

Agenda

- **Entry Mode Decision**
 - OLI Framework
- **Competitive Strategies for Emerging Markets**
 - Dawar & Frost Typology
- **Joint Ventures & Strategic Alliance**
 - Motivation; Sources of Conflict; Governance
- **Co-opetition**
 - Antecedents & Consequences

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Entry Mode Decision

A new market geographic.

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Strategic Alliances

- Strategic alliance is a co-operative and collaborative approach to achieve larger goals

BUY Arm's length market transactions

Short Term Contracts

Long Term Contracts

- Licensing
- Franchising

Joint Ventures
Equity Alliances

Parent
Subsidiary
Relationship

MAKE Activities performed in-house

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Entry-mode strategies

- Greenfield
- Acquisition

Foreign Direct Investments (FDI) → Equity-based

Non-equity or equity-based:
- Contractual agreements
- Cross-shareholdings

Contractual → Non-equity-based

Degree of Ownership and Control

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Source: Root (1994) Entry strategies for international markets

Eclectic Paradigm OLI.

Three types of "Advantage Categories"

1. Ownership
 - These are firm-specific assets or capabilities that give a company a competitive edge over local competitors in foreign markets.
 - This could include technology, brand reputation, managerial skills, or proprietary processes. FSA
2. Location
3. Internalization

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Eclectic Paradigm R.B.V.

- **Ownership Advantages (O)**
 - Benefits accrued due to owning of resources
 - Ownership provides competitive advantage
 - Knowledge, skills, capabilities, relationships, physical assets that form the basis of a firm's competitive advantage
 - Resources can be tangible or intangible
 - Legally protected rights such as patents, brand names, trademarks
 - Access to valuable & rare resources such as raw materials or knowledge
 - Exclusive control over particular purchasing or distribution channel
 - Economies of scale in manufacturing, service, & administration
- **If no ownership advantage, remain domestic, enter JV**

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Eclectic Paradigm

- **Ownership Advantages (O)**
 - TCS has ownership advantages in the form of advanced IT services, a strong global brand, and extensive experience in managing large-scale projects.
 - These capabilities allow TCS to compete effectively in global markets, including the U.S. and Europe, where it has established a significant presence through FDI.



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Eclectic Paradigm

Three types of "Advantage Categories"

1. Ownership
2. **Location**
 - These are advantages related to the specific characteristics of a foreign location that make it attractive for investment.
 - Factors could include market size, natural resources, favorable regulations, labor costs, or proximity to other markets.
3. Internalization

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Eclectic Paradigm

- **Location Advantage (L)**
 - Lower access & cost of raw materials, technologies and labor
 - Market volume & attractiveness
 - Infrastructure and logistics
 - Institutional framework
 - Manufacturing located in host country
 - A greater understanding of Customer needs
 - Lower Logistics costs
 - Cheaper Factor endowments available
 - Favourable Political Environment
 - Favourable Climate & Geography
- **If no, export-oriented business**

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Eclectic Paradigm

- **Location Advantage (L)**
 - Hyundai chose to invest in India due to its large and growing automobile market, relatively low labor costs, and strategic location for exporting to other markets in Asia and Africa.
 - The location advantages of India have made it a key production hub for Hyundai, which exports cars manufactured in India to several countries.



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Eclectic Paradigm

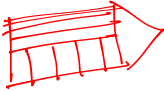
Three types of “Advantage Categories”

1. Ownership
2. Location
3. **Internalization**
 - These advantages refer to a company's ability to manage operations internally rather than through external market transactions (such as licensing or franchising).
 - This is often driven by the need to protect intellectual property, control quality, or ensure consistent management practices across borders.

Transaction.

