

# Royal dutch shell company entry modes assignment



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Explain how and why Royal Dutch Shell multinational company has established its current international presence

**Introduction** The Royal Dutch Shell multinational company is the major international producer of oil, natural gas and petrochemicals. The company started exploring their operations in China a century ago. With the implementation of the policy of reform and opening to the outside world in China, the Royal Dutch Shell has sets up two joint ventures oil depots in Shenzhen, China in 1985 and 1987, respectively. After that, the company became more active investing in the Chinese market.

It is very hard for a company to enter a market; hence the selection of suitable entry modes is regarded as extremely important. This assignment will identify the reasons for choosing China as a target market and analyze the methods of Royal Dutch Shell has applied in entering the Chinese market.

**Main Body** This part will explain how and why Royal Dutch Shell multinational company has established its current international presence in the aspect of entry modes. The following contents are divided into two parts, first is to consider which markets to enter and the second one is to define the s entry modes Royal Dutch Shell used in China.

**Choose a target market to enter** Many factors have contributed to Royal Dutch Shell's presence in China. The following part will analyze why China is a desirable foreign market to enter in three aspects.

1, Market environmental factors China's economy has developed rapidly during the past three decades and still shows an upward trend. According to the statistics provided by National Bureau of Statistics of China, China's GDP has improved more than 10% annually five years in a row, and even during the period of

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September, 2008 to October, 2010, when the Global Financial Crisis has swept worldwide, China's GDP has improved 9. % and 10. 1%, respectively. Consequently, the purchasing power of China grows dramatically. (China's purchasing power is No. 2, reported by the World Bank) However, different from other industrialized countries which have adopted market economy decades ago, China's market is comparatively immature; as a matter of fact the mixture of Socialist Planning or Market Socialism is the main feature of China's economy. Therefore, the competition in the Chinese market is not as fierce as western countries.

First-movers in China have numbers of advantages over their rivals, preempt rivals and capture demand, build sales volume, create switching costs, just to name a few. China is a huge market both in terms of population (approximately 1. 3 billion) and GDP (33535. 3 billion RMB in 2009, and predicted 368000 billion RMB in 2010) and the Chinese market still has potential, most of the industries are unsaturated, especially the energy industry, high-tech industry and tourism. All in all, the Chinese market offers great business opportunities as a result of its rapid economic growth and huge market.

Hence, the multinational companies are trying hard to occupy the Chinese market and enlarge their market shares in China as well. 2, Policy factors Thanks to the implementation of the policy of reform and opening to the outside world, China's export and import trade has experienced an astonishing increasement. In 2008 alone, China's import value has reached 1133. 08 billion US dollars. As Petrochemical industry goes, China's import value is USD 294. 83 in 2008, increasing by 35. 2%, compared with 2007. <https://assignbuster.com/royal-dutch-shell-company-entry-modes-assignment/>

Behind this enormous figure, Chinese government's efforts in promoting the development of global trade can not be reckoned with.

For instance, Chinese government has authorized foreign capital wholesale right and management right in crude oil and finished oil transactions in the first of January 2007, as fulfilling its promise when China tried to enter WTO in 2001. This may explain why the Royal Dutch Shell has cooperated with China's three magnates in Petrochemical industry (China National Petroleum Corporation, China National Offshore Oil Corporation and the China Petrochemical Corporation) and made such a huge success in China. In the past 20 years, China has already issued several laws and regulations to encourage the investors to invest in China.

All of these policies build a attractive and steady investment environment for the overseas investors. Besides, a stabilized economy is a determining factor in stabilizing the political situation. And it is widely accepted that China is one of the most politically stable countries in the world. Thereby, it reduced the investment risk and uncertainty if a multinational company doing equity investment in China. 3, Structural changes of investment The Structural changes of investment change a lot until now. First, at the very beginning the most investors are the small companies come from Hong Kong and Taiwan.

But now, the investors turn into the world-renowned multinational companies from Europe and U. S. Second, the objective for the small companies is imposing the cheap labor of China. But now, the big multinational companies want to explore and occupy the Chinese market. Their businesses are more

concentrate on the high-technology and high value-added activities. What is more, the multinational companies focus on the global industry to seek their global strategic target and maximize the overall profits of the company.

Therefore, they always choose an entry mode which is with a high degree of control.

Choose the entry modes to enter the target market There are four main entry modes among multinational companies which are exporting, Contractual agreement, joints ventures and wholly owned subsidiaries. The resources into, risk, control and flexibility are different in these four entry modes. In general, wholly owned subsidiaries cost more resources, high risk and low flexibility. If a multinational company chooses Exporting and Contractual agreement entry modes, it will use less resources, low risk and great flexibility.

This assignment will recommend the main entry modes used by the Royal Dutch Shell in order to enter into the Chinese market. 1, Exporting There are two kinds of exporting entry mode for a company, one is the indirect exporting and the other one is direct exporting. It is very obviously that the Royal Dutch Shell chooses the direct exporting entry mode at the beginning. The company builds two energy transport ships in 1964 and exports large numbers of energy into China. First, the labour costs in China are really low. Hence the company will gain more comparative advantages than other oil company.

Second, it can help the Royal Dutch Shell achieve the position advantages.

Third, it is a really good way for the company obtains the exporting

experiences. While, there are some risks to this entry mode. First, the tariff and non-tariff barriers may cause the exporting products lose their competitive edge from the local products. Second, there would be a high transportation costs. Third, it will spend lots of time to reach the target company. In a word, the company finds out using exporting entry mode may not a suitable way for their specific products.

