

Testing the international relationship marketing model in the Search, selection and management of international licensing Partners: the case of the chemical products for the road Repair Industry

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Abstract

Purpose of the paper and literature addressed – This paper is part of a longitudinal research project. Two issues are discussed relevant to companies using relationship marketing applied to licensing strategies: the process of selection of suitable partners; and the management of the relationship with these partners once it has been established. The effectiveness of the IRM model is tested in its ability to initiate, develop and maintain these collaborative arrangements in an international context.

The discussion takes into consideration the constraints to the applicability of relationship marketing in that context, and aims at recommending a diagnostic tool to measure prospective franchisees and licensees against in order to select them as business partners. The literature addressed includes that on entry modes and relationship marketing in an international context.

Research method – The paper uses a case study approach to investigate the issues identified. The firm that will provide the case study is a UK SME specializing in the development of chemical products. The company has used licensing as its primary strategy for international expansion. The research project is part of a partly government funded research program.

Research findings – In applying relationship marketing techniques in new remote and culturally distant markets, these techniques need to be adapted to the local culture. In deploying a licensing strategy, building a successful relationship requires the selection of the “right” licensees. We propose a diagnostic tool which we call Licensee Evaluation Scorecard (LES) which has this very function.

Main contribution – The contribution of the research is to refine the current criteria used by companies, and recommended by literature, to select prospective parties to licensing and franchising agreements; and further refine the thinking on how relevant the relationship marketing context is to the creation and later management of these relationships.

Keywords: International relationship marketing; entry strategies; licensing; collaborative arrangements

Introduction

There is currently scant research on *International Relationship Marketing* (IRM). There is also a dearth of research into the application of the relationship marketing framework in the management of relationships such as licensing and franchising agreements. IRM is a term used to describe instances where relationship marketing is implemented in an international, even global context (Palmer, 1997; Conway and Swift, 2000). International businesses have been increasingly adopting collaborative entry strategies, such as licensing and franchising (Townsend, 2003) over the years.

Two issues companies using these methods face are the process of selecting suitable partners to franchise or license their business to; and the monitoring and management of the relationship with these partners once it has been established. In fact, the success of the case study company depends largely on their ability to select the most suitable partners to its business in the selected markets; and to effectively manage them in order to maximise their performance. This paper is concerned with the former. The effectiveness of the IRM model is investigated to determine its ability to initiate, develop and maintain standardized collaborative agreements such as licensing and franchising in an international context. This paper examines the relevance of the relationship marketing concept and relationship development processes in establishing and managing international franchising and licensing agreements. This is an under-researched area.

We use a case study to produce recommendations for best practice of relationship development and management of franchising and licensing partners.

The paper also discusses the constraints to the applicability of relationship marketing in that context, and aims at recommending a diagnostic tool to measure prospective franchisees and licensees against in order to select them as business partners. The research takes as a context the market for chemical road repair products supplied to the building, construction and maintenance industry, and uses as a case study a manufacturer of chemical products based in the South East of the UK. The contribution of the research is to refine the current criteria used by companies, and recommended by literature, to select prospective parties to licensing and franchising agreements; and further refine the thinking on how relevant the relationship marketing context is to the creation and later management of these relationships.

Market Entry Strategies

The range of market entry modes available to firms entering foreign markets can be grouped into three broad categories: hierarchical equity modes, where a firm makes a direct equity based investment in a target market; export or non-equity modes, where a firm enters markets using intermediaries; and intermediate modes (Hollensen, 2004). The latter are entry modes that incorporate some of the characteristics of both hierarchical and export modes, e.g. they allow a higher level of control than export modes, and are less capital intensive than hierarchical equity modes. Examples of these modes include licensing and franchising.

Although it may be argued that they afford a tighter control and a better protection of their proprietary know how (Brouthers and Nakos, 2004), hierarchical entry modes are not always superior to non-equity entry modes. This is due to the impact of integrating foreign markets operations on a firm's internal costs (ibid). Because of this, it can be argued that non equity modes are generally more suitable to small and medium enterprises (SMEs) with limited resources. Non equity entry modes include various types of collaboration with intermediaries based in the foreign target market. These vary from exclusive distributorships, to intermediate (Hollensen, 2004) forms of collaboration such as *licensing* and *franchising*. These forms of collaboration are generically referred to as "Collaborative Arrangements" (Daniels and Radebaugh, 2001, p. 12).

