

Entry Strategies for Emerging Economies

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The Building Blocs of an Entry Strategy



Locations: Markets

Why invest close to your markets?

- Protectionism
 - tariffs, quotas, administrative barriers
- Transportation Costs
 - perishable / breakable / heavy / bulky goods
- Interact directly with your customer
 - just-in-time delivery, after sales service, ...
- Indivisibility of production and sale
 - services: hotels, banking, consulting
- Acquire marketing assets for fast entry strategy
 - distribution networks, brand names, ...



Locations: Factors of Production

Natural Assets

- Labour force / costs
- Natural Resources

Created Assets

- Human capital
 - knowledge pools to tap in
 - qualified labour
- Infrastructure
 - physical (roads, telecom)
 - institutional (legal frame, etc.)
- Intermediate Goods
 - Components
 - Business services

Quality

Costs

==> what are the unit labour costs?

==> is the cost advantage sustainable in the medium term?



Locations: Agglomeration

- Clustering of economic activities: (“Agglomeration”).
 - Knowledge spillover among closely located firms
 - Informal channels of exchange in a local community of practice
 - A specialised skilled labor force available to work in the region in the industry
 - Movement of employees across firms / opportunities to headhunt...
 - Specialised educational institutions
 - A regional pool of specialized suppliers and buyers.



Timing: When to Move?

- Potential first-mover advantages.
 - Reputation effects as benchmark products.
 - building brands is relatively cheap.
 - pre-emptive domination of markets.
 - build market share & benefit from market growth later.
 - Building relationships with customers & suppliers.
 - Lock-in effects by long-term contracts, technology standards
 - Reputation effects
 - Building relationships with authorities.
 - personal relations important, e.g. to obtain permits, ...
 - influence the regulatory framework.



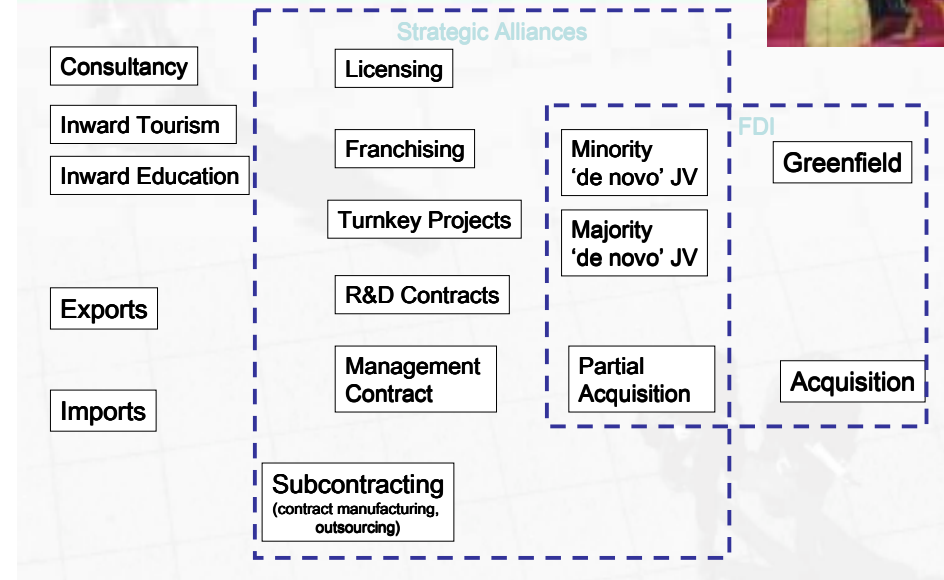
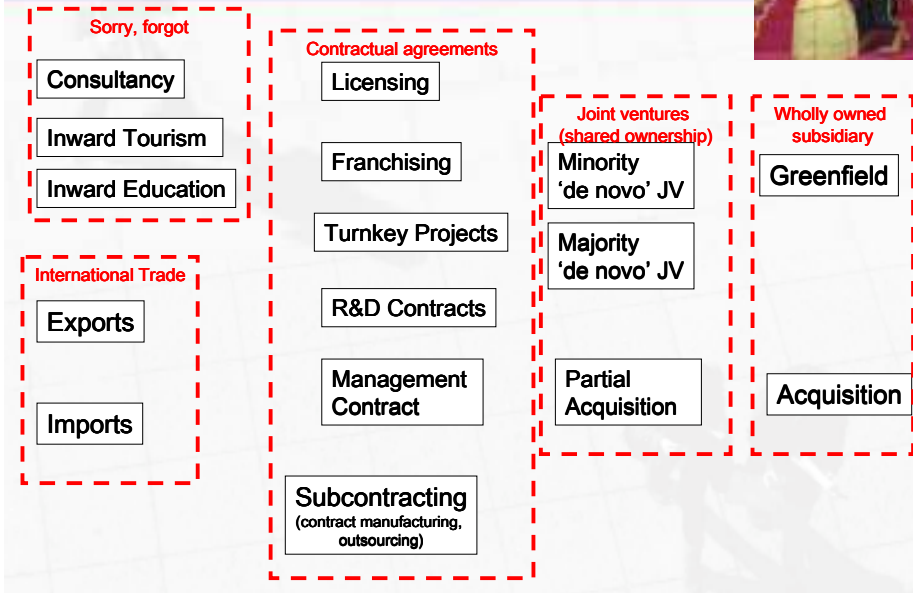
Timing: When to Move?

