marketing+

UNIVERSITÄT SIEGEN

Lecture
International Marketing
Summer Term 2016

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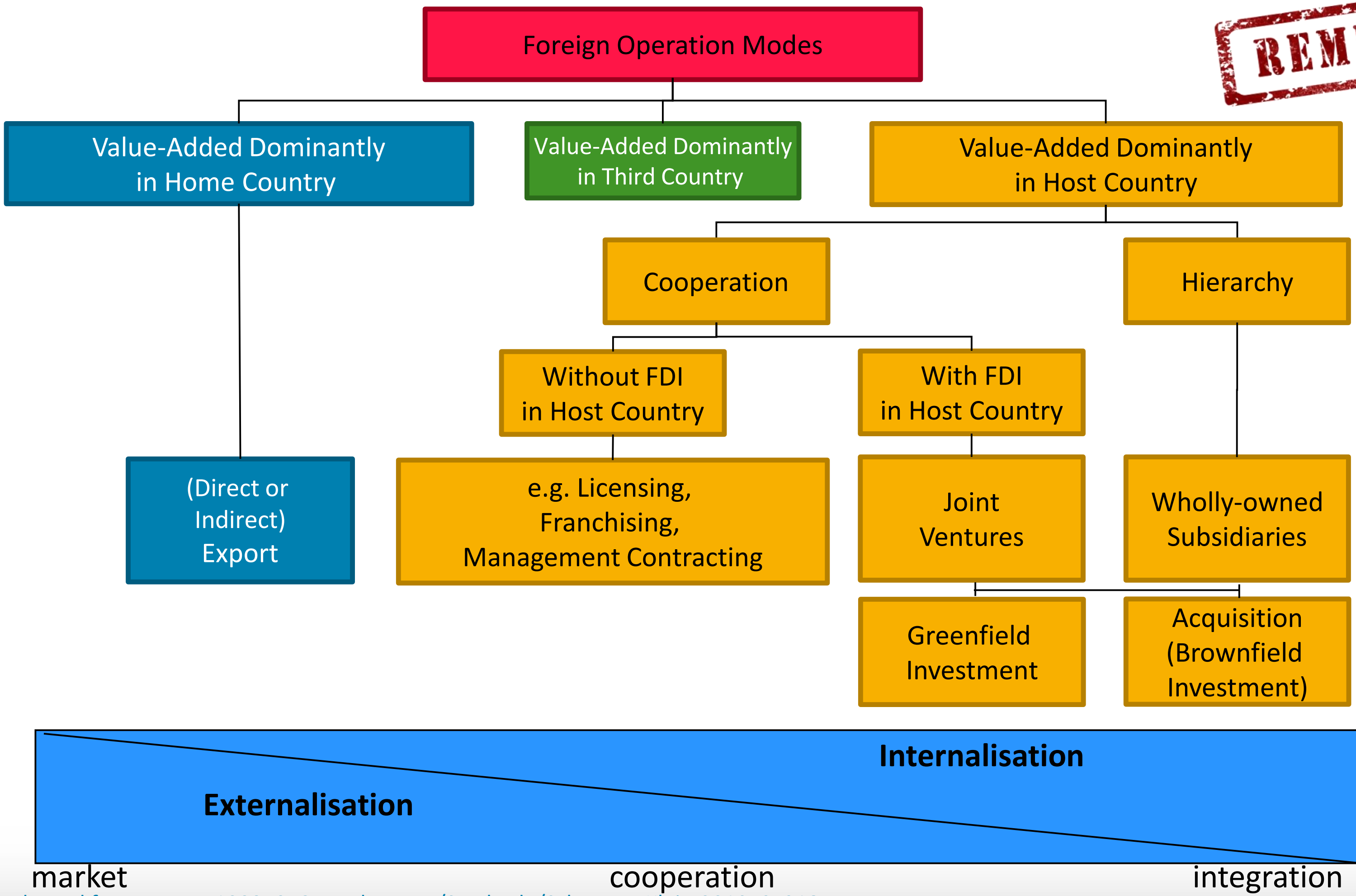
OPERATION MODES
IN INTERNATIONAL MARKETS (2)

Classification of Selected Foreign Operation Modes based on Competitive Strategy

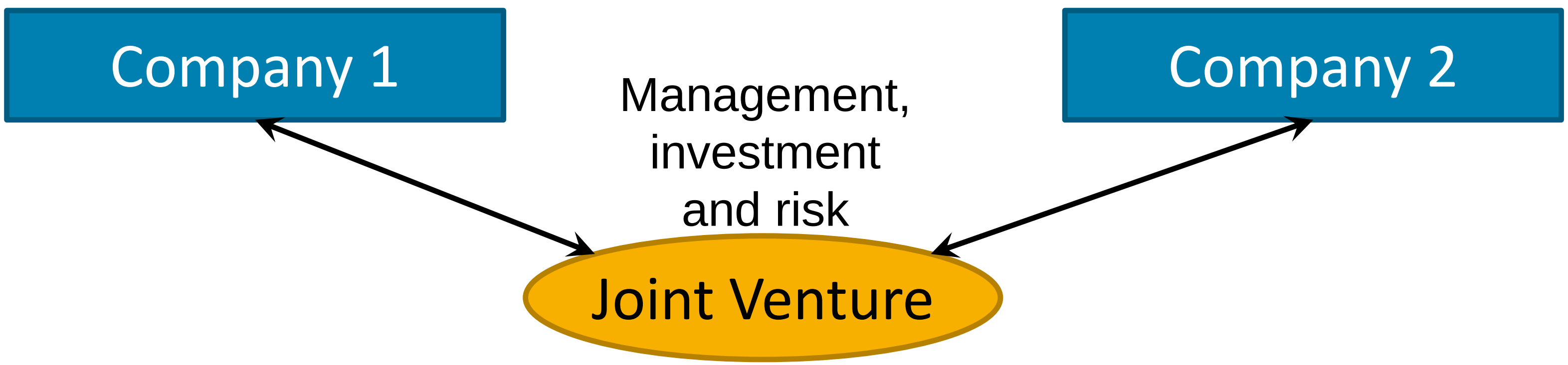
REMINDER



Source: adapted from Zentes 1993, S. 67 und Zentes/Swoboda/Schramm-Klein 2010, S. 218.

