

## Hierarchical modes

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### Learning objectives

After studying this chapter you should be able to do the following:

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

### 12.1 Introduction

#### Hierarchical modes

The firm owns and controls the foreign entry mode/organization.

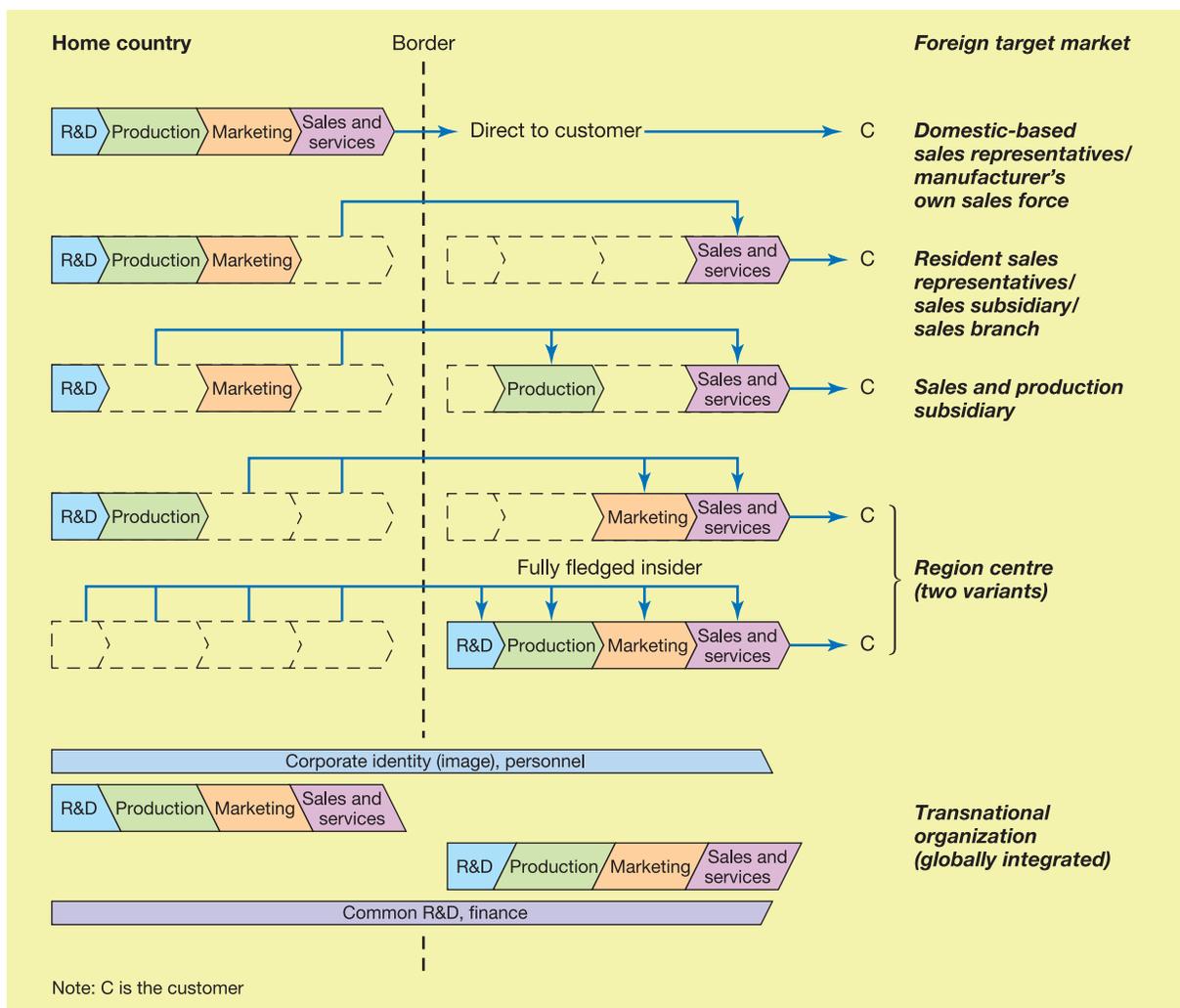
The final group of entry modes is the **hierarchical modes**, where the firm completely owns and controls the foreign entry mode. Here it is a question of where the control in the firm lies. The degree of control that head office can exert on the subsidiary will depend on how many and which value chain functions can be transferred to the

market. This again depends on the allocation of responsibility and competence between head office and the subsidiary, and how the firm wants to develop this on an international level. An organization that is not wholly-owned (i.e. 100 per cent) will here be viewed as an export mode or an intermediate mode. The following example, though, may suggest some of the problems involved in this sharp division: a majority-owned (e.g. 75 per cent) joint venture is, according to definition, an intermediate mode, but in practice a firm with 75 per cent will generally have nearly full control, similar to a hierarchical mode.

If a producer wants greater influence and control over local marketing than export modes can give it is natural to consider creating own companies in the foreign markets. However, this shift involves an investment, except in the case of the firm having its own sales force, which is considered an operating cost (see Figure 12.1).

