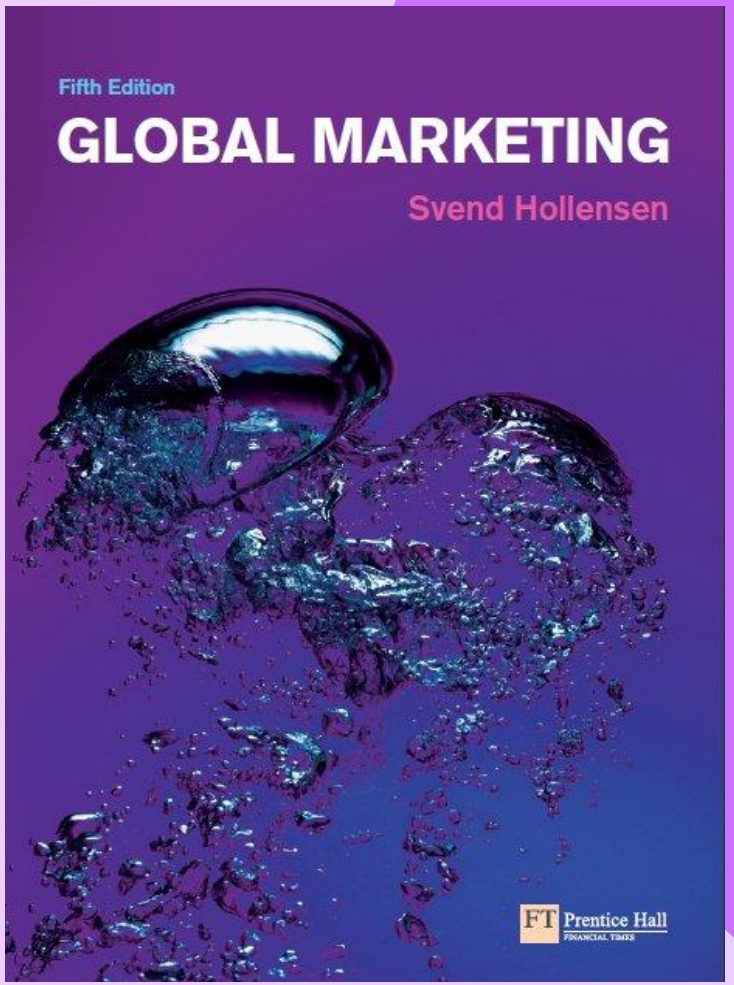


Svend Hollensen

GLOBAL MARKETING

5th Edition

Chapter 12 Hierarchical modes

Learning objectives (1)

- Describe the main hierarchical modes:
  - domestic-based representatives
  - resident sales representatives
  - foreign sales subsidiary
  - sales and production subsidiary and
  - region centres.

Learning objectives (2)

- Compare and contrast the two investment alternatives: acquisition versus greenfield
- Explain the different determinants that influence the decision to withdraw investments from a foreign market

What is this?

The entry modes by which the firm completely owns and controls the foreign entry mode are called _____.

Hierarchical modes

Hierarchical modes

- Domestic-based representatives
- Resident sales representatives
- Foreign sales subsidiary
- Sales and production subsidiary
- Region centres
- Transnational organization

