

**ŠKODA AUTO VYSOKÁ ŠKOLA, O.P.S.**

**MASTER'S THESIS**

2015

Kyrylo Kovalchuk

# **ŠKODA AUTO VYSOKÁ ŠKOLA, O.P.S.**

Programme of Study: N6208 Economics and Management

Specialisation: 6208T139 Marketing Management in the Global Environment

## **Internationalisation of Automotive Companies in Selected Emerging Markets**

**Kyrylo KOVALCHUK**

Thesis supervisor: doc. Ing. Jana Příkladová, Ph.D.

Unless otherwise indicated in the text or references, or acknowledged below, this thesis is entirely the product of my own scholarly work.

Any inaccuracies of fact or faults in reasoning are my own. Accordingly, I take full responsibility. This thesis has not been submitted either in whole or in part for a degree at this or any other university or institution.

I hereby declare that I have mentioned all used sources and that I have cited them correctly according to copyright of the Act no. 121/2000 Coll., on Copyright and Related Rights.

This is to certify that the printed version is equivalent to the submitted electronic one.

Mladá Boleslav, .....

.....

Hereby I would like to thank doc. Ing. Jana Příkladová, Ph.D. and my parents for their helpful comments and motivation, which they provided me when supervising my Master's Thesis.

## Table of Contents

Acronyms .....	7
Introduction.....	9
1 Internationalisation of Automotive Company.....	11
1.1 Internationalisation .....	11
1.1.1 Motives for internationalisation.....	11
1.1.2 Internationalisation modes and forms .....	13
1.2 Specifics of Automotive Industry .....	25
1.2.1 B2B – production .....	26
1.2.2 B2B – distribution.....	28
1.3 International strategies of automotive companies .....	30
1.3.1 Directional strategy .....	30
1.3.2 Competitive strategy .....	32
1.3.3 Functional strategies.....	33
2 Indicators for Measuring the Level of Market Potential .....	41
2.1 Qualitative Factors .....	45
2.2 Quantitative Factors .....	46
3 Market Analysis of Chosen Countries.....	48
3.1 Methodology of Analysis .....	48
3.2 Introduction of Selected Countries .....	50
3.3 Analyses of Countries .....	53
3.3.1 Brazil.....	54
3.3.2 India.....	57
3.3.3 China.....	62
3.4 Ranking of countries according to the market potential.....	70
4 Škoda Auto Case Study.....	73
4.1 Škoda Auto company profile .....	73
4.1.1 Markets .....	73
4.1.2 Organisational structure.....	74
4.1.3 Product portfolio and manufacturing .....	74
4.2 Škoda Auto internationalisation to China.....	75
4.2.1 SWOT before entry to China.....	75

4.2.2	Forms and strategies of internationalisation.....	77
4.2.3	Effects of internationalisation .....	78
4.2.4	SWOT after entry .....	81
	Conclusion.....	84
	References .....	86
	Figures and Tables.....	98
	Appendices.....	100

## **Acronyms**

ANFAVEA	Brazilian National Association of Automobile Manufacturers
B2B	Business to Business
B2C	Business to Consumer
B2G	Business to Government
BRIC	Brazil, Russia, India, China
CAAM	China Association of Automotive Manufacturers
CAGR	Compound Annual Growth Rate
CKD	Completely Knocked Down
CBU	Completely Built Unit
EU	the European Union
EUR	Euro (currency)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HR	Human Resources
LCV	Light Commercial Vehicle
MNC	Multinational Corporation
MPV	Multi-Purpose Vehicle
OEM	Original Equipment Manufacturer
R&D	Research and Design
SBU	Strategic Business Unit
SME	Small and Medium sized Enterprise
SWOT	Strengths, Weaknesses, Opportunities and Threats
SUV	Sport Utility Vehicle
UK	United Kingdom
USA	United States of America

USD	United States Dollar
VW	Volkswagen
WTO	World Trade Organization



## Introduction

Modern world is changing and developing fast. Some of the countries perceived to be hopeless in the 20<sup>th</sup> century, nowadays are playing more and more important roles in the world economy. This is due to their rapid growth of economy and welfare, meaning that more people are able to purchase bigger variety of goods, than it was ever possible. One of the categories of such goods are passenger cars.

One of the main reasons to select the topic of internationalisation of automotive companies was to present the importance of internationalisation to rapidly emerging countries and reveal the main factors for market selection.