As a firm goes through Figure 12.1 it chooses to decentralize more and more of its activities to the main foreign markets. In other words, it transfers the responsibility of performing the value chain functions to the local management in the different countries. While moving through Figure 12.1 the firm also goes from one internationalization stage to another (Perlmutter, 1969):

Figure 12.1 Hierarchical modes in a value chain perspective



- *Ethnocentric orientation*, represented by the domestic-based sales representatives. This orientation represents an extension of the marketing methods used in the home country to foreign markets.
- *Polycentric orientation*, represented by country subsidiaries. This orientation is based on the assumption that markets/countries around the world are so different that the only way to succeed internationally is to manage each country as a separate market with its own subsidiary and adapted marketing mix.
- *Regiocentric orientation*, represented by a region of the world (section 12.5).
- *Geocentric orientation*, represented by the transnational organization. This orientation is based on the assumption that the markets around the world consist of similarities and differences and that it is possible to create a transnational strategy which takes advantage of the similarities between the markets by using synergy effects to leverage learning on a worldwide basis.

The following description and discussion concerning hierarchical modes takes Figure 12.1 as its starting point.

## 12.2 Domestic-based sales representatives

### Domestic-based sales representatives

The sales representative resides in the home country of the manufacturer and travels abroad to perform the sales function.

A **domestic-based sales representative** is one who resides in one country, often the home country of the employer, and travels abroad to perform the sales function. As the sales representative is a company employee better control of sales activities can be achieved than with independent intermediaries. Whereas a company has no control over the attention that an agent or distributor gives to its products or the amount of market feedback provided, it can insist that various activities be performed by its sales representatives.

The use of company employees also shows a commitment to the customer that the use of agents or distributors may lack. Consequently they are often used in industrial markets, where there are only a few large customers that require close contact with suppliers, and where the size of orders justifies the expense of foreign travel. This method of market entry is also found when selling to government buyers and retail chains, for similar reasons.

## 12.3 Resident sales representatives/foreign sales branch/foreign sales subsidiary

In all these cases the actual performance of the sales function is transferred to the foreign market. These three options all display a greater customer commitment than using domestic-based sales representatives. In making the decision whether to use travelling domestic-based representatives or resident sales representatives in any particular foreign market a firm should consider the following:

- *Order making or order taking*. If the firm finds that the type of sales job it needs done in a foreign market tends towards order taking it will probably choose a travelling domestic-based sales representative, and vice versa.
- *The nature of the product*. If the product is technical and complex in nature and a lot of servicing/supply of parts is required the travelling salesperson is not an efficient entry method. A more permanent foreign base is needed.

**Foreign branch**

An extension of and a legal part of the manufacturer (often called a sales office). Taxation of profits takes place in the manufacturer's country.

**Subsidiary**

A local company owned and operated by a foreign company under the laws and taxation of the host country.

Sometimes firms find it relevant to establish a formal branch office, to which a resident salesperson is assigned. A **foreign branch** is an extension and a legal part of the firm. A foreign branch also often employs nationals of the country in which it is located as salespeople. If foreign market sales develop in a positive direction the firm (at a certain point) may consider establishing a wholly-owned sales subsidiary. A foreign **subsidiary** is a local company owned and operated by a foreign company under the laws of the host country.

The sales subsidiary provides complete control of the sales function. The firm will often keep a central marketing function at its home base, but sometimes a local marketing function can be included in the sales subsidiary. When the sales function is organized as a sales subsidiary (or when sales activities are performed) all foreign orders are channelled through the subsidiary, which then sells to foreign buyers at normal wholesale or retail prices. The foreign sales subsidiary purchases the products to be sold from the parent company at a price. This, of course, creates the problem of intra-company transfer pricing. In Chapter 16 this problem will be discussed in further detail.

One of the major reasons for choosing sales subsidiaries is the possibility of transferring greater autonomy and responsibility to these subunits, being close to the customer. However, another reason for establishing sales subsidiaries may be the tax advantage. This is particularly important for companies headquartered in high-tax countries. With proper planning companies can establish subsidiaries in countries having low business income taxes and gain an advantage by not paying taxes in their home country on the foreign-generated income until such income is actually repatriated to them. Of course the precise tax advantages that are possible with such subsidiaries depend upon the tax laws in the home country compared to the host country.

## 12.4 Sales and production subsidiary

Especially in developing countries sales subsidiaries may be perceived as taking money out of the country and contributing nothing of value to the host country in which they are based. In those countries a sales subsidiary will generally not be in existence long before there are local demands for a manufacturing or production base.

Generally, if the company believes that its products have long-term market potential in a politically relatively stable country, then only full ownership of sales and production will provide the level of control necessary to meet fully the firm's strategic objectives. However, this entry mode requires great investment in terms of management time, commitment and money. There are considerable risks, too, as subsequent withdrawal from the market can be extremely costly – not simply in terms of financial outlay but also in terms of reputation in the international and domestic market, particularly with customers and staff.

