beyond exporting and importing can avail themselves of a wide range of alternative **market entry strategies**. Each alternative has distinct advantages and disadvantages associated with it; the alternatives can be ranked on a continuum representing increasing levels of investment, commitment, and risk. **Licensing** can generate revenue flow with little new investment; it can be a good choice for a company that possesses advanced technology, a strong brand image, or valuable intellectual property. **Contract manufacturing** and **franchising** are two specialized forms of licensing that are widely used in global marketing.

A higher level of involvement outside the home country may involve **foreign direct investment (FDI)**. This can take many forms. **Joint ventures** offer two or more companies the opportunity to share risk and combine value chain strengths. Companies considering joint ventures must plan carefully and communicate with partners to avoid “divorce.” Foreign direct investment can also be used to establish company operations outside the home country through **greenfield investment**, acquisition of a minority or majority **equity stake** in a foreign business, or taking **ownership** of an

existing business entity through merger or outright acquisition.

Cooperative alliances known as **global strategic partnerships (GSPs)** represent an important market entry strategy in the twenty-first century. GSPs are ambitious, reciprocal, cross-border alliances that may involve business partners in a number of different country markets. GSPs are particularly well suited to emerging markets in Central and Eastern Europe, Asia, and Latin America. Western businesspeople should also be aware of two special forms of cooperation found in Asia, namely Japan’s *keiretsu* and South Korea’s *chaebol*.

To assist managers in thinking through the various alternatives, market expansion strategies can be represented in matrix form: **country and market concentration, country concentration and market diversification, country diversification and market concentration, and country and market diversification**. The preferred expansion strategy will be a reflection of a company’s stage of development (i.e., whether it is international, multinational, global, or transnational). The Stage 5 transnational combines the strengths of these four stages into an integrated network to leverage worldwide learning.

discussion questions

1. What are the advantages and disadvantages of using licensing as a market entry tool? Give examples of companies from different countries that use licensing as a global marketing strategy.
2. The president of XYZ Manufacturing Company of Buffalo, New York, comes to you with a license offer from a company in Osaka. In return for sharing the company’s patents and know-how, the Japanese company will pay a license fee of 5 percent of the ex-factory price of all products sold based on the U.S. company’s license. The president wants your advice. What would you tell him?
3. What is foreign direct investment (FDI)? What forms can FDI take?
4. What is meant by the phrase *global strategic partnership*? In what ways does this form of market entry strategy differ from more traditional forms such as joint ventures?
5. What is *keiretsu*? How does this form of industrial structure affect companies that compete with Japan or that are trying to enter the Japanese market?
6. Which strategic options for market entry or expansion would a small company be likely to pursue? A large company?

Case 9-1

Ford Bets Billions on Jaguar

In 1989, the Ford Motor Company acquired Jaguar PLC of Coventry, England, for \$2.6 billion. L. Lindsay Halstead, then chairman of Ford of Europe, said the acquisition fulfilled “a longtime strategic objective of entering the luxury car market in a significant way.” Ford lacked a high-end luxury model for both the U.S. and European markets, and the company was betting it could leverage an exclusive nameplate by launching a new, less expensive line of Jaguars and selling it to more people. The challenge was to execute this strategy without diminishing Jaguar’s reputation; as Daniel Jones, a professor at the University of Cardiff and an auto industry expert, noted, the Ford name is synonymous with “bread and butter” cars. Meanwhile, Ford’s Japanese competitors, including Honda, Nissan, and Toyota, pursued a different strategy: They launched new nameplates and upgraded their dealer organizations. Status- and quality-conscious car buyers have embraced Lexus, Infiniti, and other new luxury sedans that offer high performance and outstanding dealer organizations.



Jaguar’s S-type represented the venerable automaker’s bid to become a mainstream luxury nameplate and double its North American sales to 80,000 cars each year. In terms of styling, the \$45,000 S-Type recalls the classic Jaguar designs of the 1950s and 1960s. Worldwide, Jaguar executives hoped to quadruple sales from 50,000 units to 200,000 units by 2003. Unfortunately, that goal proved to be unrealistic.

