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SUBJECT - INTERNATIONAL MARKETING

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UNIT – 1

TOPIC - INTERNATIONAL MARKETING ENTRY DECISIONS

PART 2 -FORMS OF INTERNATIONAL BUSINESS

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Licensing

Licensing arrangement represents signing of an agreement with a foreign-based enterprise. It is an arrangement whereby a licensor grants the rights of intangible property to another party, called licensee, for a specified period, and in return receives a royalty fee. Intangible property includes patents, processing know-how, trademarks, inventions, formulas, copyrights, and designs etc. of the company.

Through this agreement, licenser can enter the foreign market at little risk and the licensee gets the benefits of gaining the manufacturing technology and marketing of a well-known product or brand. Licensing does not involve marketing facilities. If the cost of production is comparatively lower in the licensee's country, the licenser can import the product from the licensee to improve its competitive position in its own market.

Licensing is an alternative entry and expansion strategy with considerable appeal. A company with technology, know how, or a strong brand image can use licensing agreements to supplement its bottom-line profitability with no investment and very limited expenses. The only cost is the cost of signing the agreements and of policing their implementation. Licensing, therefore, is very lucrative for firms lacking the capital to develop operations overseas. In addition, licensing can be attractive when a firm is unwilling to commit substantial financial resources to an unfamiliar or politically volatile foreign market.

FRANCHISING

Franchising is similar to licensing, although it tends to involve longer-term commitments than licensing. Franchising is basically a specialised form of licensing in which the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business. The franchiser will often assist the franchisee to run the business on an ongoing basis. As with licensing, the franchiser typically receives a royalty payment, which amounts to some percentage of the franchisee's revenues. Whereas licensing is persued primarily by manufacturing firms, franchising is employed by service firms.

McDonald's and KFC are good examples of firms that have grown by using a franchising strategy. McDonald's has strict rules as to how franchisees should operate a restaurant. These rules extend to control over the menu, cooking methods, staffing policies, and design and location of a restaurant. McDonald's also organises the supply chain for its franchisees and provides management training and financial assistance.

The advantages of franchising are very similar to those of licensing. The firm is relieved of many of the costs and risks of opening a foreign market on its own. Instead, the franchisee typically assumes those costs and risks.

The disadvantages are less pronounced than in the case of licensing. Franchising may also hinder the firm's ability to take profits out of one country to support competitive attacks in another. Quality control is also very difficult to achieve the world over.

Joint Ventures

A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. The advantages of this strategy include the sharing of risk and the ability to combine different value chain strengths. One company may have in depth knowledge of a local market, and extensive distribution system, or access to low-cost labour or raw materials. Such a company might link up with a foreign partner possessing considerable know-how in the area of technology, manufacturing and process applications.

Joint ventures have a number of advantages. First, a firm benefits from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. Second, when the development costs and/or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. Third, in many countries, political considerations make joint ventures the only feasible entry mode.

Despite these advantages, there are major disadvantages with joint ventures. First, a firm that enters into a joint venture risk giving control of its technology to its partner. The second disadvantage is that a joint venture does not give a firm the tight control over subsidiaries that it might need to realise the experience curve or location economies. A third disadvantage with joint ventures is that the shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be. These conflicts tend to be greater when the venture is between firms of different nationalities, and they often end in the dissolution of the venture.

Note - Remaining Forms of International Business Will Be Discuss in Upcoming Material.