Market Penetration and Acquisition Strategies for Emerging Economies

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Multinational enterprises (MNEs) are expanding their global reach, carrying their products and brands to new and diverse markets in emerging economies. As they tailor their strategies to the local context, they have to create product and brand portfolios that match their competences with local needs. A multi-tier strategy with local and/or global brands may provide MNEs with the widest reach into the market and the potential for market leadership. However, it has to be supported with an appropriate combination of global and local resources. Foreign entrants therefore have to develop operational capabilities for the specific context, which requires complementary resources that are typically controlled by local firms. As institutional obstacles and weaknesses of local firms often inhibit the direct acquisitions, foreign investors may pursue unconventional strategies to acquire local resources.

We outline the strategies for penetrating local markets through multi-tier branding and the acquisition of local firms, and offer new typologies that describe staged, multiple, indirect, or brownfield acquisitions. We illustrate them by analysing the entry and growth of Carlsberg Breweries in four very different emerging economies: Poland, Lithuania, Vietnam and China.

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Introduction

Globalisation brings multinational enterprises (MNEs), their products and their brands into ever more remote corners of the world. The large number of potential customers in emerging economies raises expectations of unprecedented demand for consumer goods, if only the right products could be delivered in the right places. Yet MNEs encounter business environments in emerging economies different from those with which they are familiar as well as varying greatly from each other.

The main attraction of emerging economies is their high economic growth and the corresponding expectation of rapidly increasing demand for consumer goods. Thus, as C.K. Prahalad argues, there is money to be made “at the bottom of the pyramid”. The sheer number of people, even if they are on low incomes, makes the less developed parts of the world attractive to business. However these markets pose unique challenges because of their less sophisticated institutional environment and the weak resources of local firms. Businesses may have to develop different strategies and new business models to serve the few wealthy customers in these areas as well as the mass market.

The appropriate positioning of the product portfolio is crucial to success in emerging economies. As Dawar and Chattopadhay outline, emerging economies comprise very diverse customers that may have to be targeted with different products, brands and even business models. Consequently, potential entrants face trade-offs between developing a global brand for the premium segment, where substantive margins can be earned, and developing products with large-scale and cost-efficient production for the mass markets and earning profits through volume. International marketing scholars debate the trade-offs of global standardisation and local adaptation in emerging economies.

In addition to global or local brand strategies, many MNEs combine them in a multi-tier strategy to reach both the mass market and the premium segment. We argue that this strategy may be particularly suitable for emerging economies where the large distance between the premium and mass markets is typically big. However, the appropriate strategy depends on the nature of the investor’s resources.

Market penetration starts with the entry strategy, which has to provide access to local resources, such as distribution networks as well as local businesses and authorities. In emerging economies, investors have to think beyond the conventional entry modes of greenfield, acquisition and joint venture (JV). We introduce and illustrate a more differentiated typology of acquisition strategies that provides better support for managerial decisions. In particular, we distinguish between entry modes suitable for foothold strategies, and aggressive ones aimed at market leadership. The creative designing of entry modes, rather than choosing between textbook models, allows MNEs to achieve their objectives.

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We develop suggestions on how to manage entry in emerging economies by drawing from two research projects on FDI in emerging economies, which are based on local research and interviews at corporate headquarters (see Appendix). We illustrate the diversity of entry and growth strategies to different local contexts by comparing the strategies of one multinational enterprise, Carlsberg Breweries, over the past decade in four emerging economies. The longitudinal and comparative case provides a powerful illustration of the issues and the dynamics of strategy evolution that may be overlooked in conventional, large dataset analysis.

The brewing industry provides an interesting case because it has gone through a rapid concentration over the past decade. Even in concentrated markets, local and international brands continue to coexist. The parallel development of multiple brands and the structural changes in the industry reflect trends seen in many other food and beverage industries.

We focus on four countries that reflect the diversity of Carlsberg’s experiences. Carlsberg entered Poland with a partial acquisition in 1996, and has built a strong position using staged, multiple and indirect acquisitions. In Lithuania, Carlsberg took over a local brewery in 1999 and acquired further local brands in a global merger in 2001, thus developing a dominant market position. In Vietnam,
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