Japanese companies have used this strategy to build a powerful presence in international markets over a long period of time. Their patience has been rewarded with high market shares and substantial profits, but this has not been achieved overnight. They have sometimes spent more than five years gaining an understanding of markets, customers and competition, as well as selecting locations for manufacturing, before making a significant move.

The main reasons for establishing some kind of local production are as follows:

- *To defend existing business.* Japanese car imports to Europe were subject to restrictions, and as their sales increased so they became more vulnerable. With the development

of the single European market Nissan and Toyota set up operations in the United Kingdom.

- *To gain new business.* Local production demonstrates strong commitment and is the best way to persuade customers to change suppliers, particularly in the industrial markets where service and reliability are often the main factors when making purchasing decisions.
- *To save costs.* By locating production facilities overseas costs can be saved in a variety of areas such as labour, raw materials and transport.
- *To avoid government restrictions* that might be in force to restrict imports of certain goods.

### Assembly operations

An assembly operation is a variation of the production subsidiary. Here a foreign production plant might be set up simply to assemble components manufactured in the domestic market or elsewhere. The firm may try to retain key component manufacture in the domestic plant, allowing development, production skills and investment to be concentrated, and maintaining the benefit from economies of scale. Some parts or components may be produced in various countries (multisourcing) in order to gain each country's comparative advantage. Capital-intensive parts may be produced in advanced nations, and labour-intensive assemblies may be produced in a less developed country, where labour is abundant and labour costs are low. This strategy is common among manufacturers of consumer electronics. When a product becomes mature and faces intense price competition it may be necessary to shift all of the labour-intensive operations to LDCs. This is the principle behind the international product life cycle (IPLC): see also Chapter 14 (Figure 14.6).

## 12.5 Region centres (regional headquarters)

Until now choice of foreign entry mode has mainly been discussed in relation to one particular country. If we suspend this condition, we consider option 3 in Figure 12.2, where 'geographically focused start-up' is an attempt to serve the specialized needs of

Figure 12.2 Types of international new venture

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

Source: Oviatt and McDougall, 1994, p. 59.

a particular region of the world. It is very difficult for competitors to imitate a successful coordination of value chain activities in a particular region, as it involves tacit knowledge and is socially complex.

The world is increasingly being regionalized through the formation of such groupings as the European Union, the North American Free Trade Area (NAFTA) and the Association of South-East Asian Nations (ASEAN).

**Regions centres**

The regional HQ ('lead country') will usually play the role of coordinating and stimulating sales in the whole region.

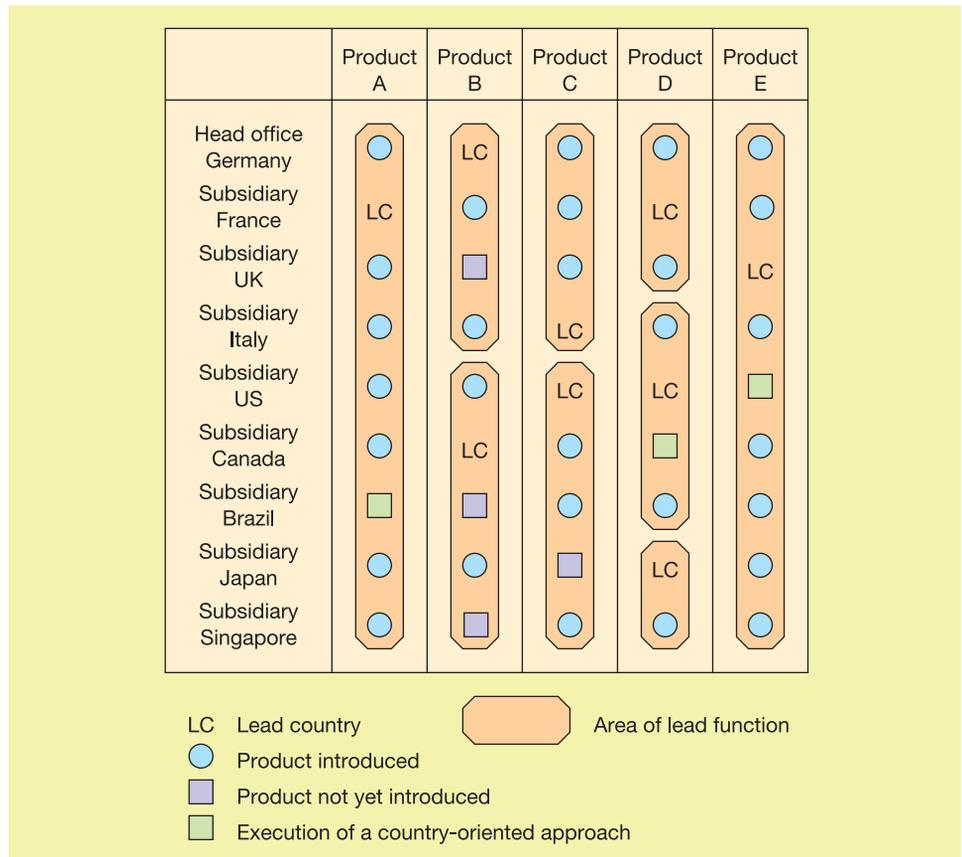
In Figure 12.1 two examples of **region centres** are shown. The first variant shows that the downstream functions have been transferred to the region. In the second variant even greater commitment is shown to the region because here all the value chain activities are moved to the region, whereby the firm has become a fully fledged insider in the region. At this stage the firm has all the necessary functions in the region to compete effectively against local and regional competitors. At the same time, the firm can respond to regional customer needs. This situation is also illustrated in the lower part of Figure 12.2, where many activities are coordinated across countries.

