Question No.2 An Indian tractor manufacturing company would like to enter African market in collaboration with a local company. Describe any two method of international market entry suitable in this context. Also discuss their merits and limitations.

Solution: An Indian tractor manufacturing company which likes to enter African market in collaboration with a local company shall establish manufacturing facilities in the foreign country to sell the product there. This strategy requires direct foreign investment by the company. There are several market entry strategy available ranging from no addition investment to high additional investment. We are selecting following two market entry strategies where company need not to invest in production rather company need to invest in marketing arrangements:

1. Contract Manufacturing

2. Joint Venture

Contract Manufacturing

Under contract manufacturing market entry strategy, Indian company arranges to have its products manufactured by African company on a contractual basis. Indian company need to enter into contract with such local company in the African market to manufacture the product, while retaining the responsibility of marketing. The local manufacturer produces and supplies the product to such Indian company, while Indian company assumes responsibilities for sales, promotion, and distribution. In a way, the Indian company hires the production capacity of the local firm without establishing its own plant and thus circumvents barriers on import of its products. This strategy is practicable only when African producer have necessary manufacturing capacity and ability to maintain quality. The local producer undertakes manufacturing based on orders from the Indian company and the Indian company gives virtually no commitment beyond the placement of orders.

Typically, contract manufacturing is adopted with regard to countries with low market potential combined with high tariff protection. In such situation, local production appears advantageous to avoid the high tariffs, but the local market does not support the volume necessary to justify the building of a plant which exists in Africa. Usually, contract manufacturing is employed where the production technology involves is widely available and where the marketing effort is of crucial importance in the success of the product.

Contract manufacturing has the following advantages:

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- The Indian company does not have to commit resources for setting up production facilities abroad.
- It frees the Indian company from the risks of investing in Africa.
- If idle production capacity is readily available in the Africa, it enables the marketer to get started immediately.
- In many cases, the cost of the product obtained by contract manufacturing is lower than if it were manufactured by the Indian Company. If excess capacities are available with existing units, it may even be possible to get the product supplied on the marginal cost basis.
- Contract manufacturing is a less risky way to start with. If the business does not pick up sufficiently, dropping it is easy; but if the Indian company had established its own production facilities, the exit would be difficult.

The disadvantages of contract manufacturing are:

- The Indian company has to forego the manufacturing profit to the local
- It is always not easy to locate a local party with the necessary capabilities to manufacture the product upto the requirements of the Indian company.
- The local party gains experience in marketing, and in course of time may pose a threat to the Indian company.

On many occasions, local firms face difficulties in maintaining the quality of the product up to the standards required by the Indian firm.

Joint Venture vv

In the context of international business, an international joint venture is an enterprise formed by the international business company, i.e. Indian company, sharing ownership and control with a local company in the foreign country, i.e. African Local Company. International joint venture is another alternative market entry strategy we may consider to enter in African market

In countries where fully foreign owned firms are not allowed or favoured, joint venture is the alternative if the international marketer is interested in establishing an enterprise in the foreign market. Many foreign companies entered the communist, socialist and other developing countries by joint venturing. The essential feature of a joint venture market

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entry is that the ownership and management will be shared between Indian company and local firm. Under a joint venture arrangement, the local company invites an outside partner, i.e. Indian Company, to join as share owner in the new unit. The terms of participation may vary with companies accepting either a minority or majority stake. A joint ownership venture will be brought about by a Indian Company buying an interest in a local company acquiring an interest in an existing African company or by both the Indian and African entrepreneurs jointly forming a new enterprise.
It is also a common practice to split the local interest between a partner and various public participation (including public sector firms or industrial development organizations). Such a strategy may enable the Indian company to retain much control despite a minority holding as the power of the remaining shares is spread out. Further, equity holding by the public would help the enterprise get some public support.
Experience has shown that JVs are successful if the partners share the same goals with one of them accepting primary responsibility for operational matters.
Once a joint venture partner secures part of the operation, the Indian company can no longer function independently, which sometimes leads to inefficiencies and disputes over responsibility. If Indian Company has strictly defined operating procedures such as for budgeting, planning and marketing, it may become difficult to get a local company to agree to accept maximization of dividend payout instead of reinvestment, or when the capital of the Joint Venture has to be increased and one party is unable to raise the required funds, problems may arise in the relationship.

The advantages of joint venture are:

Joint ventures are, nowadays, quite popular because they offer the following important advantages to the foreign firm:

- Potentially greater returns from equity participation as opposed to royalties;
- Greater control over production and marketing;
- Better market feedback;
- More experience in international marketing,
- By bringing in a local partner, the company shares the risks involved in a new venture.
- Furthermore, the JV partner may possess skills and contacts that area of value to the international firm. Sometimes, the partner may be an important customer who is willing to

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underwrite a portion of the new unit's output in return for equity participation. In other cases, the partner may represent important local business interests with excellent contacts with the

- A firm with advanced product technology may also gain market access through the JV route by teaming up with companies that have wide distribution network locally.

The disadvantages of joint venture are:

- A joint venture may go through several points of crisis, caused by the realization on the part of either (sometimes both) of the partners that its expectations are not being fulfilled and, perhaps, even being negated. Chances of such flash points are more with the flattening. out.of *the* gain curve on any of the parameters that govern either partner's decision to be involved in Joint Venture. For, *at* this point, the gains of one of the part become disproportionate to those of the *other,* leading *the* former to re-examine the rationality of retaining the relationship. Such flash points, however, need not necessarily result in the termination of the joint venture. In fact they may be managed so that there will be more equitable gains from the joint venture.

- Joint ventures involve greater risk.

- They also involve greater investment of a capital and management resources.

- *On* the other hand, there is a possibility of conflict of interest in joint venture, with the national partner.

A joint venture can succeed only if both the partners have something definite to offer to the advantage of the other, and reap definite advantages, and have mutual trust and respect.

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