Licensing is the exchange of technological know-how and other intangible assets in return for fees/royalties (Johansson, 2005). Franchising additionally adds to the above a complete business package to include marketing support services, training and finance (Kotler and Keller, 2006) for an initial fee and a royalty percentage of franchisees' total sales (Hollensen,

2004). Licensing and franchising can be considered strategies that foster medium to long term relationships. Therefore it follows that relationship marketing is the relevant conceptual domain to describe how these relationships are managed. When these relationships develop in an international context, the use of relational marketing methods is subject to specific constraints.

Principles of Relationship Marketing

Relationship marketing emerged as an alternative to transaction based marketing (De Wulf, 2001; Nancarrow, Rees and Stone, 2003; Lemon, White and Winer, 2002). It is based on the development of a dialogue between a business and its customers, and is characterized by the attempt to learn and understand each other's needs rather than a communication exchange based on the attempt to persuade and manipulate (Grönroos, 2000). Other cornerstones of relationship marketing are a long term orientation (Grönroos, 1994; Reichheld, 1996; Jackson, 1994; Ahmad and Buttle, 2001; Hwang, Jung and Suh, 2004) and the importance of trust (Selnes, 1998), which is held to be an essential ingredient in facilitating the exchanges of information required to build the relationship.

The longer term view postulated by the relational approach is supported by research suggesting that a 5% increase in customer retention rate can increase the net present value of customers by between 25 per cent and 85 per cent (Ahmad and Buttle, 2001) or even 95% (Reichheld, 1996). This extra value is not only achieved through maintaining existing sales, but also by cross-selling and up-selling products and services (Selnes, 1998). The benefits of this longer term view are also enjoyed by firms in business-to-business relationships, where both the supplier and the buyer experience increased profitability and reduced operating costs (Mudambi & Mudambi, 1995). The implementation of relationship marketing relies on the adoption of Information Communication Technology (ICT) and relative infrastructure (O'Malley and Tynan, 1998; Fletcher, 2001). Some of the communication strategies used do not involve face to face buyer – supplier contact, using instead such strategies as Direct Mail and internet marketing (Ivens & Mayrhofer, 2003). This allows for personalized – not personal - communication to be addressed automatically to a large number of individuals, thereby allowing saving on the costs of a sales force.

Applicability of relationship marketing in a global context

Relationship Marketing is currently considered to be the “default” approach to marketing strategy (Grönroos, 1994; Mudambi and Mudambi, 1995). This widespread application, however, needs to be viewed with a degree of caution, for, as O'Malley and Tynan (1998) observe, there has been a tendency to approach the relationship paradigm without sufficient critical analysis. In addition, concerns have been raised (e.g. Palmer, 1997; Conway and Swift, 2000) about the feasibility of the uniform implementation of RM across different international markets.

International relationship marketing (IRM) is a term used to describe examples where RM is implemented in an international, even global context. (Conway and Swift, 2000; Samiee, Walters and Peter, 2002) In this context, the relationship is conditioned by the cultural context in which it takes place (Palmer, 1997). IRM offers a paradox, in that businesses in countries such as Japan and China, have long adopted relational approaches, so that it can be argued that in these cultures RM has been a familiar pattern of business behaviour for a number of decades (Palmer, 1997). The western shift to RM comes across as “re-inventing the wheel” in these countries.

Constraints to the adoption of international relationship marketing

Relationship marketing is difficult to implement in heterogeneous markets (Erikson and Mattson, 2000). Psychic and cultural distance is a constraint in relationship building (Conway and Swift, 2000). Psychic distance is a consequence of cultural and social distance, where cultural distance is defined as the “extent to which the norms and values of the two companies differ because of their national characteristics” (Ford, 1984, p. 102). In several business cultures the trust which is an essential component of a RM approach is developed by means of face-to-face rituals (Palmer, 1997). This is the case for high context cultures, defined as those cultures where communication has implicit contents and emotional values (Hall, 1960, 1976, in Usunier and Lee, 2005). The need for an implicit, non-verbal content in the communication process in high context cultures would create difficulties in implementing personalized, non personal communication (Usunier and Lee, 2005), i.e. communication which does not involve personal contact. Face to face contact would also be necessary in high femininity and high uncertainty avoidance cultures, where business is associated with caring face to face communication and risk is reduced by cultivating relationships (Hofstede, 1980a, 1980b, 2001; Batonda and Perry, 2003).