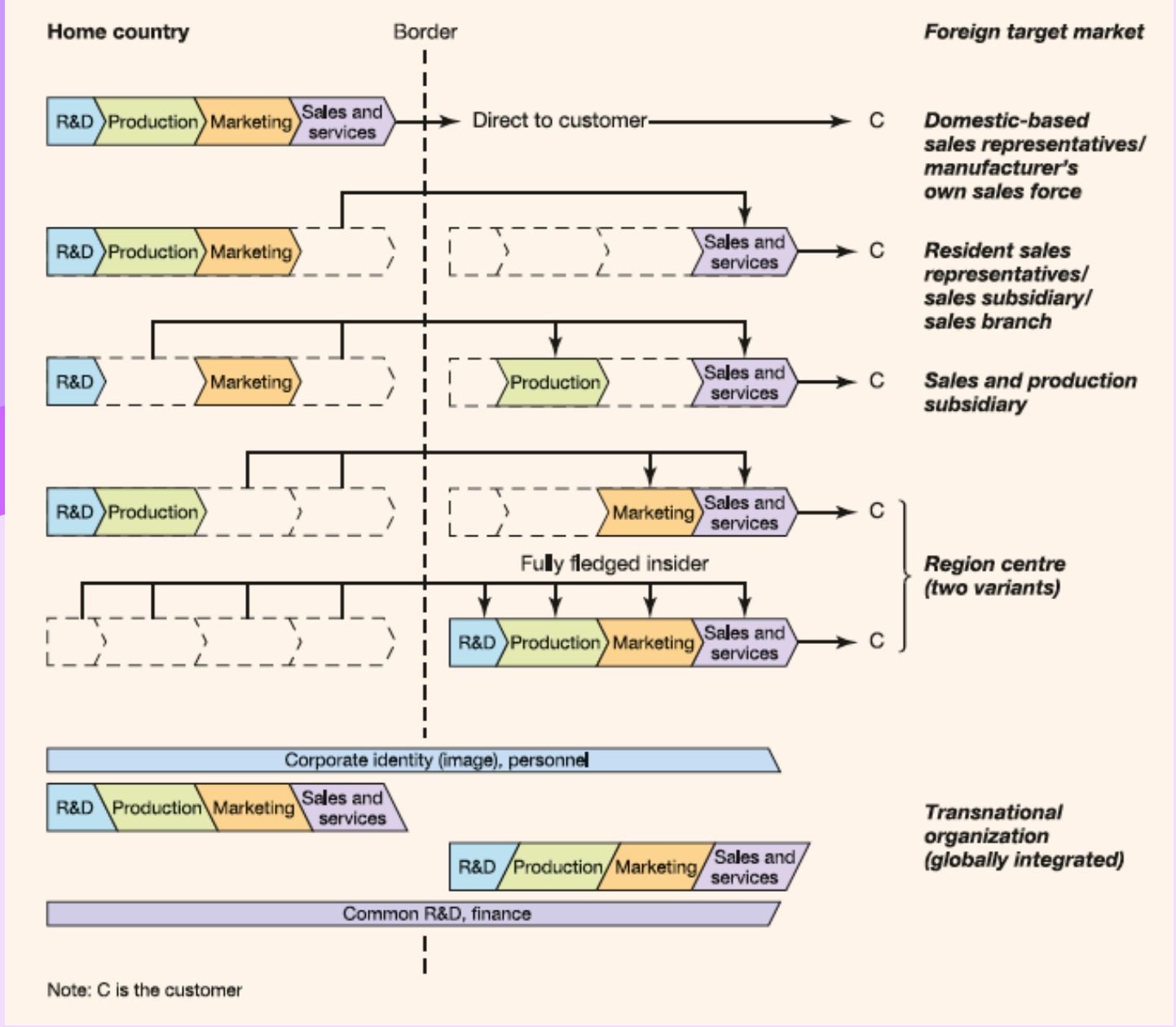
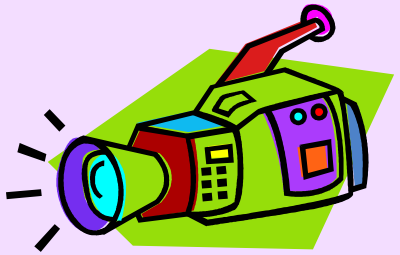


Figure 12.1 Hierarchical modes in a value chain perspective

International Orientations

- Ethnocentric orientation
- Polycentric orientation
- Regiocentric orientation
- Geocentric orientation



What is this?

What type of sales representative resides in the home country of the manufacturer and travels abroad to perform the sales function?

Domestic-based sales representative

What is this?