Joint-Ventures as Foreign Operation Mode

- (Equity) Joint ventures are partnerships between two or more economically and legally independent parties that involves the creation of a new company (or change in ownership of an existing company) as a third entity in which the parties carry out economical activities (in our case: operations) together and in which they share ownership and control (joint ownership).



- International JV: The parties must be located in at least two countries.

Forms of Joint-Ventures

criteria of differentiation	characteristica
number of cooperation partners	• Joint Venture with one partner • Joint Venture with several partners
factual cooperation area	• Joint Venture in one value adding activity • Joint Ventures several value adding activities • whole business, cross-functional Joint Venture
location	• Joint Venture located in the home country of a cooperation partner • Joint Venture in a third country
geographic cooperation area	• local Joint Venture for a certain host country • Joint Venture for a certain region or the world market
direction of cooperation	• horizontal Joint Venture • vertikal Joint Venture • concentrical Joint Venture • conglomeratic Joint Venture
equity participation/ voting interest	• equal shares of the partners • unequal shares of the partners
validity period of the cooperation	• timely restricted Joint Venture • unlimited Joint Venture

Source: adapted from Kutschker/Schmid 2011, p. 889 and Zentes/Swoboda/Schramm-Klein 2013, p. 257.

Joint-Ventures as International Market Entry Strategy – Benefits (I)

- Increased speed of market entry

- Production in the foreign market
  - low transport costs
  - potentially lower labor cost
  - access to local inputs
  - circumvention of market barriers (such as host country restrictions, tariffs, non-tariff barriers)
  - local value added considered beneficial by host country officials
    - image as local company (job creation)

- Legal restrictions against other forms
  - less developed countries may restrict foreign ownership

- Sharing the necessary investment with local partner
  - lowering capital needs and risk

- More control over the operations compared to licensing (and other “lower” order entry modes)

Source: Zentes/Swoboda/Schramm-Klein 2013, p. 257 ff.

Joint-Ventures as International Market Entry Strategy – Benefits (II)

- Higher rate of return compared to licensing (and other "lower" order entry modes)

- Synergy with local partners
  - alliances for use of complementary resources
    - access to distribution network
    - access to local market knowledge and market relations (including customers, suppliers)
    - local government relationships
  - sharing of resources

- Complementary technology or management skills can lead to new opportunities
  - JV facilitate technology transfer compared to other entry modes
  - long-term, intensive cooperation with joint objectives

Source: Zentes/Swoboda/Schramm-Klein 2013, p. 257 ff.

Joint-Ventures as International Market Entry Strategy – Disadvantages (I)

- Knowledge dissemination (JVs as knowledge races)
  - lack of adequate procedures for protecting proprietary information

- Problematic in particular when JV is terminated (who owns the resources that were established together?)

- Alliance stability? Joint Venture often part of a dynamic strategy (go together, then split or take-over)
  - changes in the bargaining power of partners over time
    - local knowledge learned by the foreign partner
    - technology learned by the local partner

Source: Zentes/Swoboda/Schramm-Klein 2013, p. 257 ff.

Joint-Ventures as International Market Entry Strategy – Disadvantages (II)

- Shared ownership can lead to conflicts and battles for control if goals and objectives differ
  - lower control than in the case of wholly-owned subsidiaries
  - large investment of financial, technical or managerial resources might favor greater control than is possible
- Potential conflicts arising over matters such as strategies, resource allocation, transfer pricing, ownership of critical assets like technologies and brand names, repatriation or investment of profits, resource evaluation (in establishment stage)
  - relations with parent companies
  - integration in international strategy/strategies of parent companies
  - change in product-market mission may make JV a liability
- Lack of control
  - The firm may not have the tight control over subsidiaries that it might need to realize experience curve or location economies
  - managerial dependency between JV and one of partners

Source: Zentes/Swoboda/Schramm-Klein 2013, p. 257 ff.

Joint-Venture Strategies

- Spiderweb strategy
  - establishment of a Joint Venture with a big competitor and avoidance of a taking over by a partner by building of Joint Ventures with others.
  - network „immunises“ the „smaller partner“ against a possible taking over by the „bigger partner“
- „Firstly cooperation, than splitting“-strategy
  - longer cooperation followed by a splitting
  - often for projects, after conclusion of the projects the Joint Venture is terminated (as agreed)
- Successive integration strategy
  - Joint Venture starts with weak connections between the companies
  - develops to interdependencies and
  - ends with takeover

Source: Source: Zentes/Swoboda/Schramm-Klein 2013, p. 258.


