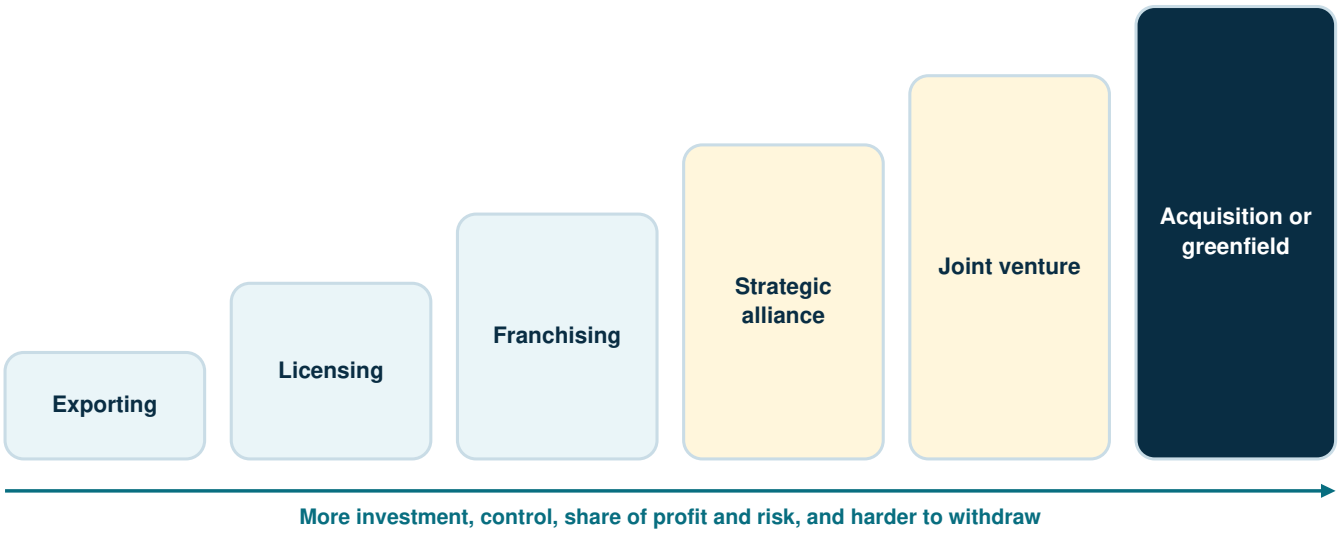
Modes of entry and acquisitions

MODULE 4 | 4.6.2 | STUDENT COMPANION

Which entry mode to use depends on **how attractive the market is**, **how much the organisation wants to invest** (limited sales activity, or local assets, skills and production) and **how much ownership and control it needs**.

Modes of entry, from least to most commitment



Five ways to export

Exporting is often triggered by an unexpected overseas order or by seeing rivals export. It can lift revenue and margins, but adds transport, distribution and service costs.

Approach	Advantages	Drawbacks
Agent or trading company (indirect)	Little effort or extra resources	Growth depends on a third party; customer feedback is second-hand
Export management organisation	Established networks; economies of scale	Must guarantee supply continuity
Direct: own sales representatives or international retail chains	More control; can be 'born global'	Needs supply continuity and careful pricing across channels
Direct online	Quick and cheap to set up	Being found, affordable delivery and returns

Approach	Advantages	Drawbacks
Online marketplaces	Easy; the operator brings scale and search	Competing with sellers worldwide; returns

The export transaction chain



Typical mistakes: underestimating customs, an unreliable agent, ignoring local standards, untranslated warranty information

Licensing and franchising compared

Franchises that saturate their home market often go abroad, directly or through a master franchisee for a whole territory; Australian franchises often start with New Zealand.

	Licensing	Franchising
What is licensed	IP such as patents, designs, processes, trademarks or copyright	The whole business system: brand, product, layout, equipment and methods
Relationship	Rights for a territory and period; exclusive or non-exclusive	Ongoing support: training, marketing and advice
Payments	Upfront fee for technology transfer plus royalties	Upfront fee, ongoing fees, and usually central purchasing
Risks	Learns little about the market; technology leakage	Reputation rides on franchisees; quality control at a distance

Case note: Krispy Kreme in Australia

Krispy Kreme Doughnuts entered Australia in 2003 through a local franchisee part-owned by the US parent, opening its first store in Penrith, in Sydney's west, in June 2003 to long queues; the chain grew to about 59 outlets, many of them large stores where customers could watch doughnuts being made. As the novelty faded, sales per store fell and the big-store format proved expensive. In late 2010 the Australian franchise business entered voluntary administration, emerging in December after closing 24 of its 59 stores. The US parent bought the Australian business in 2018. Franchising spreads a brand fast, but the franchisor's reputation rides on the franchisee's judgement.

Sources: ASIC administration records; Krispy Kreme announcements; Australian business press, 2003-2018.