The aim of the thesis is to present the essence of internationalisation of automotive companies, to identify indicators for market entry in selected emerging markets and to apply them in Škoda Auto case study.

During the analysis of market potential of chosen emerging countries, the author applied the main assumption of the research. It is the statement, that automotive industry has specific criteria for market entry, which may be general for an industry and thorough for individual company. During preparation of the research, the following research questions were formulated:

1. What are the most important country-related factors for automotive company?
2. What are the most important market-related factors for automotive company?

The first chapter of that thesis includes theoretical overview of literature from the last 15 years. Its elaboration lets to elucidate the basic motives of internationalisation and variety of entry modes. Additionally theoretical overview is focused on presenting specifics of automotive companies and international strategies of internationalisation, applied by them.

In the second chapter, main indicators for measuring the level of market potential are presented. Main indicators are described as qualitative and quantitative factors. The concept of these indicators is later applied in empirical part of that thesis.

In the third chapter, author presented methodology of analysis, which includes the description of aim, research questions, methods and sources of information. In the second part of that chapter, introduction of selected countries is done, based on

measurements of total car market. Afterwards, analysis of each of selected countries was performed, which results are later presented in the last part of the chapter.

In the last chapter, the case study of Škoda Auto a.s. internationalisation to China is analysed, based on the interviews and firm's publicly available documentation. To show the motives of internationalisation, SWOT analysis was performed. Next are shown the forms and strategies of internationalisation used by Škoda Auto a.s. and their effects. In the last part of that chapter SWOT analysis was applied to show the opportunities and threads of Škoda Auto a.s. internationalisation after entry to China.

The research methods for the last chapter w direct interview, partially structured by the list of questions and analysis of data from secondary sources in form of company's annual reports.

# **1 Internationalisation of Automotive Company**

Internationalisation can be considered as a chain of various actions taken after decision to enter a foreign market. The following chapter describes the essence of motives for such decision, then provides specifics of automotive companies from the B2B point of view and ends with the list of international strategies to be used during the process of internationalisation.

## **1.1 Internationalisation**

Internationalisation is one of the main forms of enterprise's development. Itself it includes the chain of actions – motives for taking the decision of entry to foreign market and various modes and forms of internationalisation, which may be applied during internationalisation process.

### **1.1.1 Motives for internationalisation**

Various authors define different motives for internationalisation, which, however, have similar characteristics.

Štrach (2009) defines offensive (gaining access to new markets and technology, reduction of costs, capitalisation of intangible assets) and defensive motives (trade barriers, regulations and restrictions, strong competition). Albaum (2008) describes motives as rising opportunities, tough rivalry and need of absolute competitive advantages utilisation. Dana (2004) adopted a framework of different factors driving internationalisation:

- Company's development;
- Resource availability;
- Knowledge about foreign market;
- Product life cycle;
- Competition.

This framework includes some of the factors described by other authors, and it presents deeper and more precise drivers of internationalisation.

Kowalik and Baranowska-Prokop during the research of Polish SMEs revealed that the most common motives for internationalisation were possibilities of entering new

markets, implementation of new supplier networks from abroad, competitive advantage in terms of lower cost of production, knowledge about foreign markets (Kowalik, Baranowska-Prokop 2013).

Another research conducted by Hessels and Kemna (2008) revealed that the motives with highest weights among others included:

- Access to new markets for products and services;
- Access to labour;
- Additional production capacity;
- High costs of production in domestic market.

Yamakawa et al. (2007) argue that there are three perspectives of internationalisation motivations – industry based view, resource based view and institution based view. According to authors, industry based view covers the issues, connected with degree of competition in domestic industry and degree of technology intensiveness; resource based view includes problems related to overcoming resource and capability limitations (Yamakawa et al., 2007). The last group of factors (institution based view) is linked to the legal and trade barriers in domestic market (Yamakawa et al., 2007).

In recent research of family firms (most of them were SMEs) internationalisation, the authors (Daszkiewicz, Wach 2014) discovered that for the most of analysed firms, entrepreneurial and push factors were the most important, whereas pull and chance factors were less important.

Hollensen (2007) presented two groups of motives – proactive and reactive, where proactive motives are presented by the willingness of a company to operate internationally to get different benefits, while reactive motives are presented by the company’s necessity of responding to threats and risks.