What term is used to refer to a local company owned and operated by a foreign company under the laws and taxation of the host country?

Subsidiary

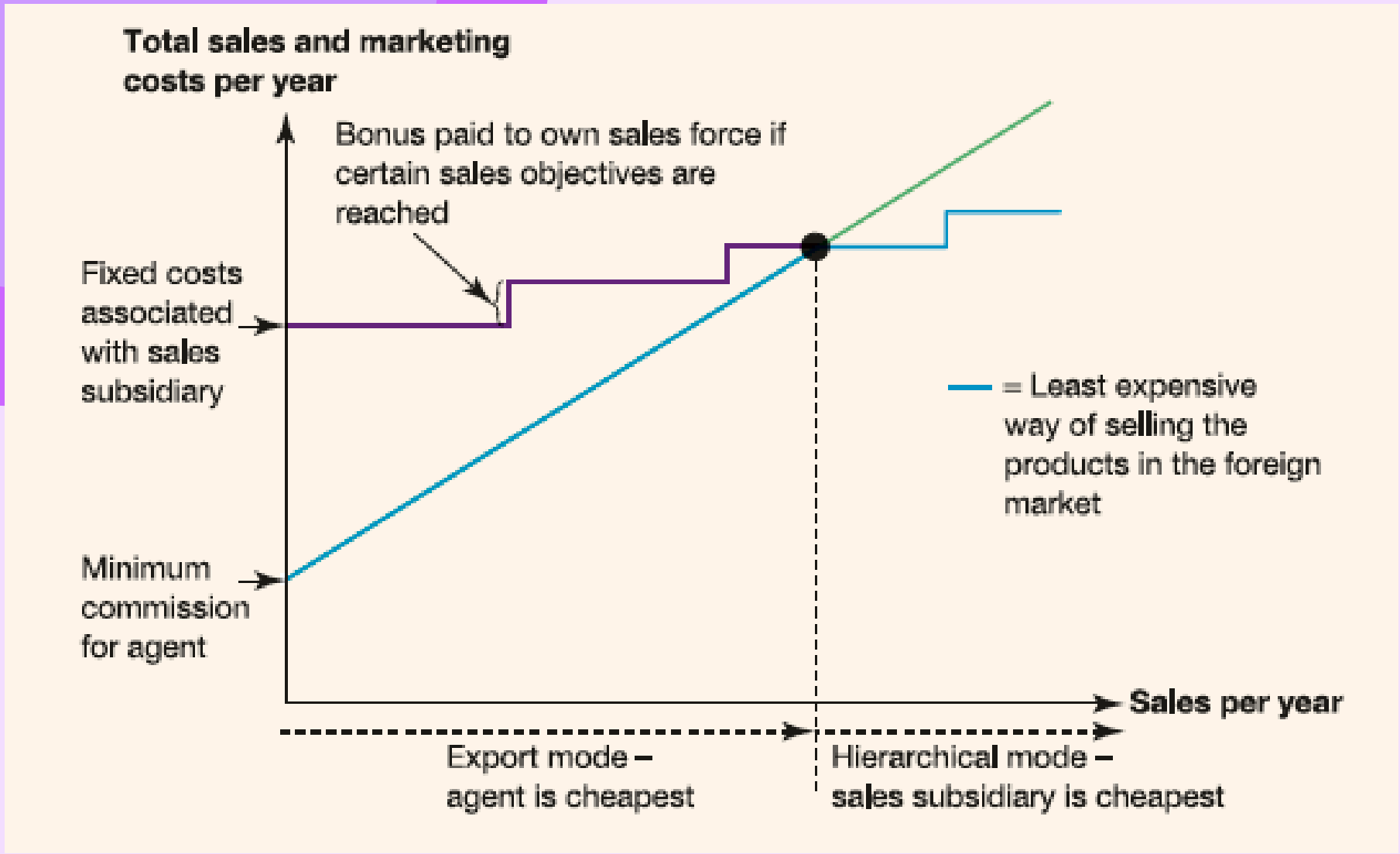


Figure 12.2 Break-even shifting from agent to sales subsidiary

Source: Hollensen, S. (2008) *Essentials of Global Marketing*, FT/Prentice Hall, p. 245