On the contrary, westerners tend to be more businesslike because of a higher level of masculinity (Batonda and Perry, 2003). All this seems to point at the possibility that standardized business models such as franchising and licensing need to be supported by “ad hoc” face to face communication in some countries because of the characteristics of their culture, rather than being “managed at a distance” using personalized, but non personal (i.e. face to face contact) communications such as direct mail and internet supported communication.

The development of trust is also made harder by communication barriers created by cultural distance and languages (Conway and Swift, 2000). A positive relationship atmosphere can be difficult to create when the interaction takes place between people from different backgrounds, cultures and expectations (Leonidou, Katsikeas and Hadjimarcou, 2001). There are also cultures where business ethics do not require necessarily a win-win situation, and it is seen as natural when one of the parties to a transaction seems to be seeking a better return than their counterpart (Palmer, 1997). IRM is often concerned with intermediaries rather than final buyers and users because of the constraints, barriers and costs deriving from marketing across barriers (Samiee, Walters and Peter, 2002).

A further constraint to the implementation of IRM is the diffidence which exists between parties belonging to different cultures. This is even more so when the mutual feelings between the parties are affected by *Consumer Animosity*, negative attitudes towards products or companies belonging to a particular country stemming from political, economic and military unrest (Amine, Chao and Arnold, 2005). One example is the animosity generated between the USA and France over the invasion of Iraq in 2003. Consumers see sellers from other countries as more (e.g. the US, the Danes, the Dutch) or less (Russia, China, France) trustworthy (Conway and Swift, 2000).

Country of Origin (COO) effects also play a role in constraining the implementation of IRM. COO effects are defined as information on a product's country of origin (Zhang, 1996; Amine, Chao and Arnold, 2005). In consumers' minds, a product or service is associated with a stereotypical image of the country of origin: e.g. Italy as a producer of wines, France as a country producer of fashion products. This image reflects on the product, and influences consumers' decisions, in other words it acts as a “shopping cue” (Darling and Puetz, 2002). Prospective partners affected by a negative COO could be biased against entering a relationship with a supplier perceived to have the characteristics of the country or origin.

COO effects extend beyond products and services, and include customers' attitudes and expectations towards marketing, communication strategies and general business practices associated with a country (ibid).

Partner Selection

The longevity and stability of the collaboration with the selected partner is essential for the long term success of the expanding company in the selected market. Therefore it follows that the management of the company should devolve adequate resources both to the selection of a suitable partner; and to developing and nurturing the relationship with its partners.

Selecting partners for a collaborative arrangement is a critical decision in entering international markets. Collaborative arrangements have a high likelihood of failure if not properly conceived and managed (Dacin, Hitt and Levitas, 1997). A proactive screening process is needed for this selection (Rich, 2003), as the incompatibility of partners often result in the failure of the relationship (Dacin, Hitt and Levitas, 1997). Prospective licensees and franchisees (where this arrangement is being used for a “nationwide” representation) need to be selected against a set of exacting criteria. This concern with selection is particularly relevant to the company in question, as it uses licensing as an entry strategy in target country-markets. The licensees appointed are responsible for the market penetration of the company’s range of products. If the licensees are not effective in their sales and marketing effort, then the company cannot be successful in achieving their business objectives. It follows that the ability to select the most suitable prospective licensees is a critical success factor for this company. In other words, the view we take here is that one of the strategies to ensure that a relationship starts and develops successfully is to select the most suitable partner in the first place. Some research has been carried out on the criteria for the selection of prospective partners, e.g. Dacin, Hitt and Levitas (1997); Rich (2003) and Doherty and Alexander (2004). Their proposed selection criteria are summarized in Table 1.

Table 1. Selection Criteria for prospective partners

Factors Dacin et al, 1997	Factors Rich, 2003	Factors Doherty and Alexander, 2004
Technical skills; technical complementarity	Complementary resources / skills	Balance of power principal / partner
Market knowledge / Access	Skills	Retailing skills
	Industry knowledge	Local knowledge – knowledge of specific markets – segments
Financial Assets	Financials	Financial stability – availability of capitals
Partner’s expectations, motivation		Motivation, commitment
Complementary skills		Similar values
Compatible goals, complementary strategic orientation	Compatible objectives	Strategic alignment (strategic partnership)
Cultural heritage	Willingness to ally with each other	Partner holds desirable retail sites / position
Partnering skills (e.g. previous alliances experience)	Organizational culture / processes	Like-mindedness
Intangible assets (reputation, brand name, human resources)	Resources	Chemistry / feeling
Ability to acquire skills (corporate learning)	Training to develop new culture	Support / trust