- Potential first-mover advantages (cont.).
 - Acquiring or creating proprietary technologies
 - sliding down the learning curve.
 - learning, and thus unit production costs, depends on cumulative volume of production.
 - Opportunities for experimentation, and thus learning for the benefit for the whole MNE.
 - Acquire unique resources.
 - local distribution channels, brand names.
 - hire the best people, as good managers are scarce.
 - licenses.
 - Global competition.
 - leapfrog the global leader (avoid clash with dominant firms at home)
 - prevent challenges from second-best firms.



Timing Strategy

- Advantages of waiting / fast-second strategy
 - high risk environment
 - wait to see if reforms are sustained
 - reduce risk exposure by low capital investment modes
 - learn from first-movers: pricing, positioning, ...
 - let first-mover ‘build the market’
(introduce the product to the customer)
 - let the first-mover fight the bureaucrats



Equity Entry Modes: Key considerations

- Resources
 - Who has the required resources?
 - How can we develop new resources?
 - How can we best transfer resources between businesses?
- Control
 - How tight control do we need over the foreign operation?
 - What costs are incurred by using market mechanism vis costs of using internal coordination mechanisms?



Modes of Entry

- The crucial first step: equity or non-equity modes
- Non-equity modes:
 - Low commitment, quick to set up, quick to get out
 - Little control over what happens to your products/licences abroad
- Equity modes = foreign direct investment (FDI)
 - This is what defines a multinational enterprise (MNE) and a non-MNE
 - *Direct* investment provides control over value-adding activities overseas — as opposed to foreign *portfolio* investment (FPI)



Dimensions of Equity Entry Modes

<i>Degree of equity control</i>	<i>High</i>	Wholly owned Greenfield	Full Acquisition
	<i>Low</i>	Newly created Joint Venture	Partial Acquisition
		<i>Internal (organic)</i>	<i>External (acquisitive)</i>
		<i>Resource growth</i>	



Shared Ownership (viz. full ownership)

Advantages

- Sharing of costs and risks of the investment
- Access to partners' resources, e.g. local knowledge
- Legitimacy in the local context, especially where foreign firms are not so welcome

Disadvantages

- All key decisions are subject to approval by both partners
 - Limited control
 - Reduced flexibility
 - Potential conflicts of interest
- Less integration in global operations
- Cross-cultural management challenges



Shared Ownership: By legal form

Joint Venture

- 'New legal entity'.
- One or more firms sharing control.
- Selected resources from the partner firms
- Normally, no restructuring existing organization (but there are exceptions!)

Partial Acquisition

- Continuation of the existing business (unit) under new shared ownership
- Residual shareholders vary, including e.g. a firm, the state, employees, or dispersed financial investors.
- No additional resources from the local co-owners
- Often the acquired organization needs to be restructured, and integrated with the new parent (which is difficult under partial control...)

Some authors say 'JV' when they mean shared ownership.

For clarity, JVs are also referred to as 'greenfield JV' or 'de novo JV'



Greenfield Investment (viz. acquisition)

Advantages

- Create a new operation in your own image
- Transfer and apply process knowledge efficiently
- No constraints from the existing organizations, its organizational structure, employees, trade unions, and other post-acquisition integration issues

Disadvantages

- Slow entry speed
- Up-front investment in new capacity
- High uncertainty about the viability/value of the operation
 - For quite some time
 - Hard to assess for outsiders, e.g. shareholders
- May face obstacles building marketing assets e.g. distribution channels, brand names etc.
- Legitimacy with local authorities and businesses (new entrant!)