**Tab. 1 Proactive and reactive motives for internationalisation**

Proactive motives	Reactive motives
<ul style="list-style-type: none"> <li>• Growth goals (in terms of international market shares and profits);</li> <li>• Managerial desire to international activities;</li> <li>• Technology competence/unique product;</li> </ul>	<ul style="list-style-type: none"> <li>• Competitive pressure;</li> <li>• Limited domestic market;</li> <li>• Overproduction;</li> <li>• Extend sales of seasonal products.</li> </ul>

<ul style="list-style-type: none"> <li>• Foreign market opportunities/market information;</li> <li>• Economies of scale;</li> <li>• Tax benefits.</li> </ul>	
--	--

Source: (Hollensen 2007), pages 42-47

On the base of reviewed researches, it is possible to state, that motives can be merged into the following groups of factors, which simultaneously represent both opportunities and threads:

- Procurement (supply);
- Market;
- Political;
- Costs;
- Technological.

The first group of procurement (supply) factors include access to cheaper and/or better resources and labour. The second group of market factors usually is seen as a pressure from competition in domestic market or opportunities of entering new markets abroad. The third group of political factors consist of legal and trade barriers in domestic country for specific groups of products. The fourth group of cost factors involves companies' desires to minimise the costs to reach higher profits. The last group of technological factors comprise high potential of tangible and intangible product, which can be also utilised abroad.

It is necessary to admit that reviewed researches were intended mostly for SMEs and are not related to automotive companies, which are usually large enterprises. However, any company starts from as a small or even medium size, so it is possible to conclude that the motives for companies representing any industry in general will be similar.

### 1.1.2 Internationalisation modes and forms

Generally there are many various options for any company, including automotive, to enter a foreign market. The only differences between companies might be found in product and industry specifics. The most common internationalisation modes were grouped by Hollensen (2007) and Johansson (2009) -- export, import, counter

trade, licensing, franchising, manufacturing facilities, R&D facilities, strategic alliance, born global.

## Export

Usually export and import are the basic forms of internationalisation because the majority of companies, which were considering going international, started from that point. In case of export, a business can discretely evaluate a market, prior to the interest – its potential and prospective of development, competition (qualitative and quantitative), origin and type of firms – market players.

There are two forms of export to be distinguished – passive and active. Passive export means that some foreign agent puts an order for the goods, which company-exporter should realize (Bennett, Loska 1998). Whereas active export is opposite form, where company-exporter undertakes full control upon all export cycle. Moreover, it is possible to evaluate export by its type – indirect and direct.

**Tab. 2 The most important features of direct and indirect export**

Direct export	Indirect export
<ul style="list-style-type: none"> <li>• Primarily is used for investment goods export</li> <li>• Own export department</li> <li>• Longer market path</li> <li>• Requires knowledge of foreign markets</li> <li>• Rise of capital involvement</li> <li>• High credit risk</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution is done through a foreign trade firm</li> <li>• Awareness of selected countries specifics of retailer networks and transport infrastructure, thanks to the foreign agents</li> <li>• Risk of false information for goods demand</li> <li>• Manufacturer flees from creation of distribution network abroad</li> <li>• Does not require from the side of manufacturer engagement of capital for the purposes of distribution and stockpiling</li> </ul>

Source: (Hollensen 2011), pages 337-350

Indirect export can be presented in form of “lesser involvement – lower incomes”. In other words, a company cannot influence product price regulation, promotion and placement to the potential group of customers. Such form of export might be the best solution, for the company, which does not have any experience in international trade.

The only difference between direct and indirect export is the fact, that direct export takes active form. It means that a company is responsible for the absolute

supervision over export. In such case, a firm independently controls logistics, customs control, internal distribution, advertising, price and sales of products.

In order to reduce costs, small enterprises or those that have weak financial potential, might merge for the purposes of export. They jointly conduct all actions required for the entrance on new markets (Kaczmarek, Zarzycki 2005). The aim of such cooperation is to lower the operation costs in foreign markets by dividing the costs for each coalition's participating firm.

It is necessary to mention, that distribution is an important component in export. In case when export cycle is organised appropriately, it results in achieving goal in form of delivery of a products to the right place, at the right time, within lowest cost, which does not influence effectiveness of a whole process.

### **Import**

In general, import and export are the identical transactions. The only difference there is a point of view. For the selling company it is an export, whereas for the buying – it is import. It is possible to conclude, that problems and risks are diverse for both of trading firms.

Because import is similar to export, it also has two forms – direct and indirect.