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Eclectic Paradigm



- **Internalization Advantage (I)**
 - The risk of market failure causes firms to internalize market transactions in intangible assets (e.g. Knowledge) or tangible assets (e.g. Manufacturing)
 - In-house value chain activities help the enterprise to reduce transaction costs
 - Internalization helps to develop firm specific capabilities concerning experience curve, operational scale effects, and organizational skills
- **Transaction costs**
 - Low (strategic partnerships)
 - High (FDI)
- **Internal production vs producing through partnership**

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Eclectic Paradigm

• Internalization Advantage (I)

- By opening a design and testing centre in England and Spain, Royal Enfield has ensured that they are at the cutting edge of technology.
- By developing engine technology and designing bikes inhouse they have remained cost competitive and kept their competitive moves secret.



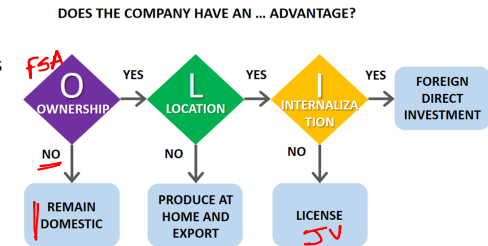
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Modes of Entry

- OLI paradigm – Foreign market entry decisions can be resolved by factoring in

- Ownership Advantages
- Location Advantages
- Internalization Advantages



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Competitive Strategies for Emerging Markets

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Competitive Strategies for Emerging Markets

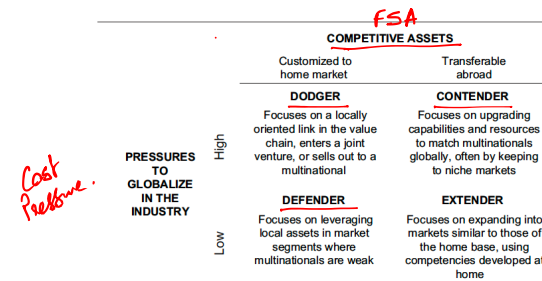


Figure 1. Dawar and Frost's typology

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Competitive Strategies for Emerging Markets

- For **defenders**, the key to success is to concentrate on the advantages they enjoy in their home market.
 - In the face of aggressive and well-endowed foreign competitors, they frequently need to fine-tune their products and services to the particular and often unique needs of their customers.
- Defenders** need to resist the temptation to try to reach all customers or to imitate the multinationals.
 - They'll do better by focusing on consumers who appreciate the local touch and ignoring those who favor global brands.

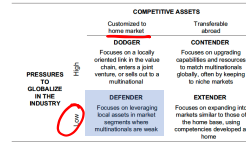


Figure 1. Dellar and Frost's typology

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Competitive Strategies for Emerging Markets

- Defenders** leverage their deep understanding of local markets, cultural nuances, and customer preferences to build a stronghold in their home market.
 - They typically focus on segments or regions where they have a competitive advantage and defend their market share from MNCs.
- When multinational giants like Unilever (with its brand Surf Excel) entered the Indian market, Nirma defended its position by focusing on the value segment.
 - Nirma's deep understanding of Indian consumers allowed it to offer a low-cost alternative that appealed to price-sensitive customers, particularly in rural areas.



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Competitive Strategies for Emerging Markets

- With the right transferable assets, **extenders** can use their success at home as a platform for expansion elsewhere.
 - A selective policy of international expansion, carefully tied to the company's key assets, can reap added revenue and scale economies, not to mention valuable learning experiences.
- Extenders** can leverage their assets most effectively by seeking analogous markets—those similar to their home base in terms of consumer preferences, geographic proximity, distribution channels, or government regulations.
 - Expatriate communities, to take a simple case, are likely to be receptive to products developed at home.

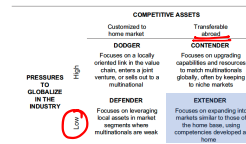


Figure 1. Dellar and Frost's typology

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Competitive Strategies for Emerging Markets

- Extenders** leverage their success in the local market to expand into markets that are similar to their home base.
 - They typically look for other emerging markets where their competitive advantages, such as low-cost production or deep understanding of local consumer behavior, can be replicated.
- Godrej, a well-established brand in India, extended its reach into other emerging markets like Africa and Southeast Asia.
 - By leveraging its expertise in affordable products tailored to local needs, Godrej successfully expanded its operations into markets with similar consumer dynamics to India, allowing it to grow beyond its home market.



