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PART 3 - FORMS OF INTERNATIONAL BUSINESS

INTERNATIONAL MARKETING ENTRY DECISIONS - PART 3

(FORMS OF INTERNATIONAL BUSINESS)

Strategic Alliances

Strategic alliances refer to co-operative agreements between potential or actual competitors to co-operate out of mutual need and to share risk in achieving common objectives. Strategic alliances run the range from formal joint ventures in which two or more firms have equity stake, like Fuji-Xerox venture for Japan; to short term contractual agreements, in which two companies agree to cooperate on a particular task such as developing a new product, like Coca-Cola and Nestle joined forces to develop the international market for 'ready to drink' tea and coffee, which currently sell in significant amounts only in Japan.

A strategic alliance implies:

(1) There is a common objective.
(2) One partner's weakness is offset by the other's strength.
(3) Reaching the objectives alone would be too costly,
take too much time, or be too risky.
(4) Together their respective strengths make possible what otherwise would be unattainable.

In short, a strategic alliance is a synergistic relationship established to achieve a common goal where both parties benefit.

Turnkey Projects

In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. They are more common with the firms that specialise in design and construction and in chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies. At completion of the contract, the foreign client is handed the 'key' of the plant that is ready for full operation, hence, the name turnkey.

The firm that enters into a turnkey project with a foreign enterprise may inadvertently create a competitor. For example, many of the Western firms that sold oil refining technology to firms in Saudi Arabia, Kuwait, and other Gulf states now find themselves competing with these firms in the world oil market. Another disadvantage is that, if the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/or actual competitors.

Assembly

By moving to an assembly operation, the international firm locates a portion of the manufacturing

process in the foreign country. Typically, assembly is the last stage of manufacturing and depends on the ready supply of components or manufactured parts to be shipped from another country. Assembly usually involves heavy use of labour rather than extensive investment in capital outlays or equipment. Under assembly strategy, most of the components or ingredients are produced domestically and the finished product is assembled in the foreign country. In several cases, parts or components are produced in various countries in order to gain each country's comparative advantage, and labour intensive assembling is carried in another country where labour is abundant and labour costs are lower. It allows the company to be price competitive against cheap imports.

Having assembly facilities in foreign markets is very ideal particularly under two conditions:

(1) when there are economies of scale in the manufacture of parts and components.

(2) when assembly operations are labour intensive and labour is cheap in the foreign country.

Contract Manufacturing

Under contract manufacturing, a company arranges to have its products manufactured by an independent local company on a contractual basis. A company doing international marketing enters into contract with a local firm in the foreign country to manufacture the product, while retaining the responsibility of marketing. The local manufacturer produces and supplies the product to the international company, while international company assumes responsibilities for sales, promotion, and distribution. In a way, the international company hires the production capacity of the local firm without establishing its own plant and thus circumvents barriers on import: of its products. This strategy is practicable only when there is a foreign producer with the necessary manufacturing capacity and ability to maintain quality. The local producer undertakes manufacturing based on orders from the international firm and the international firm gives virtually no commitment beyond the placement of orders.

Merger and Acquisition

Mergers and Acquisitions (M&A) have been a very important market entry strategy as well as expansion strategy. A number of Indian companies have used this entry strategy. In the case of a merger, the international business firm absorbs one or more enterprises abroad by purchasing assets and taking over liabilities of those enterprises on payment of an agreed amount. Similarly, the international business firm may also take over the management of an existing company abroad by taking the controlling stake in the equity of that company at a predetermined price. This is called acquisition.

Merger and acquisition as an entry strategy provides instant access to markets and distribution network. As one of the most difficult areas in international marketing is distribution, this is often a very important consideration for M&A.

Another important objective of M&A is to obtain access to new technology or a right. M&A also has the advantage of reducing the competition. M&A may also give rise to some problems which arise mostly because of the deficiencies of the evaluation of the case for acquisition. Sometimes the cost of acquisition may be unrealistically high. Further, when an enterprise is taken over all its problems are also acquired with it. The success of the enterprise will naturally depend on the success in solving the problems.