**Tab. 3 The most important features of direct and indirect import**

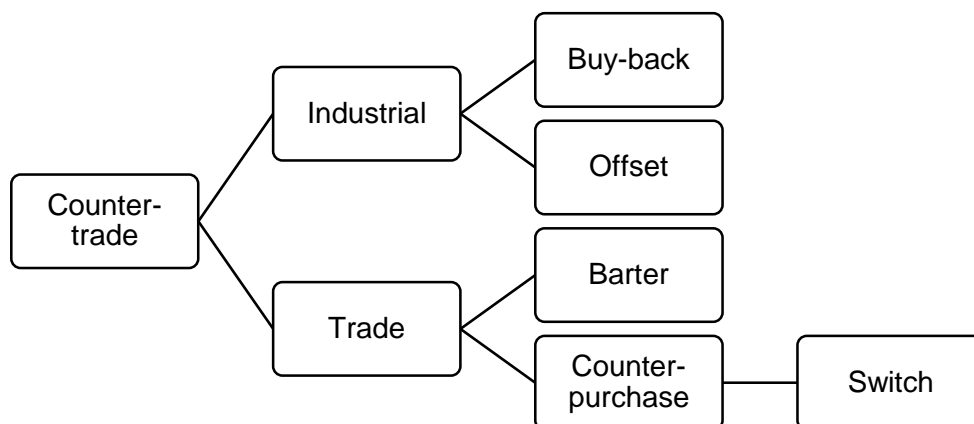
<b>Direct import</b>	<b>Indirect import</b>
<ul style="list-style-type: none"> <li>• Direct contact with supplier</li> <li>• Own foreign office</li> <li>• Requirement of warehouse</li> <li>• Transportation risk</li> <li>• Higher capital involvement</li> </ul>	<ul style="list-style-type: none"> <li>• Done unregularly</li> <li>• Constant readiness of supplies</li> <li>• Rather beneficial price due to wholesale purchases through foreign trade companies</li> <li>• Scattered -- from various countries</li> </ul>

Source: (Rymarczyk 2005), page 21

Direct import has the same features, as direct export, meaning that a company imports goods through other firms in domestic country. Whereas operations without involvement of other companies are characterised as an indirect import.

## Counter-trade

In some cases, due to the various reasons, firms cannot pay for import in money. In order to avoid the stopover in liquidity, they use exchange form of payments – fully or partially, covering the difference with money.



Source: (Kaczmarek 2006), page 61

**Fig. 1 Types of counter trade**

## Barter

Barter is one of the earliest forms of trade, which is coming from ancient ages. Barter is the form of trade, where some goods or services are exchanged for others, which have equal value (Albaum 2008). In the simplest case, they are supplied to exporter, as a payment, which are to be sold by him. Usually barter agreements are signed between two or three enterprises. The main purpose of such agreement is to reduce or even eliminate the risk of impossibility to fulfil the obligations by one of the parties (Kaczmarek 2006).

## Counter-purchase

Counter purchase is another type of barter transaction, which involves two distinct transactions. The first one is export sale, whereas the second one includes the purchase from the importer (Albaum 2008). Each transaction is financed separately (Rymarczyk, Adamczuk 2012).

Counter purchase is frequently used in agreements between the highly developed and low-developed countries. For example, Boeing was selling the planes to Saudi Arabia in exchange for crude oil (Griffin, Pustay 2005).



## **Switch**

Switch is one of the trading methods, which involves at least three participants. The main reason for application of this technique is that one party of counter-trade agreement has the goods, which other does not want. It means that the third party will accept that goods and pay to other party in preferred by it sort of payment. Another cause might be significant difference between currency exchange rates for various countries (Albaum 2008).

## **Buy-back**

Buy-back is the scheme of counter-trade, which includes the sale of factories, technologies and equipment in exchange for products made after their installation and application (Rymarczyk 2005). In comparison to barter and compensation agreements, buy-back agreements are usually scheduled for the long-term cooperation (Hollensen 2013).

However, it is necessary to highlight that type of products manufactured by one of the parties is very important condition. For certain types of goods it may be difficult to maintain desired level of quality without additional investments, which may devalue potential benefits from the buy-back agreement in medium-term, from the financial point of view.

## **Offset**

Offset is an agreement in which one party agrees to purchase products from another party, which agrees to purchase raw materials or components from the buyer of the finished product or the assembly of such product in the purchaser country (Ochieng et al., 2013).