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Competitive Strategies for Emerging Markets

- In industries where pressures to globalize are strong, it's difficult to build on local assets
 - If assets are valuable only in home country, then the best course may be to enter a JV or sell out to an MNC.
- Dodging** is difficult, as it requires a revamp of the strategy.
 - Focusing on niches, a dodger can use its local assets to establish a viable position e.g., distribution & service or supplier of complementary products.

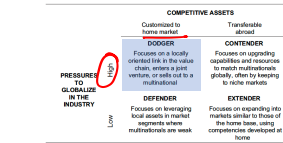


Figure 1. Dener and Frost's typology

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Competitive Strategies for Emerging Markets

- Dodgers** seek to avoid direct competition with MNCs by either focusing on niche markets, selling out to the MNC, or forming alliances.
 - They realize that they cannot compete head-to-head with MNCs due to resource constraints or other competitive disadvantages.
- When Coca-Cola re-entered the Indian market in the 1990s, Thums Up, a strong local cola brand, found it challenging to compete against the global giant.
 - Instead of facing Coca-Cola head-on, Thums Up was eventually acquired by Coca-Cola. By becoming part of Coca-Cola's portfolio, Thums Up avoided direct competition and remained a popular brand in India under the global company's umbrella.



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Competitive Strategies for Emerging Markets

- The greatest challenge for **contenders** is to overcome deficiencies in skills and financial resources.
 - The most successful contenders—those that have moved beyond competing solely on the basis of cost—have learned to overcome those disadvantages by accessing resources in developed countries.

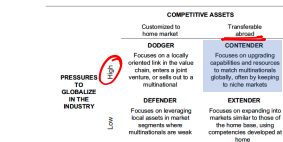


Figure 1. Dener and Frost's typology

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Competitive Strategies for Emerging Markets

- Contenders** aspire to compete globally by upgrading their capabilities, improving product quality, and often expanding beyond their home market.
 - They invest in R&D, brand building, and often in scaling up operations to take on MNCs not just locally but also in international markets.
- Initially focused on the Indian market, Tata Motors recognized the need to compete with global automakers.
 - The acquisition of Jaguar Land Rover (JLR) in 2008 was a significant move, positioning Tata Motors as a global contender.
 - This acquisition allowed Tata Motors to access advanced technology, design capabilities, and international markets, enabling it to compete more effectively with global automotive giants.



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Joint Ventures & Strategic Alliance

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Motivation for Strategic Alliance or JV

Hero Honda Kawasaki Bajaj

<p>Advantages of JV</p> <ul style="list-style-type: none"> • Strengthens competitive position <ul style="list-style-type: none"> • Enter new markets • Hedge against uncertainty • Access critical complementary assets <ul style="list-style-type: none"> • Reducing costs in the value chain • Learn new capabilities <ul style="list-style-type: none"> • Developing and diffusing new technology 	<p>Disadvantages of JV</p> <ul style="list-style-type: none"> • Can result in loss of control <ul style="list-style-type: none"> • Hard to establish good management control of operations • Control of IP • Governance issues • Can distract participating company's management and key players <ul style="list-style-type: none"> • <u>Cannibalization of manpower</u>
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Sources of Conflict: Conflicting priorities

<p>Developed country partner</p> <ul style="list-style-type: none"> Local Market * Access Local Market * Safeguard Technology * Import Components * High Quality Standards * Long Term Focus * Foreign Management Style * 	<p>Emerging country partner</p> <ul style="list-style-type: none"> • Export Market • Protect Local Market • Transfer Technology • Develop Local Suppliers • Cost Savings (Jugaad) • Short Term Focus • Local Management Style
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Family Business

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Sources of Conflict: Alliance Threats

- **Adverse Selection:** Potential partners misrepresent the value of the skills and abilities they bring to the alliance
- **Moral Hazard:** Partners provide to the alliance skills and abilities of lower quality than they promised
- **Holdup:** Partners exploit the transaction-specific investments made by the others in the alliance