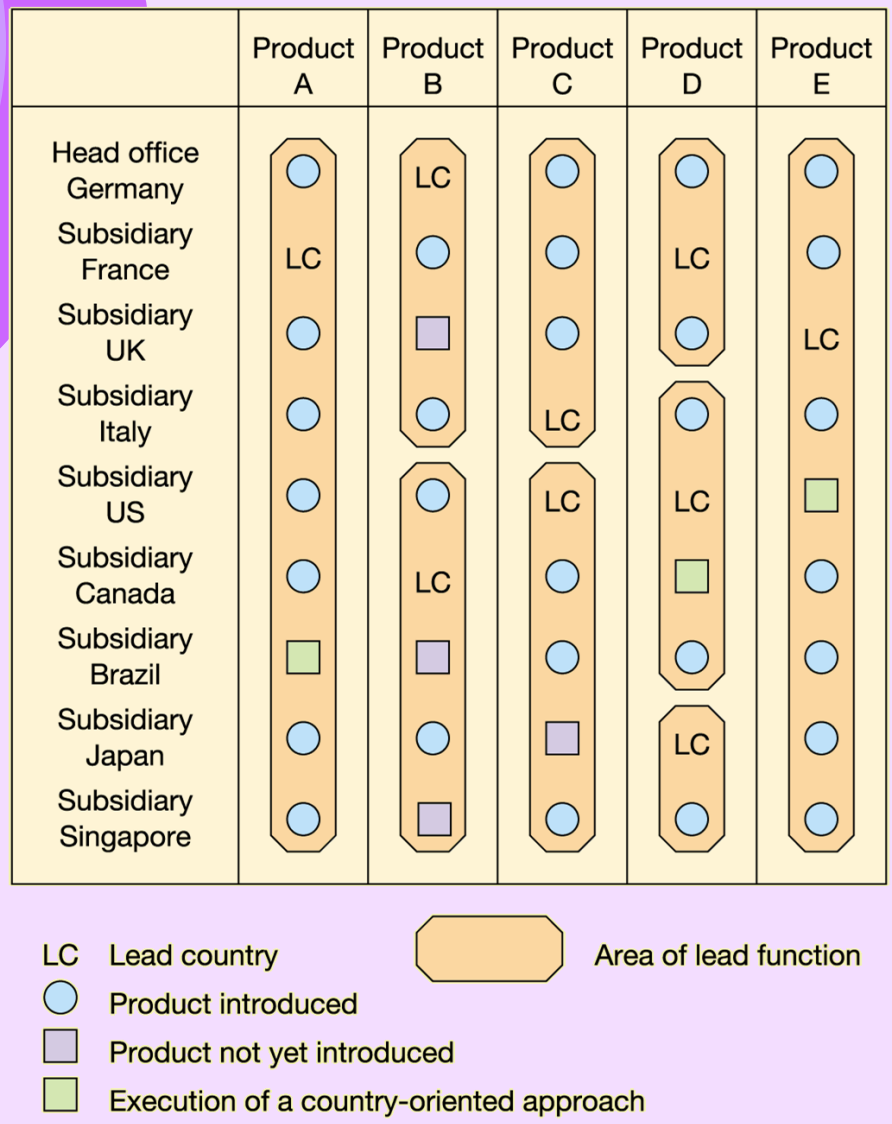
Reasons for establishing local production facilities

- To defend existing business
- To gain new business
- To save costs
- To avoid government restrictions

		Number of countries involved	
		Few	*Many*
Coordination of value chain activities	*Few activities coordinated across countries (primarily logistics)*	New international market makers Export/import start-up ①	Multinational trader ②
	Many activities coordinated across countries	Geographically focused start-up ③	Global start-up ④

Figure 12.3 Types of international new ventures

Source: reprinted by permission from Macmillan Publishers Ltd: *Journal of International Business Studies*, Vol. 25, No. 1, pp. 45–64, Toward a theory of international new ventures, by Oviatt, B. M. and McDougall, P. P., copyright 1994, published by Palgrave Macmillan



Source: Raffée and Kreutzer, 1989. Published with permission of Emerald Publishing Ltd.; www.emeraldinsight.com.