In 1988, its best sales year before the acquisition, Jaguar sold fewer than 50,000 cars worldwide. Ford set a production target of 150,000 cars by the end of the 1990s, two-thirds of which would be the lower-priced sporty sedan. Ford executives also expected Jaguar to show a positive cash flow by the end of 1992. Unfortunately, the Jaguar acquisition coincided with the global recession that hurt sales in Japan, Germany, and the United States. To make matters worse, a 10 percent luxury tax imposed in the United States was a deterrent to potential buyers. By 1991, Jaguar sales slipped to slightly more than 25,000 cars. In the face of losses totaling \$431 million in 1990 and 1991, Ford scaled back its original end-of-decade volume target to 100,000 cars.



In 2006, Jaguar launched the 420 hp XKR luxury sports car. The company, which is part of Ford Motor Company’s Premier Automotive Group, faces strong competition in Europe from Toyota.

Ford also confronted other challenges. Despite Jaguar’s classy image and distinguished racing heritage, the cars were also legendary for their unreliability. Gears sometimes wouldn’t shift, headlights wouldn’t light, and the brakes sometimes caught fire. Part of the problem could be traced to manufacturing: in 1990, there were 2,500 defects per 100 cars produced. By 1992, that number had been reduced to 500 defects per 100 cars. Even so, in the closely watched J.D. Power rankings, Jaguar’s quality in 1992 was rated just a notch above that of the lowly Yugo. Ironically, die-hard Jaguar loyalists seemed to thrive on the misery associated with owning an unreliable car. Jaguar clubs in the United States bestowed “Cat Bite” awards on members with the best tales of woe.

Because Jaguar was arguably one of the world’s worst auto-manufacturing operations, Ford invested heavily to update and upgrade Jaguar’s plant facilities and improve productivity. As a benchmark, Ford’s manufacturing experts knew that German luxury carmakers could build a vehicle in 80 hours; in Japan, the figure was 20 hours. If Jaguar were ever to achieve world-class status, Jaguar’s assembly time of 110 hours per car had to be drastically reduced. Jaguar’s chief executive, Sir Nicholas Scheele, attacked the quality problem on a number of different fronts. For example, line employees made telephone calls to Jaguar owners who were experiencing problems with their vehicles.

As the decade came to an end, Jaguar introduced three new vehicles. In 1997, amid industry estimates that Ford’s total investment had reached \$6 billion, Jaguar launched the XK8 coupe and roadster. With a base price of \$64,900, styling cues clearly identified this model as the successor to Jaguar’s legendary XK-E, or E-Type. In spring 1999, the S-Type sedan was introduced to widespread acclaim. The new model was based on the same platform as the parent company’s Lincoln LS sport sedan. One observer called the S-Type a “handsome car, instantly recognizable as a Jaguar, yet totally contemporary.” In 2001, the long-awaited “baby Jaguar,” the \$30,000 X-Type compact sport sedan, was unveiled. Company executives hoped to attract a new generation of drivers and capture a significant share of the entry-level luxury market dominated by the BMW 3-series and the

Mercedes C-Class. The X-Type was built on the same platform as the Ford Contour.

The early signs were positive. In 2000, Jaguar sold 90,000 cars worldwide; in 2002, first-year sales of the X-Type boosted Jaguar's worldwide sales by 29 percent, to 130,000 vehicles. Unfortunately, the company was not able to sustain the 2002 sales peak. A backlash began to develop. For example, critics of the X-Type derided it as a "warmed-over Ford." Critics also found fault with Ford for failing to move Jaguar's styling forward enough. As one long-time Jaguar owner explained, "They lost their way in what the public wanted. Instead of making Jaguar a niche player, where it should be, they tried to go the mass-production route. That may very well work for the Ford Fusion, but that's not Jaguar's forte." In 2005, bowing to pressures to move the venerable nameplate upmarket again, it was announced that the least expensive Jaguar model, the 2.5 liter X-Type, would be discontinued.

"We have to fix the Jaguar business. The cars are great. Quality has improved. It's not a product problem. It's a business problem."