Offset agreements are usually signed between multinational companies and foreign governments. The main subjects of that agreements are military equipment or high-cost civilian infrastructure hardware (Shenkar, Luo 2008). However, some contracts especially military ones, will have to be approved by the home government to be exported, as the products involved there, might contain high-tech information (Ochieng et al., 2013).

## **Licensing**

“Licensing is cross-border transfer of intangible property rights, such as technologies, patents, ownership rights, from company B to company A on payment base” (Griffin, Pustay 2005, p. 355). Licensing is rather long-term agreement in which firm can establish local production in foreign markets without making significant investments (Hollensen 2013).

There are different reasons for using licensing, as one of the market entry methods – the most of them are arising from non-beneficial political and economical environment (Machková 2010). Licensing may be beneficial if there is political instability in the country of interest, high tariff and non-tariff trade barriers, which limit exporting. In addition, in case market capacity is not big enough to make direct investment, licensing can be the only optimal solution.

However, there is one condition, which has direct connection to the licensing – foreign patent protection. Only in that case large multinational companies will be willing to grant licenses to firms from abroad.

## **Franchising**

At first sight, franchising appears to be similar to licensing, however there is clear distinction between them. “Franchising is an agreement, in which franchisor (the owner of trademark or brand name) grants specified rights to the franchisee, which must strictly follow all the requirements and rules for the business operation” (Shenkar, Luo 2008, p. 296).

Among significant differences with licensing, it is possible to highlight that franchise agreement is signed for rather long-term cooperation; franchisor also provides support in sales, technical assistance, etc. (Machková 2010).

There are two forms of franchising (Hollensen 2013):

- Product and trade name franchising;
- Business format, “package” franchising.

For the first form of franchising, it should be clear that it grants the right to sell the products of the franchisor in store, representing his brand. Although the second form provides even higher degree of internationalisation; moreover it allows also to cooperate in strategic alliances, due to the fact, that “business format franchising

agreement may include a transfer of a total business system, including production and marketing methods, sales systems, organizational processes, usage of intangible assets” (Cavusgil et al., 2008, p. 461).

For example in automotive industry, franchising is widely used in distribution network, through the dealers. Dealership is connected to franchising, as for example, in case of Škoda Auto, all dealers should adopt their showrooms to the company standards (*The new face of the ŠKODA Dealer Network - ŠKODA 2013*), however the dealers do not pay to the manufacturer’s compensation, as it would be in common franchising agreement. Their main profits are coming from the commission from the sale of a car.

### **Production facility (contract manufacturing)**

Production facility by means of logic is one of the final milestones in expansion abroad. This is due to the high capital cost of investment, which may vary, depending on the selected approach.

The first approach is so called brownfield investment, meaning that a foreign company acquires already built and equipped industrial facilities and infrastructure (Štrach 2009).

The second approach might be less beneficial in terms of costs because of settlement completely new production plant (Froot 1993). However, this method might be even more beneficial than brownfield investment, as it allows higher degree of customisation and adaptation to the requirements of a internationalisation firm. It is reasonably important for both desires of optimal production process and environmental regulations (in some countries it is not crucial but it allows to save costs on power supplies, moreover it allows a company to be positioned as “environmentally-friendly”).

Nevertheless, there are other approaches of expansion in terms of production abroad (Albaum 2008):

- a) Assembly operations;
- b) Strategic alliance

Assembly operations is the scheme, which allows to avoid, by some degree, trade barriers, as the goods are shipped in a semi-finished state, thus they are not a

subject for higher taxation, which could be in case of finished good. For example, Škoda Auto builds the vehicles for Kazakhstan in Czech Republic but the final assembly operations are done in Kazakhstan (Škoda Auto a.s. 2008).

As it was mentioned before, establishment of production facility is one of the last steps in the internationalisation. Uppsala model describes this gradual approach of expansion through the “gaining new experience and knowledge on the market of interest” (Štrach 2009, p. 40). One of the real life examples of strategic alliances for manufacturing is AB Volvo.