Formation of region centres implies creation of a regional headquarters or appointment of a 'lead country', which will usually play the role of coordinator and stimulator with reference to a single homogeneous product group (see Figure 12.3).

The coordination role consists of ensuring three things:

- 1 Country and business strategies are mutually coherent.
- 2 One subsidiary does not harm another.
- 3 Adequate synergies are fully identified and exploited across business and countries.

**Figure 12.3** The lead country concept



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

The stimulator role consists of two functions:

- 1 facilitating the translation of ‘global’ products into local country strategies;
- 2 supporting local subsidiaries in their development (Lasserre, 1996).

Figure 12.3 (an example of a multinational company having its head office in Germany) shows that different countries/subsidiaries can have a leading function for different product groups. In the diagram there is a world market such that for products A and E only one country/subsidiary has the coordination function on a global basis (France and the United Kingdom, respectively). For product D there are three regions with a lead country in each region.

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

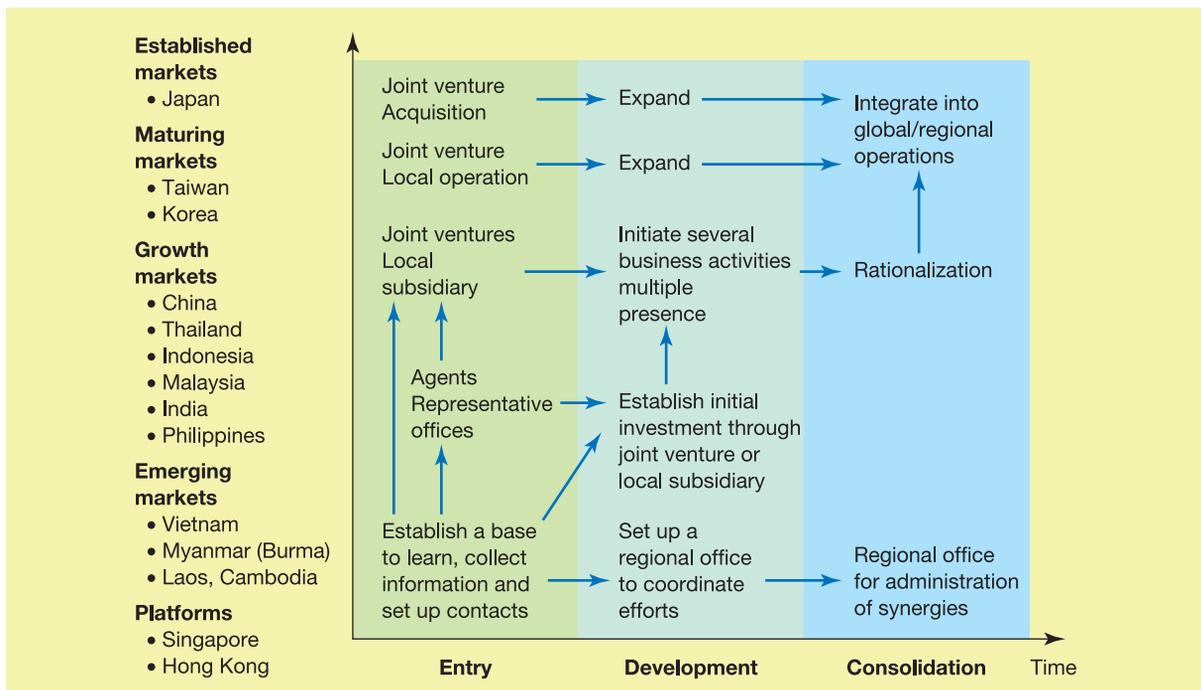
- the marketing competences of the foreign subsidiaries;
- the quality of human resources in the countries represented;
- the strategic importance of the countries represented;
- location of production;
- legal restrictions of host countries.

The country with the best ‘leading’ competences should be chosen for the job as lead country.

Figure 12.4 shows how a firm can develop the region centre concept in the Asia-Pacific area. The countries in the Asia-Pacific area are so different that you have to proceed in a sequential way. The example is based on a country-by-country approach together with developing a regional view (Lasserre, 1995).

One can distinguish four types of country in Asia, which are represented in Figure 12.4.

Figure 12.4 Developing the region centre concept in Asia-Pacific



Source: Reprinted from *Long Range Planning*, Vol. 29, No. 1, Lasserre, P. (1996) 'Regional headquarters: the spearhead for Asian Pacific markets', p. 21, Copyright 1996, with permission from Elsevier.