William Ford, Jr., Chairman, Ford Motor Company

The decision came as Ford's corporate situation was worsening. The company lost \$1.6 billion in the first half of 2006 alone; Jaguar's 2006 sales goal was a projected 90,000 vehicles. There was some good news: The \$75,000 XK coupe wowed the automotive world, and initial sales have been strong. Ford's Premier Auto Group, which includes Jaguar, Volvo, Aston Martin, and Land Rover, was expected to show a profit in 2007. Despite the promising outlook, some industry observers suggest that Ford should sell the Jaguar business. Charles Lemonides, an institutional investor, said, "Ford doesn't necessarily get a halo effect from the brand, nor

Case 9-2

SABMiller in China

South African Breweries PLC had a problem. The company owned more than 100 breweries in 24 countries. South Africa, where the company had a commanding 98 percent share of the beer market, accounted for about 14 percent of annual revenues. However, South Africa's currency, the rand, was quite volatile. Moreover, most of the company's brands, which include Castle Lager, Pilsner Urquell, and Carling Black Label, were sold on a local or regional basis; none had the global status of Heineken, Amstel, or Guinness. Nor were the company's brands well known in the key U.S. market, where a growing number of the "echo boom"—the children of the nation's 75 million baby boomers—were reaching drinking age.

In 2002, a solution presented itself: South African Breweries had an opportunity to buy the Miller Brewing unit from Philip Morris. The \$3.6 billion deal created SABMiller, a new company that ranks as the world's number three brewer in terms of production volume; InBev and Anheuser-Busch rank first and second, respectively. Miller operates nine breweries in the United States, where its flagship brand, Miller Lite, had

does it get a significant marketplace presence from the brand. It's not clear what Ford gains from having it. It will never be big enough to be important to Ford."

Discussion Questions

1. Do you agree with Ford's decision to acquire Jaguar 20 years ago? What was more valuable to Ford—the physical assets or the name?
2. Assess management's decision to introduce the X-Type to broaden Jaguar's appeal from niche player to major competitor in the luxury segment.
3. Ford recently announced it would sell Aston Martin. Should Ford sell the Jaguar business as well? If so, is the buyer likely to be American, European, or Asian?

Sources: Gordon Fairclough, "Bill Ford Jr.: For Auto Makers, China Is the New Frontier," *The Wall Street Journal* (October 27, 2006), p. B5; James Mackintosh, "Ford's Luxury Unit Hits Problems," *Financial Times* (October 24, 2006), p. 23; Sharon Silke Carty, "Will Ford Make the Big Leap?" *USA Today* (August 31, 2006), pp. 1B, 2B; James Macintosh, "Jaguar Still Aiming to Claw Back Market Share," *Financial Times* (July 20, 2006), p. 14; Reinventing a '60s Classic," *The Wall Street Journal* (May 5, 2006), p. W9; James R. Healy, "Cheapest Jags Get Kicked to the Curb," *USA Today* (March 29, 2005), p. 1B; Danny Hakim, "Restoring the Heart of Ford," *The New York Times* (November 14, 2001), pp. C1, C6; Haig Simonian, "Jag's Faces for the Future," *Financial Times* (November 7–November 8, 1998), p. 12; Joann S. Lublin and Craig Forman, "Going Upscale: Ford Snares Jaguar, But \$2.5 Billion Is High Price for Prestige," *The Wall Street Journal* (November 3, 1989), pp. A1, A4; Steven Prokesch, "Jaguar Battle at a Turning Point," *The New York Times* (October 29, 1990), p. C1; Prokesch, "Ford's Jaguar Bet: Payoff Isn't Close," *The New York Times* (April 21, 1992) p. C1; Robert Johnson, "Jaguar Owners Love Company and Sharing Their Horror Stories," *The Wall Street Journal* (September 28, 1993), p. A1.

been losing market share for a number of years. The challenge facing Graham McKay, SABMiller's CEO, was to revitalize the Miller Lite brand in the United States and then launch Miller in Europe as a premium brand.



A few years ago, South African Breweries was a local company that dominated its domestic market. Using joint ventures and acquisitions, the company expanded into the rest of Africa as well as key emerging markets such as China, India, and Central Europe. Today, following the acquisition of Miller, SABMiller is the world's second largest brewer with a strong presence in the U.S. market.