Marketing: Global or Local?

Global strategy

Global brand with little or no adaptation, positioned as premium brand.

- Exploit value of global brand
- Exploit economies of scale in product development

→ **high margins – small volume**

Required resources: global brands + local distribution

Local strategy

Portfolio of local brands, locally produced, to serve mass markets.

- Access huge mass markets

→ **large volume – small margins**

Required resources: operational capabilities to produce, market and distribute at low costs.

Marketing: Global and Local!

Multi-tier strategy

Portfolio of global local and brands, positioned to serve different segments of the market.

- Synergies especially in the distribution channels
 - Sharing costs of one channel over multiple brands
 - Have the distribution & reputation in place when demand picks up

→ **High volume product + high margin product = profit**

→ **First mover advantages for the premium brands:**

Prerequisites: both global brand + local operational capabilities

Branding Strategies



Cross-Cultural Human Resource Management

- Knowledge management
 - Knowledge transfer / Training of local staff
 - Acquisition of local knowledge
- HR policies abroad
 - Recruitment and headhunting
 - Remuneration and incentive systems
 - Performance evaluation and promotion
- Expatriation
 - Recruitment / selection
 - Preparation, e.g. cultural and language training



Logistics

- Coordination
 - How are orders processed?
 - Demand flow processing → start producing when the order comes in...?
- Transportation
 - Means of transport: speed versus costs
 - Frequency
- Distribution centers and warehousing
 - Location
 - Inventory management
- IT systems
- Trade barriers and customs clearance
- ...

Case Study: Carlsberg in Poland



Carlsberg Brand Portfolio



Poland

Carlsberg	Global brand, brewed in Poland	Premium brand
Okocim	Acquired with the acquisition of Okocim 1996	National brand
Bosman	Acquired in 2001 from Bitburger	Regional brand
Kasztelan	Acquired in 2001 from Bitburger	Regional brand
Piast Mocne	Acquired when taking over Dylan (NL)	Regional brand
Książ	Acquired when taking over Dylan (NL)	Regional brand
Karmi	Newly created	Women
Volt	Newly created	Youth market
Harnaś	Strong beer, newly created in 2003	Men

Vietnam

Carlsberg	Global brand, brewed in Vietnam	Premium brand
Tuborg	Global brand, intro in Hue, later withdrawn.	Premium brand
Halida	Brand created at the outset in Hanoi.	National brand
Huda	Brand created at the outset in Huế.	Regional brand
Festival	Newly created light beer	Local brand in Huế

Carlsberg in Vietnam



Timeline: Carlsberg in Vietnam

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	Halida	Huda
Early 1990s	brew turnkey	
1993	Joint venture JV: Carlsberg, investment fund IFU and Halimex (35:25:40)	Joint venture JV: Carlsberg, investment fund IFU and Hue brewery (35:25:40)
2003	Carlsberg acquires stake of IFU to increase equity	Carlsberg acquires stake of IFU to increase equity stake to 50%
2004	Profitable stand-alone entity brewing Carlsberg and a local brand, Halida. New JV for distribution Carlsberg, IFU and Halimex.	Profitable stand-alone entity brewing two local brands, Halida and Festival.

Timeline: Carlsberg in Poland

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	Okocim	Kasztelan	Bosman	Piast
Early 1990s	SOE	SOE	SOE	SOE
1992	Privatised to public			
1994	Brau & Brunnen (Germany) acquires 25%		Privatised to individual investor	
1996	Carlsberg acquired 31.6%, Brau & Brunnen exits	Privatised	Individual investor sells to Bitburger	Privatised to individual investor
1997	Carlsberg brand is brewed in Poland			
1999		Bitburger acquires 20.20%		
2000				
2001	Increase of equity to 50.1%		Carlsberg-Okocim acquires from Bitburger	Carlsberg acquires Dyland
2002	Increase of equity stake to 71.4%. Start of operational integration.			
2003	Increase of equity stake to 75%.			
2004	Call for buying outstanding shares, and withdrawal from Warsaw Stock Exchange. European integration and production capacity sharing.			Operational integration of separate legal entity



Entry Strategy as Decision Process

1. Determine your Strategic Intent (Objectives)
Know what you want to achieve
2. Determine your evaluation criteria
Know what will be important
3. Generate Alternatives
Be creative !!!
4. Evaluate the Alternatives
Quantitative and qualitative analysis
5. Decide
and convince others ...



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