3. Organizational Participants

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Spring 2016
Agenda

- Organizational Participants in IB
- Foreign Market Entry Strategies

Exporting

- Contractual Arrangements
- Collaborative Ventures
- Foreign Direct Investment (FDI)
Types of Exporting

Direct Exporting

Contracting with intermediaries in the *foreign market* to perform export functions, such as distributors or agents. They perform downstream value-chain activities in the target market.

Indirect Exporting

Contracting with an intermediary in the firm’s *home country* to perform all export functions, often an Export Management Company or a Trading Company. Common among firms new to exporting.
Organizational Participants in IB

Foreign Market Entry Strategies
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Contractual Arrangements
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Major Types of Contractual Arrangements: Licensing & Franchising

Licensor

- The right to use intellectual property of the owner

Franchiser

- The right to use an entire business system

Licensee

Franchisee

Royalties, Fees

12.5 % of revenue (monthly)
Copyright licensing
Amazon – HBO - Netflix

https://www.youtube.com/watch?v=7CbUsMYEu6I

Franchising
Magnolia Bakery

https://www.youtube.com/watch?v=KxykewqHgY

Source: WSJ, Apr 2014
Some Other Types:

- **Turnkey contracting**: arrangement where a firm plans, finances, organizes, manages, and implements all phases of a project abroad, and hands it over to a foreign country after training local personnel. Typical in the construction and engineering services industries.

- Under a **management contract**, a contractor supplies managerial know-how to operate a hotel, resort, airport, hospital, or other facility, in exchange for compensation.
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Collaborative Ventures

- Foreign Direct Investment (FDI)
What is a collaborative venture?

A cross-border business alliance in which partnering firms pool their resources and share costs and risks of a venture.

- Sometimes called partnerships or strategic alliances.
- Types: Equity joint venture, Non-Equity project-based ventures, Consortium, Cross-licensing agreement.
- Collaboration helps overcome the often substantial risk and high costs of international business.
- It makes possible the achievement of projects that exceed the capabilities of the individual firm.
Equity Joint Venture

Partnership in which a separate firm is created through the investment of assets by two or more parent firms that gain joint ownership of a new legal entity.

- Capital participation of all partners
- Shared responsibility with respect to management and risk
- Retention of the individual corporate identities
- Legal independence of the joint venture
- Typically, the local partner contributes a factory, market navigation know-how, connections, or low-cost labor.
A project-based joint venture has a narrow scope and limited timetable.

No new legal entity is created.

Typically, partners collaborate on joint development of new technologies, products, or share other expertise with each other.

Such cooperation helps them catch up with rivals in technology development.

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Foreign Direct Investment (FDI)
What is Foreign Direct Investment (FDI)?

Local presence and operations.

- The establishment of manufacturing plants, marketing subsidiaries, or other facilities abroad.
- Acquisition of productive assets such as capital, technology, labor, land, plant, and equipment.

Consequences:

- Substantial resource commitment.
- Direct investors deal more intensively with specific social and cultural variables in the host market.
- The most advanced, expensive, complex, and riskiest entry strategy.
**Types of FDI**

**Greenfield investment:** The firm invests to build a new manufacturing, marketing or administrative facility, as opposed to acquiring existing facilities.

**Acquisition:** A direct investment or purchase of an existing company or facility.

**Merger:** A special type of acquisition in which two firms join to form a new, larger company.
Key Takeaways: Chapter 3

1) Major participants in IB:

- **Focal firms**
- **MNE**
- **SME**
- **BG**
- **Government**
- **Distribution channel intermediary**

**Facilitators**

specialized services

physical distribution, logistics and marketing

2) Foreign market entry strategies:

- Exporting: Indirect & direct
- Licensing vs. Franchising: intellectual property vs. the entire business system
- Collaborative Ventures: Equity JV & Non-equity (project-based) JV
- Foreign Direct Investment (FDI): Greenfield investment & mergers and acquisitions
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