- 1 The *platform countries*, such as Singapore or Hong Kong, which can be used in the starting phase as bases for gathering intelligence and initiating first contacts that can later become the centre of regional coordination. For instance, medium-sized companies with no prior experience in the region could establish their presence by setting up a 'listening post' in these countries.
- 2 The *emerging countries*, such as Vietnam today and Myanmar (Burma) and Cambodia in the near future. The task in these countries is to establish an initial presence through a local distributor and build the necessary relationships in order to prepare for the establishment of a local operation, either directly or through a joint venture.
- 3 The *growth countries*, such as China and the ASEAN countries, where it is becoming urgent to establish a significant presence in order to capitalize on the opportunities generated by rapid economic development.
- 4 The *maturing* and *established countries*, such as Korea and Taiwan, which already have significant economic infrastructures and well-established local and international competitors. In the entry phase the task here is to find a way to acquire, through massive investment, the necessary operational capability to catch competitors up.

The particular entry and pathway to development will depend upon the company's prior experience and capabilities, and on the particular strategic attractiveness of an industrial sector in a country.

Gradually the firm will start to look at all the countries in one region, because some activities, notably strategic, intelligence, financial, engineering, R&D, training and specialized services, can reap the benefits of economies of scale only by servicing the whole region.

## 12.6 Transnational organization

In this final stage of internationalization companies attempt to coordinate and integrate operations across national boundaries so as to achieve potential synergies on a global scale. Management views the world as a series of interrelated markets. At this stage the employees tend to identify more strongly with their company than with the country in which they operate.

Common R&D and frequent geographical exchange of human resources across borders are among the characteristics of a **transnational organization**. Its overall goal will be to achieve global competitiveness through recognizing cross-border market similarities and differences, and linking the capabilities of the organization across national boundaries. One of the relatively few international companies that have reached this stage is Unilever – see also section 8.5.

In summary, managing a transnational organization requires the sensitivity to understand the following:

- when a global brand makes sense or when local requirements should take precedence;
- when to transfer innovation and expertise from one market to another;
- when a local idea has global potential;
- when to bring international teams together fast to focus on key opportunities.

### Transnational organization

Integration and coordination of operations (R&D, production, marketing, and sales and services) across national boundaries in order to achieve synergies on a global scale.

## 12.7

## Establishing wholly-owned subsidiaries - acquisition or greenfield

All the hierarchical modes presented in this chapter (except domestic-based sales representatives) involve investment in foreign-based facilities. In deciding to establish wholly-owned operations in a country a firm can either acquire an existing company or build its own operations from scratch (greenfield investment).

### Acquisition

Acquisition enables rapid entry and often provides access to distribution channels, an existing customer base and, in some cases, established brand names or corporate reputations. In some cases, too, existing management remains, providing a bridge to entry into the market and allowing the firm to acquire experience in dealing with the local market environment. This may be particularly advantageous for a firm with limited international management expertise, or little familiarity with the local market.

In saturated markets the industry is highly competitive or there are substantial entry barriers, and therefore there is little room for a new entrant. In these circumstances acquisitions may be the only feasible way of establishing a base in the host country.

Acquisitions take many forms. According to Root (1987) acquisition may be horizontal (the product lines and markets of the acquired and acquiring firms are similar), vertical (the acquired firm becomes supplier or customer of the acquiring firm), concentric (the acquired firm has the same market but different technology, or the same technology but different markets) or conglomerate (the acquired firm is in a different industry from that of the acquiring firm). No matter what form the acquisition takes, coordination and styles of management between the foreign investor and the local management team may cause problems.

### Greenfield investment

The difficulties encountered with acquisitions may lead firms to prefer to establish operations from the ground up, especially where production logistics is a key industry success factor, and where no appropriate acquisition targets are available or they are too costly.

The ability to integrate operations across countries, and to determine the direction of future international expansion, is often a key motivation to establish wholly-owned operations, even though it takes longer to build plants than to acquire them. Further motives for greenfield investment can also include incentives offered by the host country.

Furthermore, if the firm builds a new plant, it can not only incorporate the latest technology and equipment, but also avoid the problems of trying to change the traditional practices of an established concern. A new facility means a fresh start and an opportunity for the international company to shape the local firm into its own image and requirements.

## 12.8

## Location/relocation of HQ

The starting point is to consider the traditional checklist of HQ site selection criteria (Baaij *et al.* 2005):

- corporate tax advantages;
- investment incentives;
- investment climate;
- company law (internal restriction – the owners' wishes have to be followed);
- operational costs;
- quality, availability and costs of the workforce;
- quality of living (major hotels and restaurants, proximity of quality housing, cultural life and recreation, quality of schools, cultural diversity, safety, crime and health factors, personal taxes, cost of living, etc.);
- level of infrastructure (in particular transportation, communication and IT)
- level of high-level business services (e.g. accounting, legal and management consulting);
- sufficient representative office space;
- the presence of other major corporations.

The main benefit of using this checklist is not to find suitable sites, but to eliminate unsuitable ones. Once these factors have been assessed, more strategic criteria for the right HQ location can be considered.

