

WHAT'S YOUR GAME?



PROS

CONS

EXPORTING

- RELATIVELY LOW FINANCIAL EXPOSURE
- PERMIT GRADUAL MARKET ENTRY
- ACQUIRE KNOWLEDGE ABOUT LOCAL MARKET
- AVOID RESTRICTIONS ON FOREIGN INVESTMENT

Selling products made in one's own country for use or resale in other countries.

- VULNERABILITY TO TARIFFS AND NONTARIFF BARRIERS
- LOGISTICAL COMPLEXITIES
- POTENTIAL CONFLICTS WITH DISTRIBUTORS

LICENSING

- LOW FINANCIAL RISKS
- LOW-COST WAY TO ASSESS MARKET POTENTIAL
- AVOID TARIFFS, NON-TARIFF BARRIERS, RESTRICTIONS ON FOREIGN INVESTMENT
- LICENSEE PROVIDES KNOWLEDGE OF LOCAL MARKETS

Transaction in which a firm (the licensor) sells the rights to use its intellectual property to another firm (the licensee) for a fee.

- LIMITED MARKET OPPORTUNITIES AND PROFITS
- DEPENDENCE ON LICENSEE
- POTENTIAL CONFLICTS WITH LICENSEE
- POSSIBILITY OF CREATING FUTURE COMPETITOR

FRANCHISING

- LOW FINANCIAL RISKS
- LOW-COST WAY TO ASSESS MARKET POTENTIAL
- AVOID TARIFFS
- MAINTAIN MORE CONTROL THAN WITH LICENSING
- FRANCHISEE PROVIDES KNOWLEDGE OF LOCAL MARKET

Independent entrepreneur or organization that operates a business under the name of another.

- LIMITS MARKET OPPORTUNITIES AND PROFITS
- DEPENDENCE ON FRANCHISEE
- POTENTIAL CONFLICTS WITH FRANCHISEE
- MAY BE CREATING FUTURE COMPETITOR

CONTRACT MANUFACTURING

- LOW FINANCIAL RISKS
- MINIMIZE RESOURCES DEVOTED TO MANUFACTURING
- FOCUS FIRM'S RESOURCES ON OTHER ELEMENTS OF THE VALUE CHAIN

Outsourcing manufacturing to other firms to reduce the amount of a firm's financial and human resources needed.

- REDUCED CONTROL (MAY AFFECT QUALITY, DELIVERY SCHEDULES, ETC.)
- REDUCED LEARNING POTENTIAL
- POTENTIAL PUBLIC RELATIONS PROBLEMS—MAY NEED TO MONITOR WORKING CONDITIONS, ETC.

MANAGEMENT CONTRACTS

- FOCUS FIRM'S RESOURCES ON ITS AREA OF EXPERTISE
- MINIMAL FINANCIAL EXPOSURE

Agreement whereby one firm provides managerial assistance, technical expertise, or specialized services to a second firm for a fee.

- POTENTIAL RETURNS LIMITED BY CONTRACT
- MAY UNINTENTIONALLY TRANSFER PROPRIETARY KNOWLEDGE AND TECHNIQUES TO CONTRACTEE

TURNKEY PROJECTS

- FOCUS FIRM'S RESOURCES ON ITS AREA OF EXPERTISE
- AVOID ALL LONG-TERM OPERATIONAL RISKS

Contract under which a firm agrees to fully design, construct, and equip a facility and then turn the project over when ready.

- FINANCIAL RISKS (COST OVERRUNS, ETC.)
- CONSTRUCTION RISKS (DELAYS, PROBLEMS WITH SUPPLIERS, ETC.)

FDI

- HIGH PROFIT POTENTIAL
- MAINTAIN CONTROL OVER OPERATIONS
- ACQUIRE KNOWLEDGE OF LOCAL MARKET
- AVOID TARIFFS AND NONTARIFF BARRIERS

Investments made for the purpose of actively controlling property, assets, or companies located in a host country.

- HIGH FINANCIAL AND MANAGERIAL INVESTMENTS
- HIGHER EXPOSURE TO POLITICAL RISK
- VULNERABILITY TO RESTRICTIONS ON FOREIGN INVESTMENT
- GREATER MANAGERIAL COMPLEXITY