TPCA International joint-venture
A Toyota Case study
Photo : Lalogo.fr

Facts of Toyota Motor Company(TMC)

- The **3rd largest automotive manufacturer**
- Established in **1937** by **Kiichiro Toyoda**
- Headquartered in **Aichi city** in Japan
- Annual **sales of $120 Billion**
- **~5.5 million vehicles** per year
- Launched first car (SA Model) in **1947**
- First global expansion in **1959 in Brazil**
- **52 factories in 27 countries, e.g "Czech Republic"**.
- "Toyota Production System"formed
- in 1950 based on**"just in time principal"**
- Key word: **Kaizen**, Continuous Improvement

Source: http://corporatenews.pressroom.toyota.com/corporate/company+history/

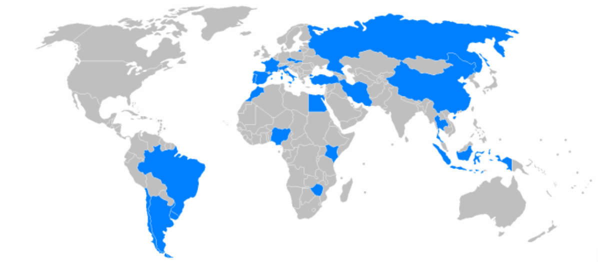
Facts of PSA Peugeot Citroën JV

- 1974 Peugeot S.A. acquired a 38.2% share of Citroën
- 1976 increased their stake to 89.95%
- Founded in Paris, France (1976) as PSA Peugeot Citroën
- Products:
  - Automobiles (73.8%)
  - Automotive parts (21%)
  - Financing (2.8%)
  - Logistics (2.2%)
  - Motorcycles (0.2%)

- World locations of PSA factories
- Other JV and collaborations

The joint venture with the Chinese company

Peugeot Citroën Mitsubishi Automotiv Rus



Source: www.psa-peugeot-citroen.com

Toyota and PSA Peugeot Citroën “TPCA”

- **50 / 50** joint venture in late 2001
- Opened factory in **Kolin, Czech Republic**
- Objective was to manufacture a mini car with **93% common parts** between Toyota, Peugeot and Citroën cars
- Toyota was responsible for running the factory **under TPS** (Toyota production system)
- PSA would handle all **purchasing and suppliers relations** including their selection
- Toyota would produce **3 cylinder gasoline** engine and PSA **4 cylinder diesel** engine
- Designed all the cars models with **90% of the parts to be in common**

Why Toyota formed joint venture with PSA

- More than thirty years Toyota is known for its cooperation agreements

- Fast , low-cost response to the fast growing market place

- Expands its business in Europe and crack the East European market and also co-creates new knowledge with the alliance partner.

Source: https://www.ukessays.com/essays/business/the-toyota-joint-venture.php

Forms of International Joint-Venture (IJV) in TPCA

criteria of differentiation	characteristica
number of cooperation partners	Joint Venture with one partner **Toyota and PSA Peugeot Citroën**
factual cooperation area	Joint Venture in one value adding activity **Automobile Manufacturing:** **CitröenC1 - Peugeot 107 - Toyota Aygo**
location	Joint Venture in a third country **Kolin, Czech Republic**
geographic cooperation area	Joint Venture for a certain region or the world market **Producing small cars mainly for the European markets**
direction of cooperation	concentrical Joint Venture **Expands its business in Europe and crack the East European market and also co-creates new knowledge with the alliance partner.**
equity participation/ voting interest	equal shares of the partners **Toyota Motor Corporation (50%)** **PSA Peugeot Citröen (50%)**
validity period of the cooperation	unlimited Joint Venture **Late 2001- Present**

Source: Kutschker/Schmid 2008.

Knowledge-Based Marketing at TPCA

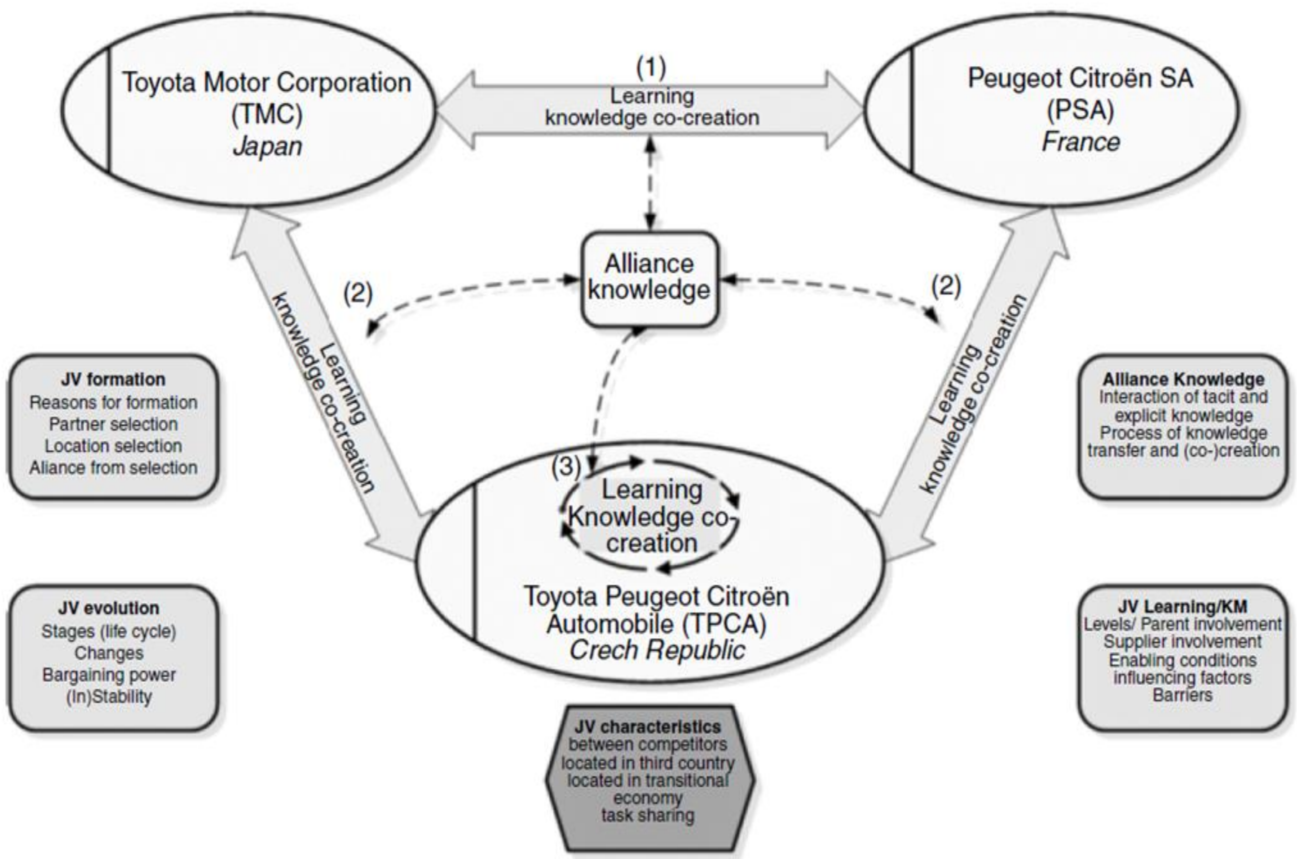
(A beneficial approach)