AB Volvo started internationalisation process in accordance to the Uppsala model – firstly using export entry mode in the nearest neighbouring countries (Vahlne, Ivarsson, Johanson 2011). After decades of successful development, in 2001 AB Volvo acquired Renault Vehicules Industriels of France, one the biggest producers of lorries in Europe by that period of time. Moreover that deal brought even more benefits to AB Volvo because of simultaneous acquirement of Mack Trucks Inc., which was Renault’s subsidiary since 1990 with own manufacturing cycle (Vahlne et al., 2011). Thanks to that operations, AB Volvo has strengthen in international competition by both securing own market share (considered only lorries from Volvo brand) and creating new backgrounds for the future development for the whole group of acquired brands.

### **R&D facility**

In general, R&D facilities are located closely to production facilities (in the same country, region or city). Such close localisation is crucial, as it ensures better communication and cooperation between various departments of a company. However, with internationalisation of a company there might appear various reasons of R&D internationalisation.

There are three significant reasons for R&D internationalisation (Patel, Vega 1999):

- Benchmarking the competition and adoption of products for specific markets;
- Further research and development of existing technology and know-how;
- Generation of completely new technologies, which are not developed at the home country.

Moreover, the research shows that the main fields of R&D from the analysed high, medium and low technology firms, were focused on development of “process and machinery” activities, which took approximately 1/3 of shares out of total R&D activities (Patel, Vega 1999). Nevertheless, authors discovered that the companies were active in their principal technologies, for example process and machinery activities for motor vehicle enterprises (Patel, Vega 1999).

Accordingly to another research, there are two reasons for R&D expansion – technology exploitation and technology exploration (Di Minin, Zhang 2010). In fact both reasons are similar to those listed before, as exploitation of technology is development of existing technology but in new environment, which can influence research and development (it can be considered as a fundamental reason for internationalisation of R&D), whereas technology exploration is gathering and processing new technologies and methods.

In that research, which covered internationalisation of R&D activities of Chinese companies (9 companies from 7 different industries were evaluated) it appeared that specifically companies from automotive industry (JAC Motors, Chang’an Motors) and diesel engine manufacturer (Weichai), accordingly to the results of study, were in the “observation outposts” group (Di Minin, Zhang 2010). That group is connected with the concept of technology exploration – work in new environment, meaning better possibility of establishing cooperation with local firms and even more important, with human resources (preferably with experience of work in companies from selected industry or open-minded people (for example university graduates) may be more beneficial for technology exploitation).

Nevertheless, the approaches of R&D internationalisation may change due to the improvements in different technologies. For example using the newest equipment for additive manufacturing (which can be used for both rapid prototyping and small to medium scale production nearly of any physically possible configurations), it will be possible not only to lower the costs of R&D internationalisation in the long-run prospect but even decrease the time needed for development of new products.

### **Strategic alliances**

Strategic alliance is one of the foreign entry modes, which involves at least two companies from different countries, which have an aim of realising commercial goals for mutual benefits (Moutinho, Southern 2010).

Accordingly to J. Cygler (2002), the most common reasons for strategic alliances establishment are risk minimisation, rationalisation of production and its costs, technological exchange and strengthening competitive position.

Strategic alliances are distinguished by degree of capital involvement, thus there are two polar forms – equity joint ventures and cooperative joint ventures (Shenkar, Luo 2008).

#### *Equity joint venture*

According to R. Griffin (Griffin, Pustay 2005, p. 630), “joint venture is discrete form of strategic alliance, established for cooperation between two or more companies from different countries”. Joint venture can be defined by four characteristics (Cateora et al., 2007):

- Established and separate legal entities;
- Shared management of joint venture;
- Partnerships between legal entities – not between individuals;
- Each involved side holds shares of equity.

One of the most crucial points listed above is shared management, which directly links to the division of shares in joint venture. For instance, there was a case why foreign companies shifted from joint venture to wholly owned subsidiaries as an entry mode to China in 1990s. Different causes of joint venture failures were determined as bipolar motivation, cultural differences and weak intellectual property protection laws (Deng 2001).

Bipolar motivation is viewed as an opposite understanding of goals (in case of foreign companies it was long-term growth and development, whereas for local firms it was an opportunity to quickly gain profits and intangible capital). Cultural differences can be considered as a typical issue for the many countries, as different cultures have diverse backgrounds of behaviour, etc.

Accordingly to the research of cultural and organisation distance (dimensions of national culture and organisational culture identified by G. Hofstede (Cultural Dimensions - Geert Hofstede [no date]) has relatively big influence on performance and outcomes of joint venture (Pothukuchi et al., 2002).