Automobile Maruti. Flywheel. 10,000 Hyundai

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Sources of Conflict: Sources of Risk

Source of Risk	Financial	Resource	Market
Contextual	<ul style="list-style-type: none"> - Legal limits to majority control - Poor contract enforcement - Poor accounting standards - Inadequate protection of IP - Inadequate working capital & liquidity 	<ul style="list-style-type: none"> - Underdeveloped intermediate institutions - Lack of capital - Inadequate managerial & technical expertise 	<ul style="list-style-type: none"> - Restrictions on business, land use, and other licenses - Informal Local protectionism - Low growth rate of market - Instability of the economy
Agency	<ul style="list-style-type: none"> - Partner engages in fraudulent or opportunistic behavior - Exploitation of minority interest 	<ul style="list-style-type: none"> - Deficiencies in partner capabilities & resources - Loyalty of managers & staff from partner is low 	<ul style="list-style-type: none"> - Partner cannot or will not deliver access to domestic market

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Sources of Conflict: Learning Races

- When the collaborating firms are also competitors, co-opetition ensues
 - They may jointly increase the pie rather than dividing it amongst themselves
- Co-opetition may lead to **learning races**
 - The rate at which firms learn differs

Absorptive Capacity

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Governance: Strategic Partnerships

- Strategic Alliance (without creating a new entity)
 - Joint working group
 - Co-development & co-production agreement
 - Transfer of Technology agreement
- Joint Venture (A new entity is created)

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Governance Types

- **Non equity Alliance:** Partnership based on contracts between firms
 - Supply, licensing & distribution agreements
- **Equity Alliance:** Partnerships in which at least one partner takes partial ownership in the other
 - CVC investments, parent subsidiary
- **Joint Ventures:** Two or more firms join together to create a new business entity that is legally separate and distinct from its parents

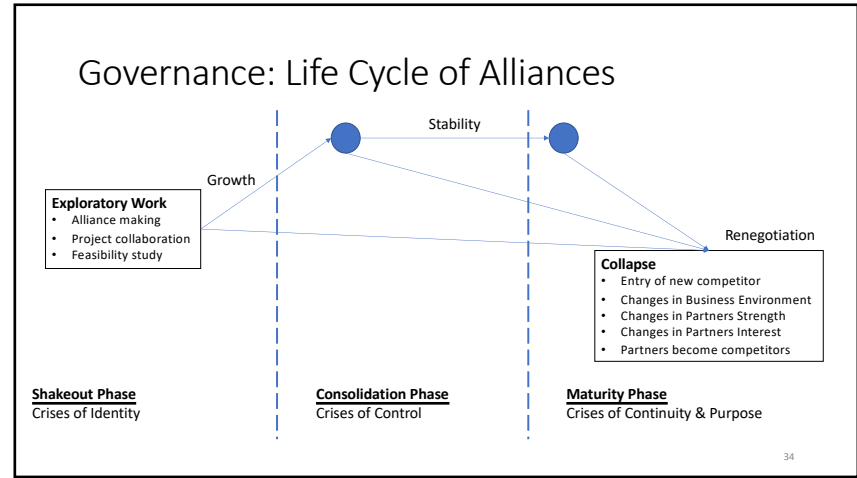
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Governance types

Non-equity	Equity	Joint Venture
<ul style="list-style-type: none"> • Flexible • Fast • Easy to initiate & terminate • Weak ties • Lack of trust & commitment <p><i>Shipping, Logistics.</i></p>	<ul style="list-style-type: none"> • Stronger tie • Trust & commitment may emerge • Window into new technology • Less flexible • Slower • Investments needed <p><i>Suzuki Toyota, Nissan Datsun</i></p>	<ul style="list-style-type: none"> • Strongest tie • Trust & commitment likely • Requirement of institutional environment • Long negotiations • High investments • Long-term solution • Double reporting <p><i>Indian Oil IOSTL, Sloy Tanking</i></p>

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Governance: Making JV Successful

1. COMPLEMENTARY BENEFITS

Ensure there are complementary benefits and roles for each of the parties in the joint venture. First step is to consider: what's in it for me? Next step: what's in it for the other interested party?