Strategic Alliances

- ‘learn local, act global’- strategic way of global knowledge creation
- The untouched production system of Toyota with the excellent knowledge of the European market of PSA
- Two global carmakers combine their knowledge of product design, styling, production and supplier relationships, while learning from each other’s corporate cultures, technologies and processes

Source: International Marketing in the Network Economy, Florian Kohlbacher p.151.

Levels of knowledge co-creation at TPCA



Source: International Marketing in the Network Economy, Folorian Kohlbacher p.152

Advantages of "TPCA " IJV

- Led the Czech automotive industry out of the crisis and saved the automotive industry from a large decrease.
- three models of the cars for Toyota , Peugeot and citroen are produced on sigle line in TPCA (cost benefit)
- Cheap working labor
- Geographical position, built infrastructure, strong tradition and qualified working labor.
- The deduction of VAT on passenger cars by government's help

Disadvantages of "TPCA " IJV

- Economical and political barriers in Czech Republic.
- the partners have different objectives for the joint venture.
- different cultures and management styles result in poor integration and co-operation.

Source: Toyota,2010. Toyota Motor Corporation and PSA Peugeot Citroën Agree to Enter a Cooperation on Joint Development and Production of Small Cars, Toyota press release,p6

Wholly-owned Production Subsidiaries

- Production facilities (usually combined with sales department) that serves the host country market and that are in the 100%-ownership of the company.
- Located and operated in the host country by the MNC, under the laws and regulations of the host country!

Wholly-owned Subsidiaries as Int'l Market Entry Strategy – Benefits

- All advantages of local production as already mentioned
  - low transportation costs
  - potentially lower labour cost
  - access to local inputs
  - circumvention of market barriers (such as host country restrictions, tariffs, non-tariff barriers)
  - local value added considered beneficial by host country officials
    - image as local company (job creation)
- Immediate and own full presence in the market
- Independent marketing and business strategies / full control over operation
  - easy integration in own organisation structures
  - uniform market appearance (brands, CI, etc.)
  - high level of control over knowledge inflow and outflow
  - enhanced market power vis-a-vis suppliers, competitors, etc.
- Often subsidies by host country government

Wholly-owned Subsidiaries as Int'l Market Entry Strategy – Disadvantages

- Firms bear the full costs and risks of setting up overseas operations
  - high capital investment
  - high risk (country risk, risk of expatriation…)
- High investment might reduce flexibility in international strategy (market exit more difficult than with exporting)
- Need to develop a foreign presence without the support of a third party
  - company might have limited market knowledge

Acquisition – Motives and Advantages

- Quick access to the local market
- Access to additional resources
  - local brands
  - local management expertise, market knowledge
  - local government relations
  - local distribution networks, suppliers, sites
- Buying into a market position / image
- Economies of scale (from beginning)
- Often quick cash-flow generation from acquisition
- Competitive intensity in host market is not enhanced
  - lower risk of over-capacity

Source: Kotabe/Helsen 2008, Hill 2008.

Acquisition - Disadvantages

- available and adequate take-over object necessary (!)
- high risk
- expensive option (SME?)
- high information and search costs
  - information asymmetry
  - acquiring firms often overpay the assets of the acquired company
  - synergy potentials often lesser than expected opposition by host country government
- Opposition by local company
- Potentially brain drain
- Necessity to integrate different systems, cultures, people…
  - cost of integration