Issues connected with weak protection of intellectual property were common in China in the 1990s, resulting in decrease of licensed technology sales because of political and administrative reasons (Bosworth, Yang 2000). However, since 2001, when China became the member of the WTO, China presented intellectual property regime, which was close to its understanding from western countries, “to operate under nearly identical rules, which are similar to other members of the WTO” (Yu 2005, pp. 999–1000).

In KPMG research (*Joint Ventures — a tool for growth during an economic down | KPMG | VG 2010*) there were discovered the following reasons of establishing joint ventures:

- Gaining access to markets in the same industry;
- Reducing costs;
- Gaining access to new markets in foreign countries;
- Reducing risk
- Developing new technologies
- Developing new brands/extending own brands
- Gaining additional financial resources.

In general, results of the study show that the reasons for establishment of joint ventures are similar as for the classification of main causes for strategic alliances formation listed by J. Cygler.

Additionally, in some cases one of the reasons of joint venture establishment is legal barrier of entry, meaning that joint venture should be partially owned by domestic company (Sheth, Malhotra 2011).

For example joint venture as an entry mode, was widely adopted by the companies from USA and Europe to internationalise in rapidly emerging markets, where they were providing know-how and investment, whereas their local partners were responsible for access to markets and labour (Moutinho, Southern 2010).

#### *Cooperative joint venture*

Cooperative joint venture does not involve capital – no new company is established. This type of organisation includes agreements on R&D, cross-marketing

agreements, cross-distribution agreements and cross-manufacturing agreements (Albaum 2008),(Gillespie, Hennessey 2011).

However, accordingly to H. Machková (2010), strategic alliance is different case, compared to joint venture (even though principals are similar), as motivations for strategic alliances establishment are different, mainly because of cooperation which does not involve capital.

### **Born-global**

According to Uppsala model of internationalisation, company develops its international position gradually, starting from local/regional/national markets, and then switching to international environment with gradual development of presence there (Johanson, Vahlne 2009).

So called “born global” firms are using completely opposite method of development – they skip the phase of development in domestic market or even merge it with an entry to international markets (Gillespie, Hennessey 2011). Moreover, there is one crucial parameter – time scale. Born global firms start to operate internationally in the early stage of life, when most of the companies are small to medium size (Chetty, Campbell-Hunt 2004), thus they are more flexible in terms of organisation and management processes. This is valid also in terms of capital, meaning that they can adopt the newest equipment and know-how and gain competitive advantage (Knight, Cavusgil 2004). Even though, being flexible in time scale means that another important condition is fulfilled – innovativeness (Sullivan Mort, Weerawardena 2006).

In general, born-global companies have many different characteristics, however it is possible to highlight some of them, which were defined by K. Przybylska in her research (Przybylska 2010):

- Internationalisation process starts simultaneously with firm’s establishment;
- International cooperation can be done with many countries at one time;
- The foreign customers might not be close (in terms of geographical and cultural distances) to the domestic country;
- Born-global enterprises may use different internationalisation entry modes;



- Thanks to the rapid technology development, born-globals are able to develop their competitive advantage faster and better.

It is necessary to distinguish technological development in manufacturing processes and technology globalisation because the first issue allows a company to adopt to new situation rapidly, whereas the second point involves better possibilities for joint research, technology transfer, meaning that it suits better the born-globals, which usually are SME (Hollensen 2007).

In certain cases, born-global companies are operating in niche markets offering specific purposed products for certain groups of customers (Knight 2000). For example, one such markets is peripheral devices for computers, in which Logitech, as a born-global company, started to operate in the early stage of life (Karra, Phillips, Tracey 2008).

## **1.2 Specifics of Automotive Industry**

Automotive industry is quite big industrial sector, which had 16% shares of EU GDP in 2012 (European Commission 2012), which was EUR 13,425,648.8 mio. at market prices (*Eurostat - Tables, Graphs and Maps Interface (TGM) table* 2015). In addition, in 2011, almost 6% of the EU employed population were involved into the automotive industry (ACEA 2014). Furthermore, automotive industry can be perceived as one of the innovation drivers, as in 2013, automotive industry was the main contributor to the R&D with investments over EUR 32 billion, which is 25% of total R&D expenditures in EU (ACEA 2014).