There are three strategic motives that can affect the HQ location decision:

- 1 mergers and acquisitions;
- 2 internationalization of leadership and ownership;
- 3 strategic renewal.

### 1 Mergers and acquisitions

When companies of equal size merge, they need to find a neutral location for the headquarters of the merged corporation. In 1987, ASEA from Västerås in Sweden and BBC Brown Boveri of Baden, Switzerland merged to create ABB Asea Brown Boveri. The new headquarters were not situated in either original location, but in Zurich.

### 2 Internationalization of leadership and ownership

In the case of acquisitions, the obvious solution is the most effective – the new headquarters is that of the acquirer, and the acquired corporation relocates (e.g. DaimlerChrysler). The second motive – internationalization of leadership and ownership – makes corporations less sensitive to national sentiments or ties to a specific country. Foreign board executives and shareholders will be less attached to the traditional home country, and less likely to resist a cross-border relocation of the headquarters.

### 3 Strategic renewal

The final reason for relocating headquarters is strategic renewal. This was a key reason for Philips Electronics' relocation to Amsterdam after 106 years of emotional ties to Eindhoven, the town where Philips was founded. Relocation can be a mechanism of change as it symbolises a fresh start and a break with the past.

## 12.9 Foreign divestment: withdrawing from a foreign market

While a vast theoretical and empirical literature has examined the determinants of entering into foreign direct investments, considerably less attention has been given to the decision to exit from a foreign market.

Most of the studies undertaken show a considerable ‘loss’ of foreign subsidiaries over time:

- Between 1967 and 1975 the 180 largest US-based multinationals added some 4,700 subsidiaries to their networks, but more than 2,400 affiliates were divested during the same period (Boddewyn, 1979).
- Out of 225 FDIs undertaken by large Dutch multinationals in the period 1966–88, only just over half were still in existence in 1988 (Barkema *et al.*, 1996).

Closing down a foreign subsidiary or selling it off to another firm is a strategic decision, and the consequence may be a change of foreign entry mode (e.g. from a local sales and production subsidiary to an export mode or a joint venture), or a complete withdrawal from a host country.

The most obvious incentive to exit is profits that are too low, which in turn may be due to high costs, permanent decreases in local market demand or the entry into the industry of more efficient competitors. Besides being voluntary, the divestment may also be a result of expropriation or nationalization in the foreign country.

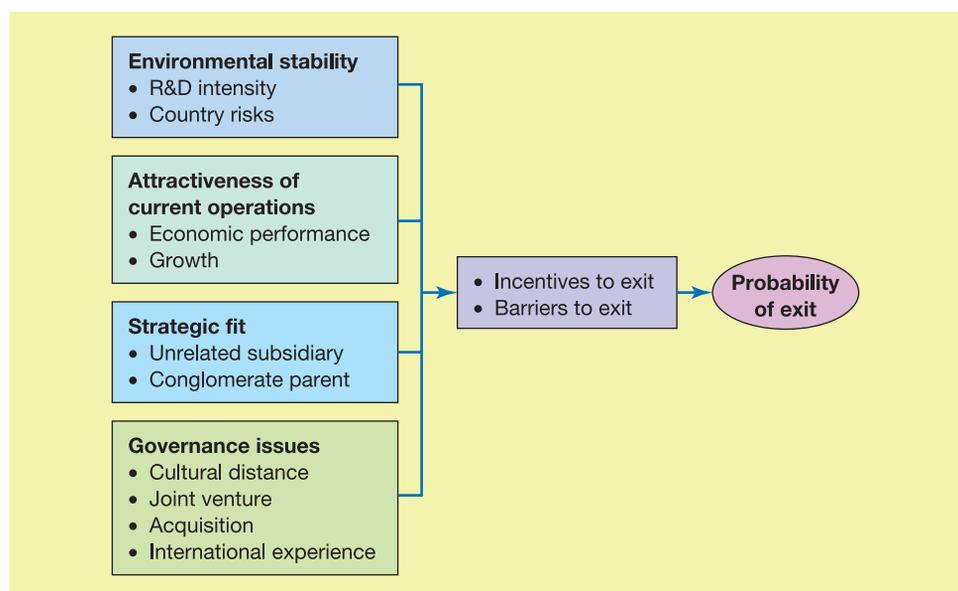
In order to investigate further the question of why foreign divestments take place it is necessary to look at the specific factors that may influence incentives and barriers to exit, and thereby the probability of exiting from a foreign subsidiary. Benito (1996) classifies the specific factors into four main groups (Figure 12.5).

### Environmental stability

This is a question of the predictability of the environment – competitively and politically – in which the foreign subsidiary operates:

- *R&D intensity*. Perceived barriers to exit are likely to increase due to large market-specific investments made in R&D and the marketing of the products.

Figure 12.5 Divestment of foreign operation: a framework



Source: Benito, 1996, Figure 2.

- *Country risks.* These risks are typically outside the firm's scope of control. Political risks may often lead to forced divestment, with the result that expropriation takes place.