Source: The Authors

In selecting partners for collaborative agreements and alliances, companies chose different criteria depending on their country and business culture (Dacin, Hitt and Levitas, 1997). Bearing this important proviso in mind, the authors propose a list of criteria which builds on the above cited research, by adapting these models to the specific requirements of the

company in the case study. The selection criteria proposed are summarized in table 2. They form the basis of a diagnostic tool used to identify and select the most suitable partner for a licensing or franchising agreement. This diagnostic tool, entitled *Licensee Evaluation Scorecard* (LES) is the basis for a questionnaire which the company in question intends to administer to prospective licensees in the course of preliminary negotiations.

Table 2. Selection criteria for prospective partners

Factors
Catulli, Annia and Ingleby (2006)
Balance of power principal – partner
Marketing skills
Technical Skills
Market knowledge / access
Financial resources and stability
Commitment / motivation
Compatible corporate culture
Strategic Alignment
Market position
Chemistry
Trust
Partnering Skills
Willingness to support staff training
Intangible assets (reputation, brand name, human resources)
Ability to acquire skills (corporate learning)

Source: The Authors

It is proposed that *marketing skills*, *market knowledge and access* (which include knowledge of specific market segments) and *market position* are critical success factors for the ability of the licensee to achieve business objectives; *technical skills* are essential as the licensee takes care of producing the product in the target market, and needs to be able to carry out after sales service; *commitment and motivation*, *comparable corporate culture*, *strategic alignment*, *chemistry* and *trust* are essential ingredients for the success of the relationship; *partnering skills*, *willingness to support staff training* and *corporate learning* are essential for the licensee to absorb and operate the new technology. *Financial resources and stability* are essential for the relationship soundness; a good *balance of power* between the principal and the partner ensures any difference in negotiating power is not adverse to the principal. Finally, *intangible assets* addresses such issues as whether the organization enjoys a good reputation in the target market, and whether the human resources are suitable for a successful collaboration. Our study aims at testing this model in its ability to select the most suitable licensees. The criteria will be used to score each prospective licensee on a quantitative scale for each of the factors.

Methodology

The paper uses a case study methodology to investigate the issues identified. This is a holistic approach to data collection (Ahmad and Buttle, 2001) which involves investigation and analysis of phenomena within their real life context (Perry, 1998). The firm that will provide the case study is a UK SME specializing in the development of chemical products. The company has been operating in the road repair industry for several years, having developed an instant and permanent road repair compound. The company has used licensing as its primary strategy for international expansion, though further analysis reveals greater similarities with franchising. As the research is part of a Department of Trade and Industry

funded research program¹ involving the university and the firm, access to secondary and primary data is expected to be full and supportive.

Concluding Remarks

The use of collaborative arrangements with third parties such as licensees and franchisees as a market entry strategy presents several issues, which include a lower level of control than that afforded by hierarchical equity modes. This can hinder a company's efforts to achieve their business objectives. Because of the importance of selecting a partner with the right mix of skills and attributes, it is vital that the suitable set of criteria is used in a formal vetting process. We propose a diagnostic tool which we call Licensee Evaluation Scorecard (LES) which has this very function.

During the selection process, and in the initial stages of the relationship, we propose that relationship marketing techniques should be deployed to manage the relationship successfully. When entering new remote and psychically distant markets, this needs to take into account the need to adapt relational marketing techniques to the local culture. For example, in some cultures there will be a greater need for face to face, personal communication, with implications for the human resources necessary to establish and maintain these relationships. This adaptation is essential in order to create trust in the relationship, and arguably to ensure the selected partner is adequately supported.

Recommendations for future research

The next stage of the research project is to evaluate the relevance and utility of the proposed diagnostic tool, through interviews and analysis of the company's activities.

Further research should be aimed at revealing how a relationship with licensees and franchisees develops, in order to manage that development in the most effective way and identifying the role relationship marketing techniques can play in developing and managing that relationship, and what their long term limitations are.

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¹ This type of programme is called a Knowledge Transfer Partnership (KTP) and is a vehicle to bring universities and local businesses together.

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