Hence, the Royal Dutch Shell has abandoned the exporting method later and use the following entry modes are more frequently used by the company. 2, Licensing Licensing is totally different from the exporting entry mode. This entry mode is exporting the intangible assets such as technology and skills. Hence, it can avoid the trade barriers and overcome the loss of competitive edge because of the high transportation fees. Moreover, the company can use the beneficial benefits overseas to exert the effectiveness of the technology.

The Royal Dutch Shell recognized these benefits; they began to research the coal gasification technology 25 years ago. The current third-generation coal gasification technology of the company ensures cleaner use of coal. This impact on the environment equals to the natural gas. The Royal Dutch Shell sets up a joint venture factory with China petrochemical group in Hunan Province of China. This factory using the Royal Dutch Shell's coal gasification technology to construct and operate and it can product 2, 000 tons per day.

Furthermore, the Royal Dutch Shell also transfers the coal gasification technology to other ten factories in China. What is more, the Royal Dutch Shell announced three new clean coal technology licenses in China in the 20

November 2008. These examples are typical licensing entry modes for the company to enter the Chinese market. 3, Joint ventures There is the “ risk of licensing” happened if a company use the licensing entry mode. Hence, more company will choose the joint ventures to stop the “ risk of licensing” and protect their specific advantages.

The Royal Dutch Shell subscribes a joint venture contract with China Petroleum & Chemical Corporation in May 2010. They will establish a refined oil retailing joint venture in Jiang Su Province of China. It will enlarge to 500 gas stations in three years. In this joint venture company, the China Petroleum & Chemical Corporation holds 60% of shares; the left 40% shares’ holder is the Royal Dutch Shell. The total investment amount of this item is about \$ 200, 000, 000. In the contract, the Chinese company will have a greater control over this joint venture company.

However, it is still a suitable entry mode for the Royal Dutch Shell, because after established a joint venture with a Chinese company; the Royal Dutch Shell can participate in China’s economic activities on a wider scope and in a deeper extent. It becomes a foundation for the company to explore the Chinese market. Moreover, the transfer of knowledge costs can enhance the opportunities to explore a company’s competitive advantages. At the same time, the Royal Dutch Shell will reduce the transportation costs and tariffs which will lead to the production costs reduction eventually.

In other words, it will improve the product adaptability of the local market. 4, Acquisition The Royal Dutch Shell bought 100% shares of the International Investment Holdings Limited, Cheung Ka in September 22nd, 2007. The new

copartnership is called Shell Petrochemical Co. , Ltd. Unity. The Royal Dutch Shell's desire to expand its production scale is one reason for the company to do the acquisition. These two companies product the same products in the same market, hence the acquisition can expand production scale and market shares as well.

After this acquisition, the Royal Dutch Shell becoming the top one international energy company in the China's lubricants market. What's more, the Royal Dutch Shell's China's lubricants market share ranked third by the acquisition. At the same time, the Royal Dutch Shell's global lubricants production increased by 8% and the lubricant products in the global lubricants market share accounted for 16% in 2008. From the data, it is obviously that this is a highly desirable entry mode for the company. 5,

#### Strategic Alliance

The China National Offshore Oil Corp Signed a strategic alliance agreement with the Royal Dutch Shell in November 13rd, 2000. The agreement identified a cooperation chance for these two companies in oil and gas exploration, natural gas marketing and sales areas. To be a Strategic Alliance, the companies need to share responsibility, coordinated and cooperation of various activities. Hence, this entry mode blurred the boundaries of the company. It makes two companies concerned the same action in order to achieve the same objectives of the Strategic Alliance.

However, Strategic Alliance will bring both benefits and drawbacks to the Royal Dutch Shell. First, it can improve the competitive power of the Royal Dutch Shell. Second, these two companies will share the risks and costs



together. In other words, the Royal Dutch Shell can avoid the duplication and waste of resources. The last one but the most important one is that the Royal Dutch Shell can obtain the low-cost complementary resources when the company entry the Chinese market. On the other hand, if the strategic alliance cannot make more value than other similar transactions, the strategic alliance regarded failed.

Therefore, a company needs to consider carefully if this strategic alliance agreement is suitable for their company. The company also can check the union regularly in order to confirm the strategic and the effectiveness of the strategic alliance. So far, it is an advisable entry mode for the Royal Dutch Shell to sign the strategic alliance agreement with the China National Offshore Oil Corp. Conclusion With the implementation of China's economic reform and opening-up, China has becoming the most attractive region to the multinational companies.

The total amounts of overseas direct investment in China grow rapidly and becoming the world's largest direct investment market consequently. Except the Market environmental factors, there are Policy factors and Structural changes of investment factors affect the Royal Dutch Shell to chooses China as their target market. In order to entry this substantial market, the Royal Dutch Shell choose several entry modes, basically including direct exporting, licensing, joint ventures, Acquisition and Strategic Alliance modes.

Different entry modes have their own advantages and disadvantages. The Royal Dutch Shell has witnessed the changes which have taken place in China, economically as well as politically. Generally speaking, The Royal

Dutch Shell has adapted to these changes pretty well handled the proportion of each entry modes successfully so far. This would be extremely crucial for the company to explore the Chinese market. References John D and Lee H. , (1995) International Business Environment and operation, 7nd edition, Addison-Wesley Publishing Company

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