

# Internationalization & Export Management (IEM 6CFU)

## Licensing, franchising, turnkey project

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PROF. ILARIA TUTORE



DIPARTIMENTO DI STUDI  
AZIENDALI E QUANTITATIVI  
DIPARTIMENTO DI ECCELLENZA

# LICENSING

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A contractual agreement whereby one company (the licensor) makes an asset available to another company (the licensee) in exchange for royalties, license fees, or some other form of compensation

- Patent
- Trade secret
- Brand name
- Product formulations

# Advantages to Licensing

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- Provides additional profitability with little initial investment
- Provides method of circumventing tariffs, quotas, and other export barriers
- Attractive ROI
- Low costs to implement
- License agreements should have cross-technology agreements to share developments and create competitive advantage for each party

# Disadvantages to Licensing

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- Limited participation
- Returns may be lost
- Lack of control
- Licensee may become competitor
- Licensee may exploit company resources

# FRANCHISING

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**A FORM OF LICENSING IN WHICH THE FRANCHISOR SELLS INTANGIBLE PROPERTY AND REQUIRES THE FRANCHISEE AGREE TO ABIDE BY STRICT RULES AS TO HOW IT DOES BUSINESS**

- Franchising is attractive because
  - can avoid costs and risks of opening up a foreign market
- Franchising is unattractive because
  - it may inhibit the firm's ability to take profits out of one country to support competitive attacks in another
  - the geographic distance of the firm from its foreign franchisees can make poor quality difficult for the franchisor to detect

# FRANCHISING

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The major forms of franchising are:

- Manufacturer-retailer systems such as car dealerships,
- Manufacturer-wholesaler systems such as soft drink, companies
- Service-firm retailer systems such as fast-food outlets.

To be successful, the firm must offer unique products or propositions, and a high degree of standardization.

# TURNKEY

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**CONTRACTUAL AGREEMENT THAT PERMITS A CLIENT TO ACQUIRE A COMPLETE SYSTEM FOLLOWING ITS COMPLETION.**

the contractor agrees to handle all the details of the foreign project for the firm, even down to training employees. At the end of the project, the client is handed the key to the plant that is ready to operate

It is common in the chemical, pharmaceutical petroleum refining, and metal refining industries

# TURNKEY

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## **ADVANTAGE**

- they allow firms to earn great economic returns from the know-how required to assemble and run a technologically complex process
- they are less risky in countries where the political and economic environment is such that a longer-term investment might expose the firm to unacceptable political and/or economic risk

## **DISADVANTAGE**

- It's not attractive when the firm's process technology is a source of competitive advantage