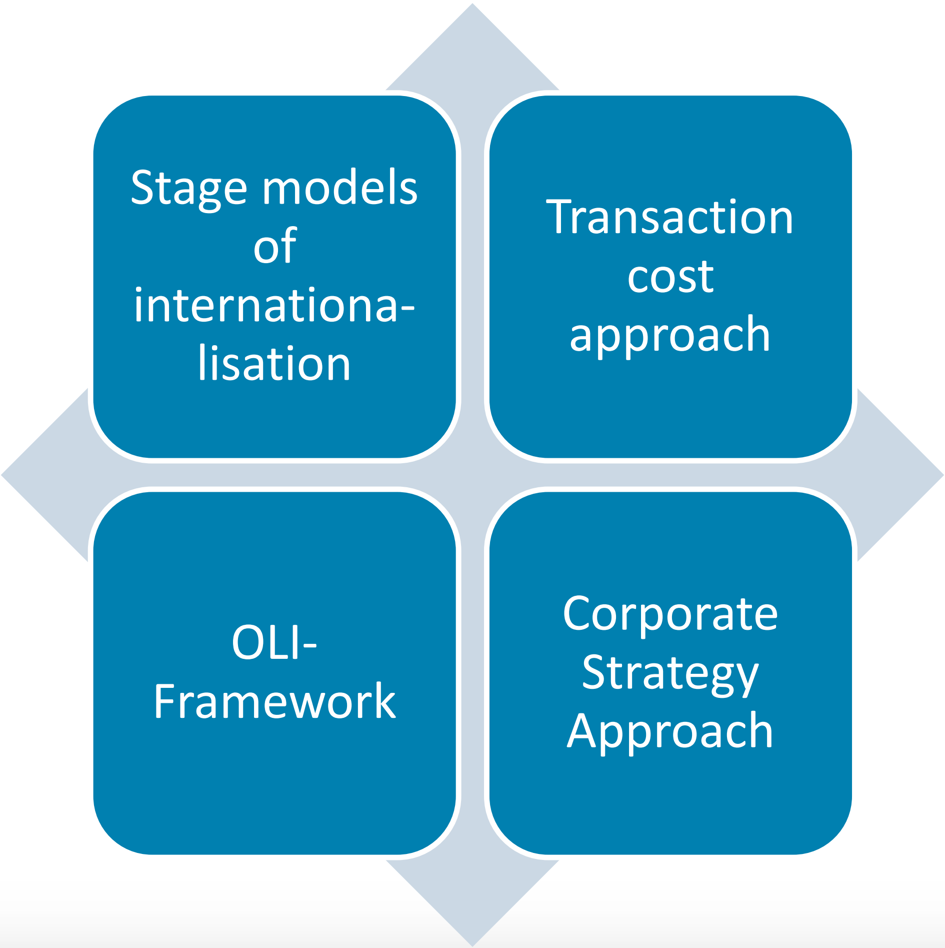
Source: Kotabe/Helsen 2008, Hill 2008.

Parameter									
	Capital		Competence		Transaction parameter		Control		
	capital (direct)	risk (indirect)	Know-how	cultural distance	speed	flexibility	secrecy (passiv)	quality assurance (activ)	
Indirect export	●	●	○	◔	●	●	◕	○	Classic organisation forms
Direkter export	◕	◔	◑	◑	◕	◔	●	◕	Classic organisation forms
Licensing	◕	●	◕	●	●	◔	○	◑	Classic organisation forms
Franchising	◔	◑	◕	●	●	◔	◔	◕	Classic organisation forms
Joint Venture	○	◕	●	●	◑	◔	◔	●	Classic organisation forms
Subsidiaries	○	○	◕	◑	○	○	●	●	Classic organisation forms
Cooperationen and network	●	◕	◕	◑	◑	◕	○	◔	New organisation forms
E-Commerce	●	●	○	◔	●	●	●	◔	New organisation forms

strongly disadvantageous ○ ◔ ◑ ◕ ● strongly advantageous

Source: Backhaus/Eisenbeiß/Koch 2009, S.36.

Theoretical approaches for explaining the selection of the operation mode



Theoretical approaches for explaining the selection of the operation mode

Stage models of internationa-lisation

Transaction cost approach

OLI-Framework

Corporate Strategy Approach

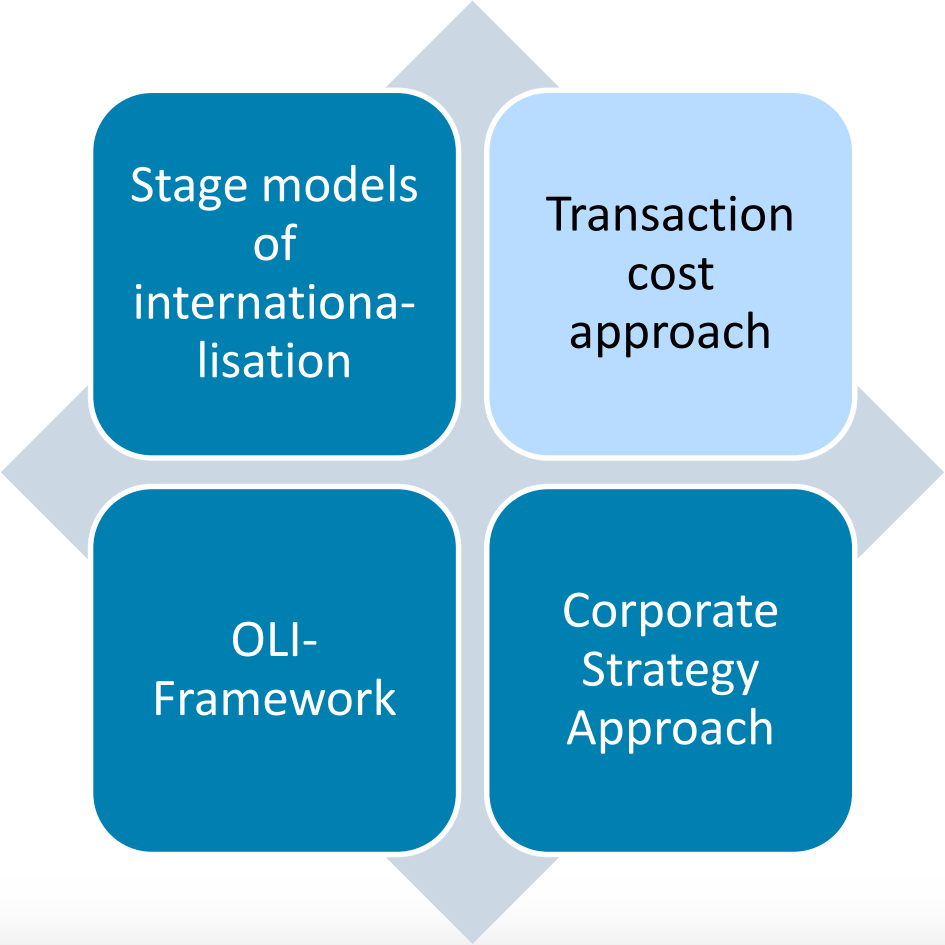
Theoretical approaches for explaining the selection of the operation mode