### Attractiveness of current operations

- *Economic performance.* Unsatisfactory economic performance (i.e. inability to produce a net contribution to overall profits) is the most obvious reason why particular subsidiaries are sold off or shut down. On the other hand, if the subsidiary is a good economic performer, the owners may see an opportunity to obtain a good price for the unit while it is performing well.
- *Growth.* Economic growth in the host country would normally make FDI even more attractive, thereby increasing the barriers to exit from such a country. However, the attractiveness of the location would make such operations more likely targets for takeovers by other investors.

### Strategic fit

Unrelated expansion (i.e. diversification) increases the governance cost of the business, and economies of scale and scope are also rarely achieved by unrelated subsidiaries. Hence these factors increase the incentives to exit.

The same arguments apply to a conglomerate parent.

### Governance issues

- *Cultural distance.* Closeness between home country and host countries results in easier monitoring and coordination of production and marketing activities in the various locations. Thus culturally close countries increase the barriers to exit and vice versa.
- *Joint venture and acquisition.* A joint venture with a local partner can certainly reduce barriers to the penetration of a foreign market by giving rapid access to knowledge about the local market. On the other hand, whenever a joint venture is set up with a foreign partner, both different national and corporate cultures may have an impact on its success. Joint ventures and acquisitions are put in a difficult situation in the often critical initial phases of the integration process. Thus a lack of commitment in the parent company or companies may increase the incentive to exit.
- *Experience.* Firms learn from experience how to operate in the foreign environment, and how to search for solutions to problems that emerge. As experience is accumulated it becomes easier to avoid many of the problems involved in running foreign subsidiaries and to find workable solutions if problems should arise. This also includes the unpleasant decision to close down a subsidiary.

## 12.10 Summary

The advantages and disadvantages of the different hierarchical entry modes are summarized in Table 12.1.

Furthermore, this chapter discussed under what circumstances foreign divestment is likely to take place. The most obvious reason to exit from a market seems to be low profits earned in the market.

**Table 12.1** Advantages and disadvantages of different hierarchical entry modes

Hierarchical entry mode	Advantages	Disadvantages
<i>Domestic-based sales representatives</i>	Better control of sales activities compared to independent intermediaries. Close contact with large customers in foreign markets close to home country.	High travel expenses. Too expensive in foreign markets, far away from home country.
<i>Foreign sales, branch/sales and production subsidiary</i>	Full control of operation. Eliminates the possibility that a national partner gets a 'free ride'. Market access (sales subsidiary). Acquire market knowledge directly (sales subsidiary). Reduce transport costs (production subsidiary). Elimination of duties (production subsidiary). Access to raw materials and labour (production subsidiary).	High initial capital investment required (subsidiary). Loss of flexibility. High risk (market, political and economic). Taxation problems.
<i>Region centres/transnational organization</i>	Achieves potential synergies on a regional/global scale. Regional/global scale efficiency. Leverage learning on a cross-national basis. Resources and people are flexible and can be put into operating units around the world.	Possible threats: – increasing bureaucracy. Limited national-level responsiveness and flexibility. A national manager can feel he or she has no influence. Missing communication between head office and region centres.
<i>Acquisition</i>	Rapid entry to new markets. Gaining quick access to: – distribution channels; – a qualified labour force; – existing management experience; – local knowledge; – contacts with local market and government; – established brand names/reputation.	Usually an expensive option. High risk (taking over companies that are regarded as part of a country's heritage can raise considerable national resentment if it seems that they are being taken over by foreign interests). Possible threats: – lack of integration with existing operation. Communication and coordination problems between acquired firm and acquirer.
<i>Greenfield investment</i>	Possible to build in an 'optimum' format, i.e. in a way that fits the interests of the firm (e.g. integrating production with home base production). Possible to integrate state-of-the-art technology (resulting in increased operational efficiency).	High investment cost. Slow entry of new markets (time-consuming process).

CASE  
STUDY  
12.1

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

Durex condoms will go on sale in Japan for the first time after SSL International, the manufacturer and distributor of healthcare products, announced it is to expand its operation in the country. SSL International was formed in June 1999 by the merger of Seton Scholl Health Care with LIG (London International Group). Durex is the most sold condom brand in the world, available in more than 140 countries, and with approximately 22 per cent of the global branded condom market. The Durex brand name was registered in 1929, with the name Durex derived from Durability, Reliability and Excellence.

Generally the SSL managers run a brand-oriented strategy: 'We want Durex to be the Coca-Cola of the condom world'. The move into Japan was made possible by the 1999 merger. Seton Scholl has its own presence in Japan, with marketing and distribution networks set up, whereas LIG did not. Through Seton Scholl Japan it already distributes Scholl products such as shoes and other footwear products throughout the country as well as surgical gloves, which are manufactured by the old LIG company.