Figure 12.4 The lead country concept

The choice of a lead country is influenced by several factors:

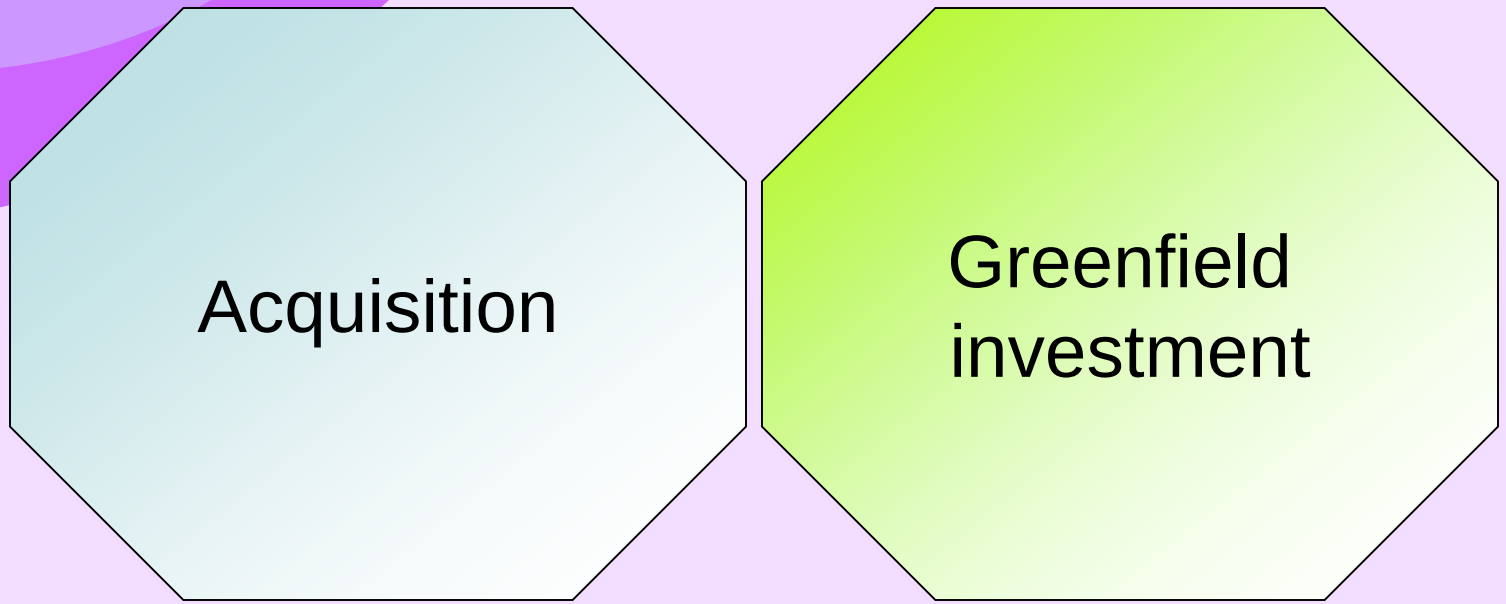
- The marketing competences of the foreign subsidiaries
- The quality of human resources in the countries represented
- The strategic importance of the countries represented
- Location of production
- Legal restrictions of host countries

What is this?

What term is used to refer to an organization which has integrated and coordinated its operations across national boundaries in order to achieve synergies on a global scale?