2. CLEAR EXPECTATIONS

Clearly prescribe, from the outset, all arrangements relating to:

- joint business activities
- valuation of the business
- ownership
- shareholder arrangements
- further buy-outs and/or exit.

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Governance: Making JV Successful

3. EXIT STRATEGY

We mentioned this in Tip 2 but it deserves highlighting: make sure there is a clear plan for how one or both parties can exit, should the need arise.

5. SHARED VALUES

It's often the little issues that lead to a joint venture arrangement breaking down, therefore cultural fit and shared values between the parties are critical. They don't have to be the same, but there has to be mutual respect from the outset.

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Co-opetition


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Introduction to Co-opetition

- **Definition:** Coopetition = Cooperation + Competition
- **Key Idea:** Businesses can cooperate to achieve mutual goals while still competing in the market.
- **Purpose:** This strategy leverages strengths to maximize market impact, innovate faster, and reduce costs.

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Co-opetition



- Firms can reduce competition through co-optive actions without infringing on antitrust laws to avoid price wars
 - Co-optive actions may be in the best interest of all firms in the industry where both resources and competitive strength are relatively equal among firms
- Firms can compete on selected dimensions such as advertising, product characteristics, and innovation but refrain from competing vigorously on price
 - Firms acting collectively to limit rivalry can achieve higher profit for all than would be possible if rivalry were intense

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Theoretical Foundations



Game Theory: The **Prisoner's Dilemma** is a classic concept in game theory that illustrates how two individuals might not cooperate, even if it's in their best interest to do so.

Scenario: Imagine two firms in an industry that can cooperate in R&D for new product development.

- **Both cooperate:** They develop the product faster and cheaper
- **Neither invests in R&D:** They lose market share to competitors
- **One invests in R&D:** Develops the drug at a high cost and time overrun.

Since each firm worries that the other might win the learning race, they both often choose to develop the product alone rather than cooperate, even though both would benefit more by developing the product jointly.

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Theoretical Foundations

Value Network Theory: views organisations as part of a network of interconnected entities, each adding value in ways that benefit the entire ecosystem.

- Rather than focusing solely on direct competition, companies in a value network work together to enhance the value chain, making products or services more attractive and beneficial for end-users.
- **Value is created collectively:** Companies contribute complementary skills or resources, improving the overall value for consumers.
- **Collaboration drives innovation:** Shared knowledge and resources enable quicker innovation and adaptation.
- **Each participant has a unique role:** Organizations focus on their strengths, allowing partners to focus on theirs.

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Relative Resource Advantage

- No one firm has a critical relative resource advantage, so none can “win the war” with a knockout punch
 - Technology is well settled, and significant technological advances are unlikely
 - Innovation is “around the edges.”
 - Unlikely to constitute “*creative destruction*.”
 - Product or service with little potential for brand identification or product differentiation advantages, a “commodity.”

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Global Cooperation

- Simultaneous competition and cooperation between two or more rivals competing in global markets
 - It implies the coexistence of cooperation and competition between the **same** global rivals
 - It does not deal with cases in which cooperation occurs during one period and competition occurs during another period
 - It may occur at corporate-, division-, or subsidiary-levels, depending on an MNE’s strategic intent and organizational needs

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Co-optive Actions

- Signaling Advance Information on Price Changes
 - Discussion of moves with customers
 - Regulatory or legal action
 - Media announcements – interviews, news items, social media, annual reports,
 - Advance promotions
 - Information leakage to investors; banks
- Full disclosure of Prices and Other Competitive Information
 - Base Point Pricing - base price plus the freight rate to account for differences in logistics costs

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Advantages of Coopetition

- **Resource Sharing:** Pooling resources can reduce costs.
- **Market Expansion:** Access to new markets through combined efforts.
- **Enhanced Innovation:** Collaborating on R&D for faster advancements.
- **Risk Mitigation:** Sharing financial and operational risks.