In 1998, South Africa Breweries shifted its stock listing from Johannesburg to the London Stock Exchange; the move meant the company was in a better position to raise equity capital. Recognizing the need for global scale, McKay immediately went on an acquisition drive in Europe, starting in Hungary. He noted, "All the growth to be had is outside the developed world." In the former communist countries of Central and Eastern Europe, the strategy took the form of buying privatized breweries, modernizing them, and using Western marketing techniques to build the brands locally. McKay also acquired several breweries in China, the world's second-largest beer market behind the United States.

As for the new Miller unit, Norman Adami was named CEO six months after the acquisition. Miller had less than 20 percent of the \$67 billion U.S. market for domestic beer with brands such as Miller Lite, Miller Genuine Draft, and Miller High Life; archrival Anheuser-Busch had about 50 percent. New packaging was the first step in revitalizing the brand; the color of Miller's label was changed from silver to royal blue, and the typography was made bolder. In January 2003, Miller launched a controversial TV advertising campaign featuring two attractive women whose argument about whether Miller "tastes great" or is "less filling" escalates into a catfight. Some industry observers interpreted the ads as indicating that SABMiller was prepared to take greater creative risks than Miller's former corporate parent. Bob Garfield, the influential advertising critic for *Advertising Age* magazine, denounced the spots for their "Maxim-style neo-pinupism." Despite all the publicity surrounding the campaign, Miller continues to struggle. CEO Adami expects the U.S. sales picture to worsen before it improves. The brewery launched a corporate branding ad campaign designed to highlight the brand's history as an innovator.

SABMiller and its competitors are also making strategic investments in China, the world's largest beer market with \$6 billion in annual sales. As Sylvia Mu Yin, an analyst with Euromonitor, notes, "Local brewers are keen to explore strategic alliances with large multinational companies. At the same time, foreign companies are eager to sell to the 1.3 billion Chinese, but lack local knowledge." SABMiller has partnerships with more than two dozen Chinese breweries. In 2003, SABMiller purchased a 29 percent equity share of Harbin Brewery Group, China's oldest and fourth-largest brewer. The

brand is popular in northeast China, and SABMiller hoped to expand the brand in other regions. However, in 2004, Anheuser-Busch announced that it was also buying 29 percent of Harbin. That, in turn, triggered a bid by SABMiller to buy the rest of Harbin's shares. When the resulting bidding war was over, Anheuser-Busch emerged as the victor.

Meanwhile, some of SABMiller's local brands are being introduced in the United States. The company hopes to build Pilsner Urquell, the number one beer in the Czech Republic, into a national brand in the United States. If that effort succeeds, it can be the foundation for building Urquell into a global premium brand that rivals Heineken. SABMiller is also launching Tyskie, a popular Polish brand, in cities such as Chicago that are home to large Polish immigrant communities. The company hopes to successfully position Miller Genuine Draft as a premium global brand in Eastern Europe. Some industry observers predict it will be a hard sell. As one analyst noted, "American beer has a bad reputation in Eastern Europe, because beer drinkers think it tastes like water." Will all these efforts succeed? SABMiller's chief harbors no doubts; if the Miller acquisition does *not* pay off, he says, "I'll fall on my sword."

Discussion Questions

1. Describe SABMiller's global marketing strategy.
2. Assess the potential for repositioning Pilsner Urquell into a global brand.
3. Can Miller Genuine Draft—or any American beer—be positioned as a premium global brand?
4. Why are SABMiller, Anheuser-Busch, and InBev investing in China?

Sources: Maggie Urry and Adam Jones, "SABMiller Chief Preaches the Lite Fantastic," *Financial Times* (November 21, 2003), p. 22; Dan Bilefsky and Christopher Lawton, "SABMiller Has U.S. Hangover," *The Wall Street Journal* (November 20, 2003), p. B5; Christopher Lawton and Dan Bilefsky, "Miller Lite Now: Haste Great, Less Selling," *The Wall Street Journal* (October 4, 2002), pp. B1, B6; Nicol Degli Innocenti, "Fearless Embracer of Challenge," *Financial Times* Special Report—Investing in South Africa (October 2, 2003), p. 6; David Pringle, "Miller Deal Brings Stability to SAB," *The Wall Street Journal* (May 31, 2002), p. B6; John Willman, "Time for Another Round," *Financial Times* (June 21, 1999), p. 15