- Stage models of internationalisation
  - Internationalisation as (slow and) gradual process
  - Uppsala Model (Johanson/Vahlne 1977)
    - connection between knowledge about international markets and the degree of resource commitment
    - companies with little knowledge about international markets prefer operation modes with small resource management, specially market based forms
    - activities on the international markets are combined with learning processes in which knowledge is built
    - the more experience is gained, the more increases the willingness for resources commitment on the markets

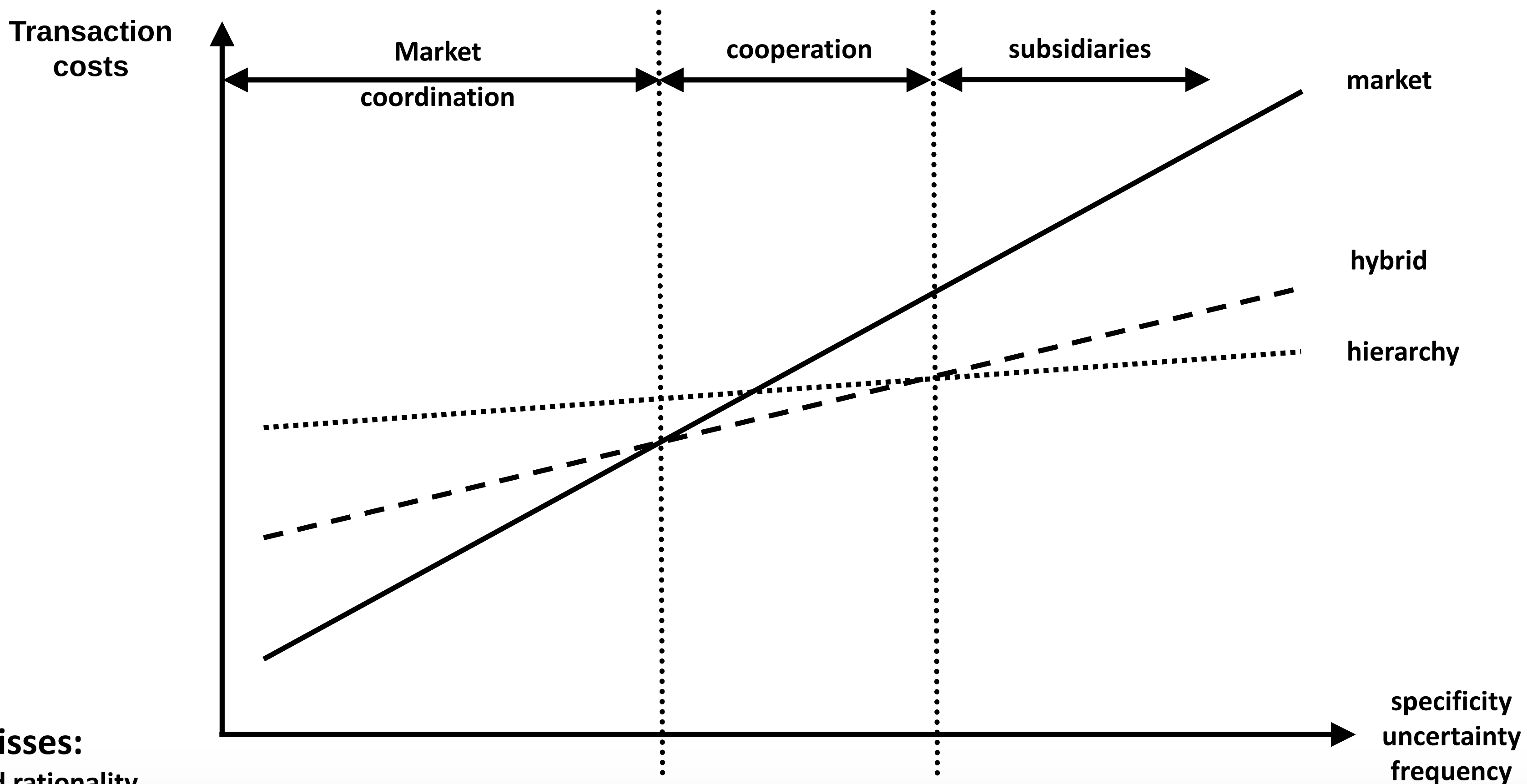
Theoretical approach for explaining the selection of the operation mode

- Stage models of internationalisation
  - „Establishment Chain": Internationalisation according to certain sequences
    1. no international activities
    2. export activities through agents
    3. export activities through own sales agencies
    4. establishment of own subsidiaries in foreign countries
  - „Psychic Distance Chain": Companies choose international strategies according to the psychic distance
    - firstly activities in country markets with low psychic distance