Merck and Pfizer

- In 2014, Merck and Pfizer entered a collaboration to develop and market a cancer drug called avelumab, an immune checkpoint inhibitor targeting specific cancers.
- **Benefits:** By pooling resources, they shared the high costs and risks associated with drug development, which is particularly high in oncology.
- **Outcome:** Avelumab was successfully developed and approved under the brand name Bavencio, allowing both companies to bring a valuable drug to market more quickly.

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Reasons behind Coopetition

- Competitive pressure and collaborative desires
 - Enables a firm to internalize a partnering rival's skills
 - It reduces the costs, risks, and uncertainties associated with innovation or new product development
 - It reduces time needed improving production efficiency, quality control, and product innovation
 - It increases collective power in dealing with outside stakeholders (such as home and host governments) and in strengthening market position for members within a coopetition group
 - It increases strategic flexibility
 - Useful in battles over technical standards

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Cooperation increases when...

- Coopetiting players face increasingly competitive threats from other players
- Global consumers become increasingly sophisticated
 - Demanding new technology, online services, additional functionality, superior quality, and innovative designs
- MNEs encounter increasing pressure for global value chain integration
 - Increasing importance of economies of scale
 - The reduction of profit margins
 - Need for improving productivity and efficiency
 - Global rivals confront increasing hazards from institutional environments

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Factors facilitating cooperation

- **Small number of competitors**
 - Coordination is greatly facilitated when there are few competitors.
- **Strong and stable industry demand**
 - Fosters a "live and let live" attitude
 - degree of capacity utilization in the industry - firms faced with excess capacity and idle resources may be tempted to lower prices in an effort to increase volume

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Factors facilitating cooperation

- **Homogeneity of firms**
 - Similar cost structures, size, corporate culture, or length of time in the industry lead to more coordination
 - Product differentiation makes coordination difficult.
- **Multimarket contact**
 - High degree of multimarket contact can facilitate cooperation and reduce rivalry

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Pair wise co-operation

- Prevalent in fragmented industries when level of rivalry is only moderate
 - Joint purchase, marketing, research, and training agreements with competitors or with suppliers and buyers
 - Membership in trade associations and use of industry-wide standard costing or price lists
 - Interlocking boards of directors



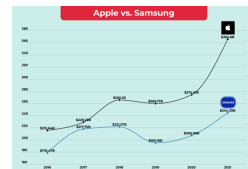
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Risks and Challenges

- **Loss of Competitive Edge:** Risk of revealing trade secrets.
- **Dependence on Partners:** Success can hinge on competitors' cooperation.
- **Conflicts of Interest:** Balancing mutual goals vs. individual business interests.
- **Trust Issues:** Building and maintaining trust in a competitive environment.

Apple and Samsung

- Despite fierce competition in smartphones, Samsung supplies Apple with key components.
- **Benefits:** Apple gets reliable components; Samsung secures a major customer.
- **Outcome:** Both benefit financially, but Samsung is able to catch up technologically with Apple.



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Competition increases when...

- Global rivals' competitive goals increasingly converge or overlap
 - Rivals use the same competitive strategies
 - Both envision the common market(s) as strategically paramount to their global operations
 - Product and business portfolio similarity increases
- Industry's life cycle moves into maturity and the industry competition solidifies
- Competition will decrease if competitive asymmetry increases
 - Asymmetry is associated with low levels of market commonality and resource similarity
- Resource interdependence between global rivals decreases

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Dynamic Nature of Coopetition

- The opposing elements (*competition and cooperation*) are not static, but rather dynamic (*changing over time*) in response to changing parameters in both their external and internal environments
 - Whenever market conditions and internal needs associated with coopetition change, the desired level of cooperation or competition will change accordingly
 - Coopetition is a loosely coupled relationship in which players maintain certain interdependence without losing organizational separateness
 - Coopetition between a pair of global players is also affected by dynamic conditions (*new competitive threats*) happening outside of the relationship