Transnational organization

Methods of establishing a wholly-owned subsidiary



Site selection criteria (1)

- Corporate tax advantages
- Investment incentives
- Investment climate
- Company law
- Operational costs
- Workforce considerations
- Quality of living

Site selection criteria (2)

- Infrastructure in place
- Business services available
- Sufficient office space
- Presence of other companies

Strategic motives driving the location decision

Mergers
and acquisitions

Internationalization
of leadership and ownership

Strategic renewal

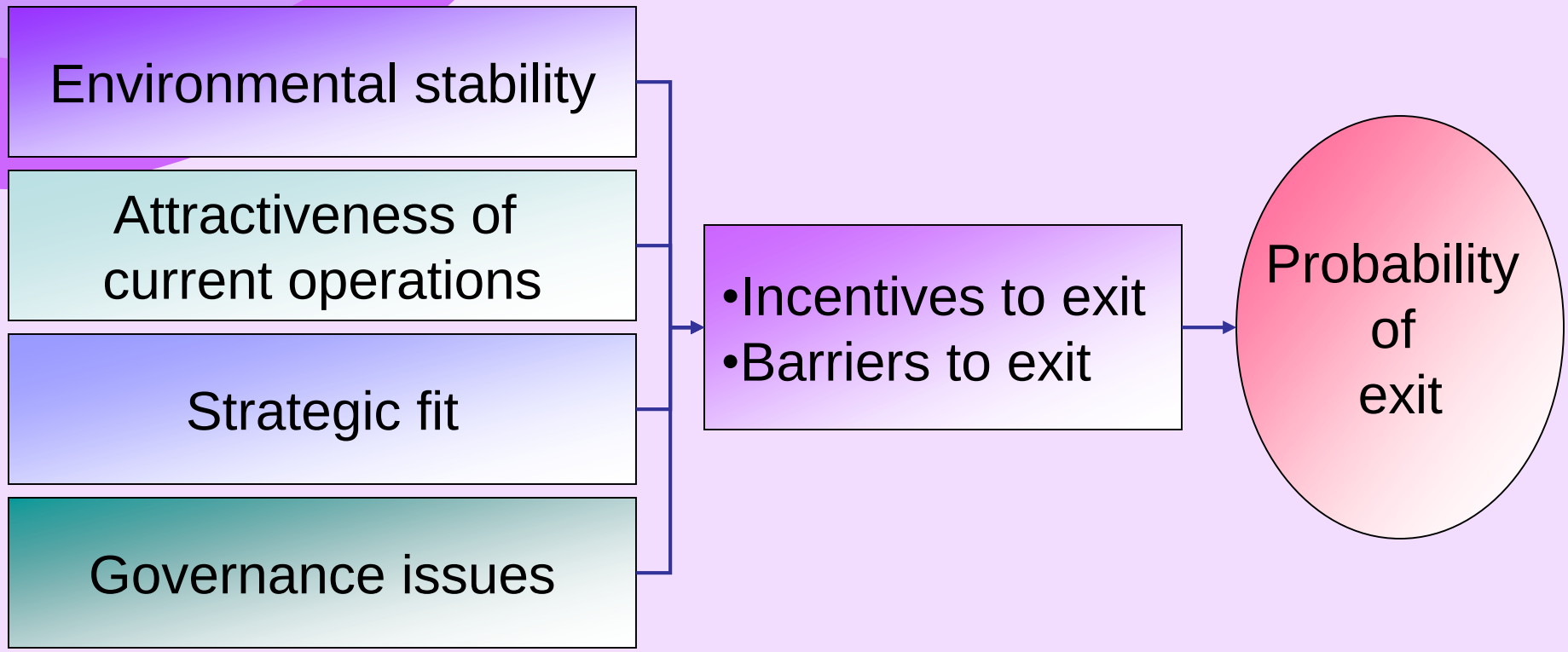


Figure 12.5 Divestment of foreign operation: a framework

Source: Benito (1996, Figure 2)