Strategic alliances and joint ventures

	Strategic alliance	Joint venture
What it is	A formal agreement to share or combine selected resources; partners stay independent	Partners create a new organisation they own and control together
Why	Market access, critical skills, shared cost and risk, economies of scale	Share entry costs and risks with a local partner who knows the market, culture and systems; sometimes required by governments
Watch out	Complexity; knowledge leaking to a future competitor; about half of cross-border alliances end within about seven years	Unclear objectives, unequal contributions, clashing cultures, weak early leadership

- **A joint venture agreement should cover:** what each partner contributes; objectives and deadlines; performance measures; what happens if expectations aren't met; and how the venture ends.

Greenfield or acquisition?

Full ownership makes sense when it's allowed, when the organisation holds vital assets it won't share, when the market is big and growing, and when it has the capital and appetite for risk.

	Greenfield	Acquisition
Advantages	Fresh start: new people, latest technology, no customer preconceptions	Faster; existing systems, people and local knowledge
Drawbacks	Slow to build; large investment; little local knowledge	Finding a good business for sale; blending cultures and systems; may inherit dated assets

Horizontal and vertical integration

	Horizontal	Vertical
Meaning	Buy or merge with a competitor	Move along the value chain: backward to suppliers, forward to distribution or customers
Benefits	Fast growth; less competition (regulators may object)	Control of supply, quality and costs
Risks	Competition law; integration	Different capabilities at each stage; more volatility; lazy internal suppliers; locked into old technology or channels

Five sources of value in mergers and acquisitions (Lasserre)

A deal creates value only if the combined business is worth more than the parts. Short-term, one-off value (tax, asset sales, quick savings) matters less than lasting competitive advantage.

Source	Imagined example
Consolidation	Two regional cement makers merge to cut overlapping costs
Global reach	An Australian software firm buys a Canadian rival to enter North America
Vertical integration	A winery buys the bottling plant it relies on
Diversification	A building products company buys a solar installer
Options	A bank buys a small fintech to learn a new technology

Does the deal create value?

Buyer's value on its own	$800m
Target's value on its own	$200m
Value of the two separately	$1,000m
Value of the combined business	$1,150m
Synergy created	**$150m**
Premium paid above the target's value	$250m
Gain or loss to the buyer's shareholders	**-$100m**

A deal creates value for the buyer only if synergies exceed the premium it pays

Case note: eBay and Skype

In 2005 eBay paid about US$2.6 billion for the internet calling service Skype, expecting buyers and sellers to talk to each other through it. They mostly didn't. Two years later eBay wrote down the value of Skype by about US$1.4 billion, and in 2009 it sold a majority stake to a group of investors. In 2011 Microsoft bought Skype for US$8.5 billion: Skype had real value, just not the synergies eBay had paid for.

Sources: eBay and Microsoft announcements and annual reports, 2005-2011.

- **What successful acquirers do:** stay focused on the strategic motive; check that cultures are compatible; plan for the change in size; examine every stakeholder's view; estimate the full cost; accept and manage uncertainty; and decide carefully how fast to integrate each part.

Practice questions

MODULE 4 | 4.6.2 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Choose an entry mode

Imagined organisation	Recommended mode and why
(a) A Tasmanian craft gin distillery with $300,000 to spend, wanting to test the Japanese market	
(b) A Sydney software firm with a patented scheduling engine and little capital, targeting Germany	
(c) A Gold Coast fitness franchise with 80 studios in Australia, wanting to enter Indonesia	

Question 2 - Joint venture terms

Mallee Solar Pumps (imagined) plans a joint venture with a Vietnamese irrigation company: Mallee supplies pump technology and training; the partner supplies its farm customers, distribution and local approvals. List the key terms their agreement should cover, with a short note on each.

Question 3 - Did the acquisition create value?

Calculate the gain or loss to Harbour Foods' shareholders as expected and as achieved, and suggest two reasons the synergies may have fallen short.

Item	Imagined: Harbour Foods buys Coastal Snacks
Harbour Foods' value on its own	$600 million
Coastal Snacks' value on its own	$150 million
Price paid for Coastal Snacks	$210 million
Synergies expected at the time	$90 million
Synergies actually achieved	$40 million

Worked answers

MODULE 4 | 4.6.2 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Entry modes

Organisation	Answer
(a) Gin distillery	Exporting through a specialist importer or distributor: low cost, quick, tests demand with little risk
(b) Software firm	Licensing (or an alliance) with a German software company: earns royalties without capital; protect the patent and limit leakage
(c) Fitness franchise	Master franchise with a well-connected local partner (or a joint venture): fast growth using local knowledge; strong quality controls

Question 2 - Joint venture terms

Term	Note
Contributions	Technology, training, customers, distribution and approvals, valued and timed
Objectives and deadlines	Sales, market share and milestones, and by when
Governance	Board seats, decision rights, dispute resolution
Performance measures	How results are measured and reported
Intellectual property	Who owns the pump technology and any improvements
Profit sharing and funding	Shares of profits, losses and future capital
Exit and termination	Triggers, buy-out terms, what happens to customers and IP

Question 3 - Harbour Foods

	Expected	Achieved
Premium paid ($210m - $150m)	$60m	$60m
Synergies	$90m	$40m
Gain or loss to shareholders	+$30m	-$20m

Possible reasons: cultures or systems were hard to combine; customers or key staff were lost; savings were overestimated in the rush to win the deal.