Case study foreign direct investment marketing essay

There are several theories that seek to explain why FDI takes place. These theories try to explain why firms go to the trouble of acquiring or establishing operations aboard. Such theories include Dunning Eclectic Paradigm, Vernon Life Cycle and Knickerbocker Model to name a few. Your report should illustrate use of such theories to evaluate the rationale for foreign direct investment for a leading player in your chosen industry.

Foreign direct investment is also known as internationalization, and is where a company establishes a presence abroad and invests in land, labour, capital, technology, equipment, and such as. Foreign direct investment then enables a company to become a multinational enterprise. For example; Adidas, Siemens, Nokia, Shell. In a perfectly competitive economy, there would be no foreign direct investment. It is also important to take in to consideration how a foreign company can participate in a market that it is unfamiliar with, and it will already be at a disadvantage to local businesses.

Stephen Hymer said:

“ for firms to own and control foreign value-adding activities they must possess some kind of innovatory, cost, financial or marketing advantages – specific to their ownership – which is sufficient to outweigh the disadvantages they face in competing with indigenous firms in the country of production”

There are many advantages of foreign direct investment. These include the opportunity for cheaper labour, or cheaper production facilities; new markets and therefore a new target market; access to new technology. It also gives smaller companies an easier route in to the international market. In recent years it has become much easier to run companies abroad due to lower international communication costs, the internet, and the ever growing low cost airlines.

A large percentage of foreign direct investment is due to mergers and acquisitions, and can often be in the form of machinery, buildings, and equipment. In general, larger companies play a major role in investing in small companies. However, this does not usually entail the larger company buying out the smaller company as there is too big of a risk of failing. The risk of a manufacturer making an investment is the possibility of selling only a small number of the product. Because foreign direct investment has become so popular and so successful, it can sometimes be hard to identify the nationality of a product. A survey was taken on car in the United States, and it emerged that only 37% of the parts of US cars were actually American.

The Dunning Eclectic Partigan basically says that if a company wants to enter a foreign market from a local base, then it must have “ firm specific advantages” or be able to acquire these at a very low cost. This includes human capital, patents, new technology etc. Despite this, it must be more beneficial for a company to use these than it would be for them to sell them to a different company or even to license them.

Samsung electronics is the largest manufacturer in Korea. Korea is an ideal country for foreign direct investment and for a manufacturing plant because the country is poor in raw materials but rich in highly skilled people. Samsung joined the electronics industry as it had the capacity for high income elasticity, it would produce lots of jobs, and there was the opportunity for a very high return. The Samsung group counts for 20% of South Korea's exports. It was only in the 90's, almost 50 years into business, that Samsung became an international enterprise and not only secured a number of businesses abroad but also became the market leader for some electronic components.

AT the end of the 1980's Samsung were merely copying other American and Japanese brands, especially where mobile phones were concerned. Today, almost all of the products that Samsung make are their own. Now, not only are Samsung the market leader for mobile phones, but also for flat screen televisions and computers, and memory chips. In 1982, Samsung joined the United States and Japan in making memory chips, and by 1992, merely ten years later, Samsung was not only the number one producer, but also the second largest supplier in the world. In 1989, Samsung entered the LCD market. Until this time Japanese producers dominated 90% of the world market, but by 1996 Samsung had once again become the market leader, and this was to be the case until 2002. Samsung say that their success was due to three points; research and development, organization, and production.

Research and development: Samsung have always kept a very close eye on their competitors, and have always kept a close working relationship between their producers and their technological developers. If an idea comes to a dead end, then the idea is kept for future reference and is therefore already ready to be incorporated in to new products.

Organization: Samsung say that they try to keep to their deadlines and allow their staff, that is, their producers and developers, to move from group to group. Enabling this interaction means that there is in general a better understanding of the product and opens up opportunities for further product developments and improvements.

Production

The research and development and the organization lead to quick but good quality production. Samsung require new and complicated production lines on a regular basis and organization and research and development are key.

Raymond Vernon said that there are four stages; introduction, growth, maturity and decline. And where the product is produced depends on the stage that it is at. If the product is in its introduction stage then it will be produced locally and then in time exported to countries with similar needs, similar expectations, and similar incomes. In the growth stage, the company will usually move to a foreign country (foreign direct investment perhaps), due to lower production costs, cheaper labour. It is also in the growth stage that other producers will begin to make similar products and these will be sold in the local market to create both growth of the product and demand. Samsung began in 1938 in Daegu with a mere 40 employees. During the growth stage, Samsung did not have to move to a foreign country. As I mentioned before, South Korea was, and is, the perfect country to produce electrical products in. In the 1980's Samsung became Samsung Electronics Co, and by 1990 Samsung had business in Malaysia, Taiwan and United Arab Emirates. The third stage is the " maturity" stage. This is when the company who can produce the goods for the lowest cost, wins, effectively. Stage for is the decline. This is when a product is no longer needed, or has been replaced, or the only places that demand the product are less economically developed countries. The President of Samsung Electronics Co said " we move on, if other companies catch up".

In 2004 Samsung joined forces with Sony for the production of liquid crystal for flat screen televisions. There are many advantages to this; increase in world market share, reduce costs due to an increase in production and sales, and reduced risk.

Samsung say that their success is due to the fact that they develop products for niche markets with fatter margins. They have a simple approach to business – organization, research and development, and keeping production costs low.

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