SSL has terminated a long-term contract with Okamoto, the largest supplier of condoms in Japan, freeing it to vie for a share of the country's 200 million condom market. The Chief Executive, said, 'It now makes sense for us to take control of our own destiny in Japan.' SSL aims to have won 5 per cent of the market within five years, generating £10 million worth of new revenue. SSL has bought out its partner in Seton Scholl Japan, giving it full control. Iain

Carter again: 'We saw more prospect of generating value for shareholders by going it alone in Japan.' He added that Durex was already well known as an international brand in the country.

The Japanese market for condoms is said to be the world's largest, with annual turnover worth about £200 million. It is dominated by Okamoto (42 per cent market share) and other locally produced products. The Japanese market is as large because until June 1999 the contraceptive pill was banned and most people had to rely on condoms for birth control. Experts say that it will still take one or two generations before the pill is widely used in Japan.

One reason why it took 40 years for the contraceptive pill to be legalised in Japan was because of lobbying by condom-makers against its introduction. Japanese health officials said they were concerned that use of the pill, instead of condoms, would spread sexually transmitted diseases. It was even claimed, by other opponents, that the urine of women on the pill would pollute rivers and deform fish.

Source: adapted from: *Financial Times* (2000) 'SSL goes it alone in Japan with Durex', 3 February; *New Media Age* (1997) 'Condom brand goes global on web', 1 May.

### 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?

CASE  
STUDY  
12.2

## The Fred Hollows Foundation: A non-profit organization establishes lens production factories in Nepal and Eritrea

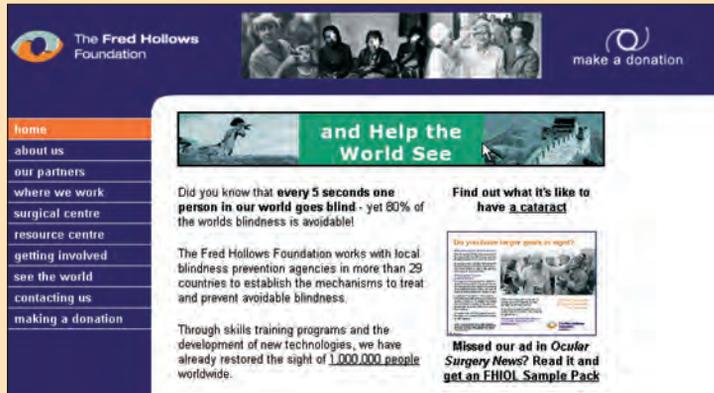
The Fred Hollows Foundation ([www.hollows.org](http://www.hollows.org)) is a non-profit and non-government organization that was established in Sydney, Australia in 1992. Its main aim is to raise funds to continue the work of Professor Fred Hollows in reducing the problems of cataract blindness in developing countries by

offering a relatively cheap and quick solution. Cataract blindness is a huge problem in developing countries but it can be treated or reversed with a relatively simple operation using an intraocular lens (IOL). Normally such an operation costs too much for people in developing countries, so, in 1994 The



Fred Hollows Foundation built IOL manufacturing facilities in Eritrea and Nepal. The IOLs produced by commercial manufacturers are more expensive than those produced by organizations like The Fred Hollows IOL Laboratories in these two countries. At the two factories IOLs are now produced for approximately \$5–6 and are sold for about \$10. IOLs produced in western Europe or North America are at least ten times as expensive and cost from \$150 upwards.

The Fred Hollows Foundation has equipped and trained over 750 doctors in more than 29 developing countries in Africa, Asia and the Pacific since it was established in 1992. Europe is now being considered as the next export market for the lens. However, in Europe there is most demand for soft lenses, as opposed to the hard lenses that The Fred Hollows Foundation produces.



Courtesy of The Fred Hollows Foundation.

### Questions

- 1 What could have been the motives for choosing Eritrea and Nepal as the countries for investment?
- 2 Is it a good idea to start exporting IOLs to Europe?
- 3 Which marketing initiatives would you recommend be implemented in order to raise funding for The Fred Hollows Foundation?

## VIDEO CASE STUDY

### 12.3

download from  
[www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)

## Starbucks

Starbucks Corporation ([www.starbucks.com](http://www.starbucks.com)) is named after the first mate in Herman Melville's *Moby Dick*. It was founded in 1971 in Seattle. The original name of the company was Starbucks Coffee, Tea and Spices, later changed to Starbucks Coffee Company. Starbucks sells more than coffee; it sells the Starbucks experience. Leveraging a strong brand, the company is expanding into new markets at home and abroad. The challenge is to grow while maintaining a consistent, high-quality customer experience.

### 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?

For further exercises and cases, see this book's website at [www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)



## Questions for discussion

- 1 By what criteria would you judge a particular foreign direct investment activity to have succeeded or failed?
- 2 What are a firm's major motives in deciding to establish manufacturing facilities in a foreign country?
- 3 Is the establishment of wholly-owned subsidiaries abroad an appropriate international market development mode for SMEs?
- 4 What is the idea behind appointing a 'lead country' in a region?
- 5 Why is acquisition often the preferred way to establish wholly-owned operations abroad? What are the limitations of acquisition as an entry method?
- 6 What are the key problems associated with profit repatriation from subsidiaries?

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