

Research Task


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Entry Strategy and Strategic Alliances

Use the globalEDGE website (globaleedge.msu.edu) to complete the following exercises:

Exercise 1

The *Entrepreneur* annually publishes a ranking of the top global franchises. Provide a list of the top 25 companies that pursue franchising as their preferred mode of international expansion. Study one of these companies in detail, and describe its business model, its international expansion pattern, desirable qualifications in possible franchisees, and the support and training the company typically provides.

Exercise 2

The U.S. Commercial Service prepares reports known as the *Country Commercial Guide* for countries of interest to U.S. investors. Utilize the *Country Commercial Guide* for Russia to gather information on this country's energy and mining industry. Considering that your company has plans to enter Russia in the foreseeable future, select the most appropriate entry method. Be sure to support your decision with the information collected.

CLOSING CASE

General Motors in China

The late 2000s were not kind to General Motors. Hurt by a deep recession in the United States and plunging vehicle sales, GM capped off the decade, where it had progressively lost market share to foreign rivals such as Toyota, by entering Chapter 11 bankruptcy. Between 1980, when it dominated the U.S. market, and 2009, when it entered bankruptcy protection, GM saw its U.S. market share slip from 44 percent to just 19 percent. The troubled company emerged from bankruptcy a few months later a smaller enterprise with fewer brands, and yet going forward some believe that the new GM could be a much more profitable enterprise. One major reason for this optimism was the success of its joint ventures in China.

GM entered China in 1997 with a \$1.6 billion investment to establish a joint venture with the state-owned Shanghai Automotive Industry Corporation (SAIC) to build Buick sedans. At the time the Chinese market was tiny (fewer than 400,000 cars were sold in 1996), but GM was attracted by the enormous potential in a country of more than 1 billion people that was experiencing rapid economic growth. GM forecast that by the late 2000s some 3 million cars a year might be sold in China. While it explicitly recognized that it had much to learn about the Chinese market, and would probably lose money for years to come, GM executives believed it was crucial to establish a beachhead and to team up with SAIC (one of

the early leaders in China's emerging automobile industry) before its global rivals did. The decision to enter a joint venture was not a hard one. Not only did GM lack knowledge and connections in China, but Chinese government regulations made it all but impossible for a foreign automaker to go it alone in the country.

While GM was not alone in investing in China—many of the world's major automobile companies entered into some kind of Chinese joint venture during this time period—it was among the largest investors. Only



A GM car at a Chinese auto show.



Volkswagen, whose management shared GM's view, made a similar-size investment. Other companies adopted a more cautious approach, investing smaller amounts and setting more limited goals.

By 2007 GM had expanded the range of its partnership with SAIC to include vehicles sold under the names of Chevrolet, Cadillac, and Wuling. The two companies had also established the Pan-Asian Technical Automotive center to design cars and components not just for China but also for other Asian markets. At this point it was already clear that both the Chinese market and the joint venture were exceeding GM's initial expectations. Not only was the venture profitable, but it was also selling more than 900,000 cars and light trucks in 2007, an 18 percent increase over 2006, placing it second only to Volkswagen in the market among foreign nameplates. Equally impressive, some 8 million cars and light trucks were sold in China in 2007, making China the second-largest car market in the world, ahead of Japan and behind the United States.

Much of the venture's success could be attributed to its strategy of designing vehicles explicitly for the Chinese market. For example, together with SAIC it produced a tiny minivan, the Wuling Sunshine. The van costs \$3,700, has a 0.8-liter engine, hits a top speed of 60 mph, and weighs less than 1000 kilograms—a far cry from the heavy SUVs GM was known for in the United States. For China, the vehicle was perfect, and some 460,000 were sold in 2007, making it the best seller in the light truck sector.

It is the future, however, that has people excited. In 2008 and 2009, while the U.S. and European automobile markets slumped, China's market registered strong growth. In 2009 some 13.8 million vehicles were sold in the country, surpassing the United States to become the

largest automobile market in the world. In 2012 the figure was 19.4 million. By 2012, GM and its local partners had a 15 percent share of the Chinese market, and its annual sales in China surpassed those in the United States. On the back of this strong growth, GM continues to make aggressive investments in China. In 2013 it announced that it would expand its Chinese dealer network to 5,100 from 3,800, and it plans to have 17 assembly plants in China by mid-decade, more than the 12 it has in the United States. Driving this expansion are forecasts from GM that demand in China will reach 35 million vehicles a year by 2022. Underlying these forecasts are the still relatively low vehicle penetration rates in China. In 2012 China had 85 vehicles per 1000 people, compared to around 800 vehicles for every 1,000 people in the United States.⁶²

Case Discussion Questions

1. GM entered the Chinese market at a time when demand was very limited. Why? What was the strategic rationale?
2. Why did GM enter through a joint venture with SAIC? What are the benefits of this approach? What are the potential risks here?
3. Why did GM not simply license its technology to SAIC? Why did it not export cars from the United States?
4. Why has the joint venture been so successful to date?
5. As of 2013 GM appears to be increasing its strategic commitments to China, building more factories and opening more dealers. Why is the company making these bets? Do you think it is doing the right thing? What are the potential risks here?

Endnotes

1. P. Marsh, "Partnerships Feel the Indian Heat," *Financial Times*, June 22, 2006, p. 11; P. Marsh, "JCB Targets Asia to Spread Production," *Financial Times*, March 16, 2005, p. 26; D. Jones, "Profits Jump at JCB," *Daily Post*, June 20, 2006, p. 21; R. Bentley, "Still Optimistic about Asia," *Asian Business Review*, October 1, 1999, p. 1; "JCB Launches India-Specific Heavy Duty Crane," *The Hindu*, October 18, 2008; P. M. Thomas, "JCB Hits Pay Dirt in India," *Forbes.com*, December 6, 2011; and J. Moulds, "JCB Unearths Record Sales and Profits," *The Guardian*, April 17, 2012.
2. For interesting empirical studies that deal with the issues of timing and resource commitments, see T. Isobe, S. Makino, and D. B. Montgomery, "Resource Commitment, Entry Timing, and Market Performance of Foreign Direct Investments in Emerging Economies," *Academy of Management Journal* 43, no. 3 (2000), pp. 468–84; and Y. Pan and P. S. K. Chi, "Financial Performance and Survival of Multinational Corporations in China," *Strategic*

Management Journal 20, no. 4 (1999), pp. 359–74. A complementary theoretical perspective on this issue can be found in V. Govindarajan and A. K. Gupta, *The Quest for Global Dominance* (San Francisco: Jossey-Bass, 2001). Also see F. Vermeulen and H. Barkema, "Pace, Rhythm and Scope: Process Dependence in Building a Profitable Multinational Corporation," *Strategic Management Journal* 23 (2002), pp. 637–54.

3. This can be reconceptualized as the resource base of the entrant, relative to indigenous competitors. For work that focuses on this issue, see W. C. Bogner, H. Thomas, and J. McGee, "A Longitudinal Study of the Competitive Positions and Entry Paths of European Firms in the U.S. Pharmaceutical Market," *Strategic Management Journal* 17 (1996), pp. 85–107; D. Collis, "A Resource-Based Analysis of Global Competition," *Strategic Management Journal* 12 (1991), pp. 49–68; and S. Tallman, "Strategic Management Models and Resource-Based Strategies