Theoretical approaches for explaining the selection of the operation mode



Transaction cost approach for explaining the selection of the transaction form



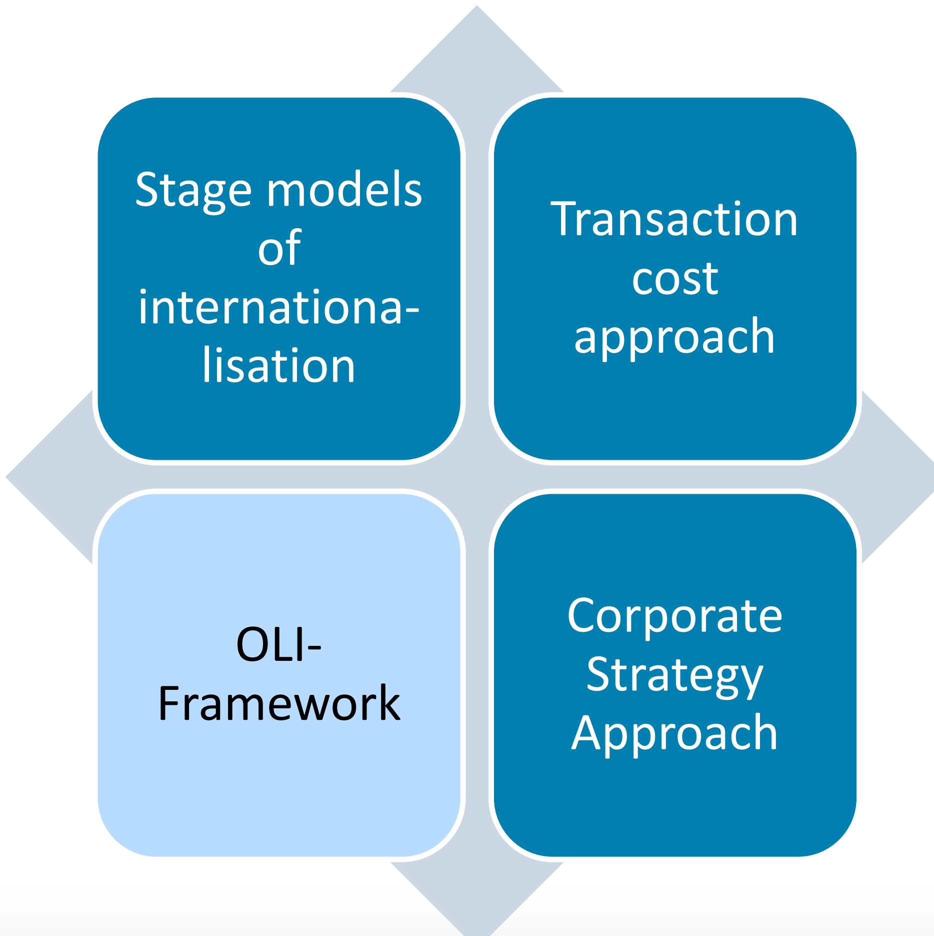
premisses:
-limited rationality
- Opportunism

Transaction cost specific advantage analysis of the operation modes

… advantageous if	subsidiary	Equity Joint Venture	Market
factor specifity of the investment	high	high	low
frequency	high	low	high
uncertainty (environment, legal conditions)	high	middle	low
behavioural risk	rarely controllable	controllable	unproblematic
complementarity of abilities	one-sided dependency	mutual dependency	no dependency

Source: Zentes/Swoboda/Schramm-Klein 2013, adapted from Kutschker 1992, S. 512.

Theoretical approach for explaining the selection of the operation mode



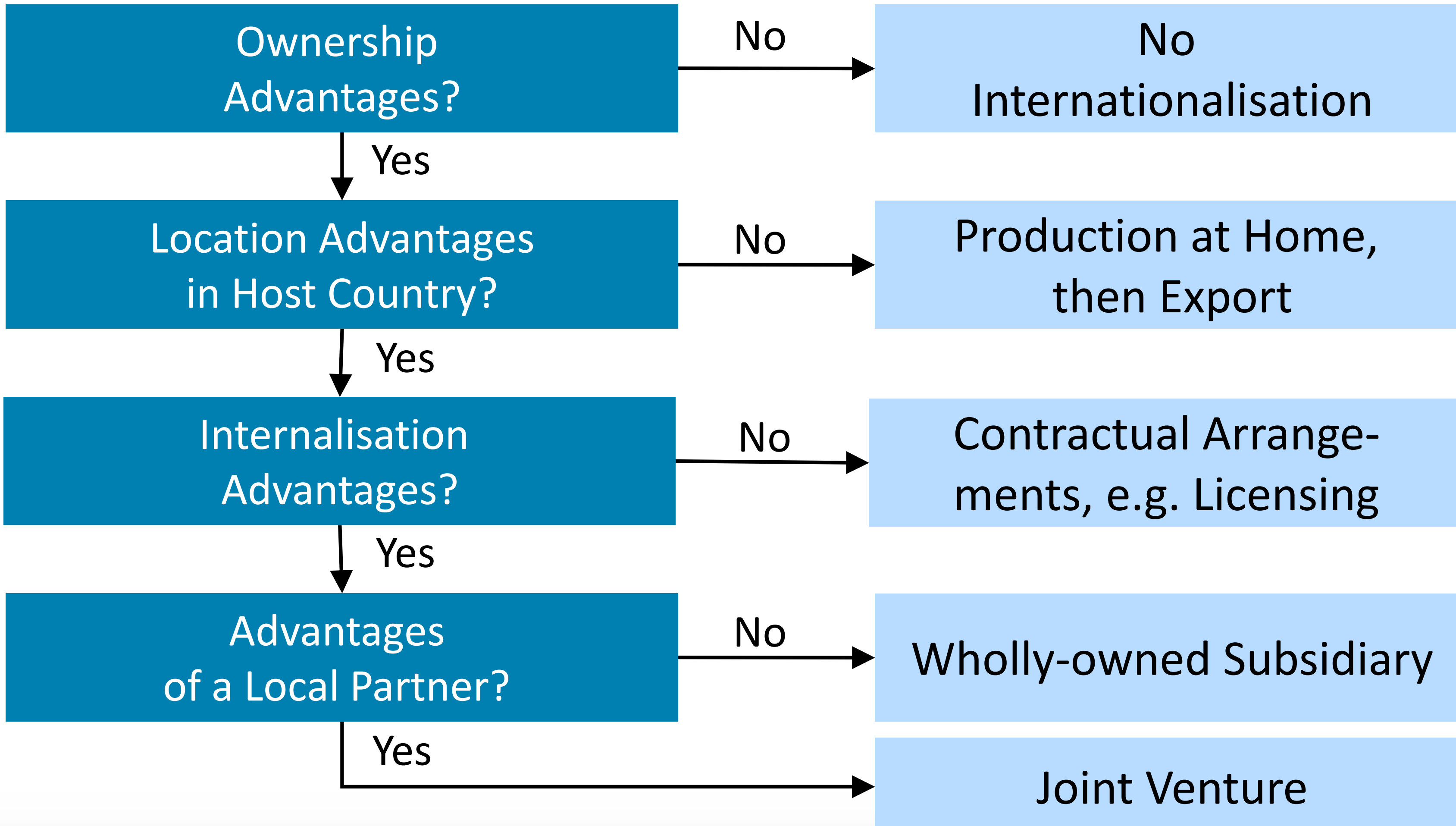
Dunning’s (1993) OLI-Framework (Eclectic Paradigm)