Summary of domestic-based sales representatives

Advantages

- Better control of sales
- Close contact with customers

Disadvantages

- High travel expenses
- Too expensive for markets far from home

Table 12.1 Advantages and disadvantages of different hierarchical entry modes

Summary of foreign sales, sales and production subsidiary

Advantages

- Full control of operation
- Market access
- Market knowledge
- Reduced transport costs
- Access to raw materials

Disadvantages

- High initial capital investment
- Loss of flexibility
- High risk
- Taxation problems

Table 12.1 Advantages and disadvantages of different hierarchical entry modes (Continued)

Summary of region centres / Transnational organization

Advantages

- Synergies on regional/global scale
- Scale efficiency
- Ability to leverage learning on cross-national scale

Disadvantages

- Potential for increased bureaucracy
- Limited national level responsiveness
- Missing communication between head office and region centre

Table 12.1 Advantages and disadvantages of different hierarchical entry modes (Continued)

Summary of acquisition

Advantages

- Quick access to
  - Distribution channels
  - Labour force
  - Management experience
  - Local knowledge
  - Local contacts
  - Established brand names

Disadvantages

- Expensive option
- High risk
- Integration concerns

Table 12.1 Advantages and disadvantages of different hierarchical entry modes (Continued)

Summary of greenfield investment

Advantages

- Optimum format possible
- Optimum technology possible

Disadvantages

- High investment cost
- Slow entry of new markets

Table 12.1 Advantages and disadvantages of different hierarchical entry modes (Continued)

EXHIBIT 12.1 Wal-Mart's withdrawal from the German market

After nine years of trying to make a go of it, in July 2006 Wal-Mart sold its 85 stores to German rival Metro.

Wal-Mart's attempt to apply the company's proven US success formula in an unmodified manner to the German market turned out to be a fiasco. This case shows how important it is to address cultural differences when setting up international operations.

CASE STUDY 12.1

Polo Ralph Lauren: Polo moves distribution for South East Asia in-house

Ralph Lauren Fragrances

Table 1 Polo Ralph Lauren's net revenues in different regions 2007–9

Net revenues	2009 (millions US$)	2008 (millions US$)	2007 (millions US$)
USA and Canada	3,589	3,653	3,452
Europe	1,028	945	768
Japan	393	272	65
Other regions (including South East Asia)	9	10	11
Total	**5,019**	**4,880**	**4,296**

QUESTIONS

1. What may be the main motives for Polo Ralph Lauren to shift the entry mode from licensing to hierarchical mode in South East Asia?
2. Would you recommend them to take all geographical licenses back in-house, and turn them into hierarchical modes? If not, why?

CASE STUDY 12.2

Durex condoms: SSL will sell Durex condoms in the Japanese market through its own organization

QUESTIONS

1. What were the main motives for SSL establishing its own distribution channels for condoms in Japan?
2. What are the major barriers to SSL reaching a higher market share for condoms in Japan?

VIDEO CASE STUDY 12.3 Starbucks

download from www.pearsoned.co.uk/hollensen

Questions

1. What could be the main motives for Starbucks in owning most of its coffee houses compared to other entry modes and operation forms?
2. How does Starbucks' entry into the grocery market affect the company's relationships with its retail customers?
3. How did Starbucks make the successful transition from a niche to a mainstream marketer? What can the company do to maintain its 'small company feel' as it expands globally?

Questions for discussion (1)

- By what criteria would you judge a particular foreign direct investment activity to have succeeded or failed?
- What are a firm's major motives in deciding to establish manufacturing facilities in a foreign country?
- Is the establishment of wholly-owned subsidiaries abroad an appropriate international market development mode for SMEs?

Questions for discussion (2)

- What is the idea behind appointing a ‘lead country’ in a region?
- Why is acquisition often the preferred way to establish wholly-owned operations abroad? What are limitations of acquisition as an entry method?
- What are the key problems associated with profit repatriation from subsidiaries?