- Ownership advantages
  - the company has company specific advantages in the supply of certain markets compared to other companies, thus compensating the „Liability of Foreigness“ (competition with local companies on their home market)
    - e.g. certain technologies, price differentiation or brands

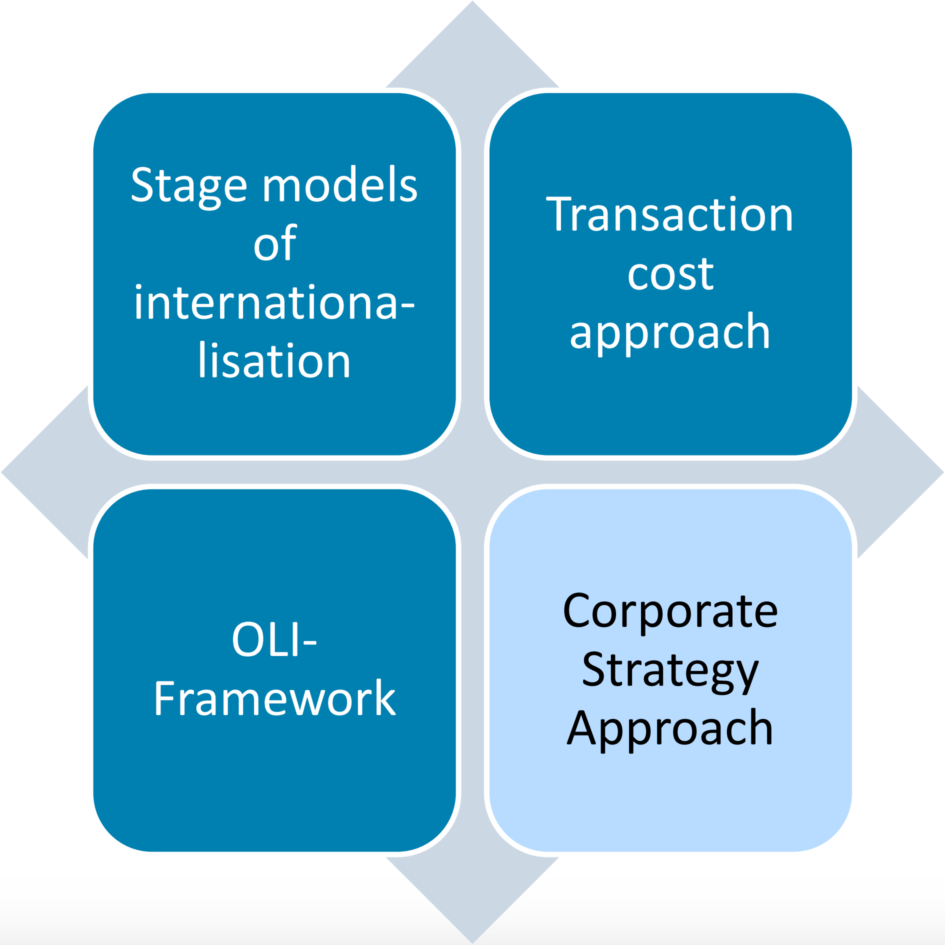
- Location-specific advantages
  - The foreign location offers location specific advantages for the company performance, thus it must be advantageous to produce there as otherwise different operations modes would be preferred
    - e.g. working costs, skilled labour from the foreign market, natural resources, customs duties, transport costs

- Internalisation advantages
  - It must be advantaegous for the company to use its competition advantages by its own production („Internalization“) instead of handing it over to other companies by licencing. It must also be advantageous to internalise the advantages by extending the own activities in the foreign country. (TC-Theory)

OLI Framework – Decision Process



Theoretical approach for explaining the selection of the operation mode



Corporate Strategy Approach

- Explaining the selection of operation mode by the company strategy
- Basic consideration: structure and strategy must match
  - „the strategy approach regards the issue of ownership structure primarily as a question of the level of control that is needed in order to coordinate global strategic action“ (Benito 1996, S. 164)
- Strategy variables with influence on the selection of operation mode are e.g.
  - synergy effects
  - global strategic motives like the basic orientation of the company (e.g. global vs. multinational)
  - market concentration, for international/world-wide Oligopolies interdependencies of the actors in global competition (e.g. FDI as „Exchange of Threats“)