Moreover, this industry is highly regulated by the governments. Usually regulations are focused on technological aspects of the cars (e.g. safety and emissions); however, economical issues are quite important as well, meaning that there are different taxes and tariffs applied. In fact the positive side of such regulations is stimulation of innovation and development of various technologies (Smith, Crotty 2008). In some cases, growing prices of fuel in certain countries, which are important for automotive companies may stimulate innovation (Suurs et al., 2010) because they do not want to lose market shares, especially if country of interest economy is strong (Dijk, Yarime 2010), meaning that customer purchasing power is rather high.

Given the fact that automotive industry is very broad, only business-related issues will be reviewed further.

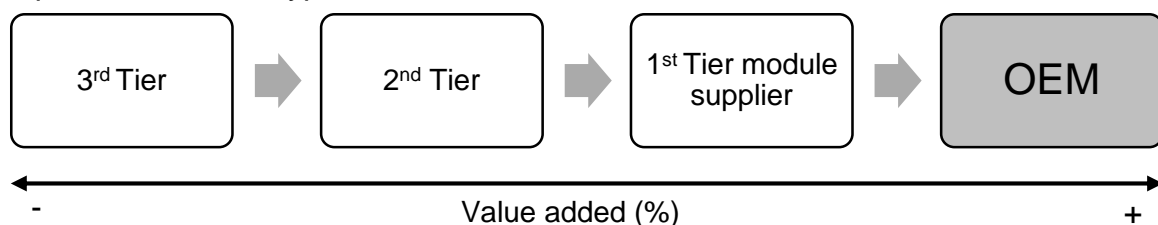
Like any other industry, automotive industry has its value chain, which connects two types of companies – lead firms and suppliers (Sturgeon et al., 2009)

Lead firms are the final manufacturers, which are selling vehicles in various markets (e.g. B2C, B2G, etc.) through the network of clients in B2B market. Moreover lead firms are responsible for product design and most of the manufacturing and assembly operations ( Sturgeon et al., 2009), whereas suppliers are responsible for other operations. It is necessary to admit that outsourcing is quite common in automotive industry (Mikkola 2003).

### 1.2.1 B2B – production

Within the process of internationalisation and simultaneous development of technology, automotive companies as a OEMs have to disintegrate their value chain – start outsourcing. One of the well-known examples is the Ford Motor Company. The company was operating full cycle production – starting from raw material processing and finishing with final assembly (Kothandaraman, Wilson 2001), which provided prospect for economy of scale method application and thanks to that, an opportunity to improve competitive advantage (Lonsdale, Cox 2000). Even though Ford Motor Company was looking for ways to decrease the costs, that is why in 2002, in Shanghai the company opened purchasing office to purchase relatively cheaper components, which then were shipped to the manufacturing facilities in the USA (JOURNAL 2004).

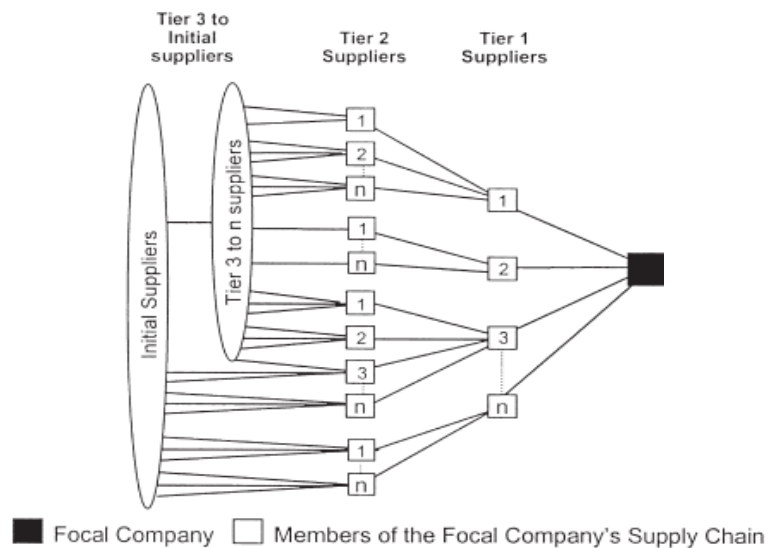
However not every automotive company can afford to operate fully integrated value chain, so the solution comes in form of outsourcing. Automotive industry outsourcing is presented in two types – modular and non-modular.



Source: (Doran 2004), page 103

**Fig. 2 Typical value chain**

As shown on the **figure 2**, typical value chain is formed by the tier levels of suppliers, which represent the network of connections between higher and lower level suppliers, as shown on the figure below.

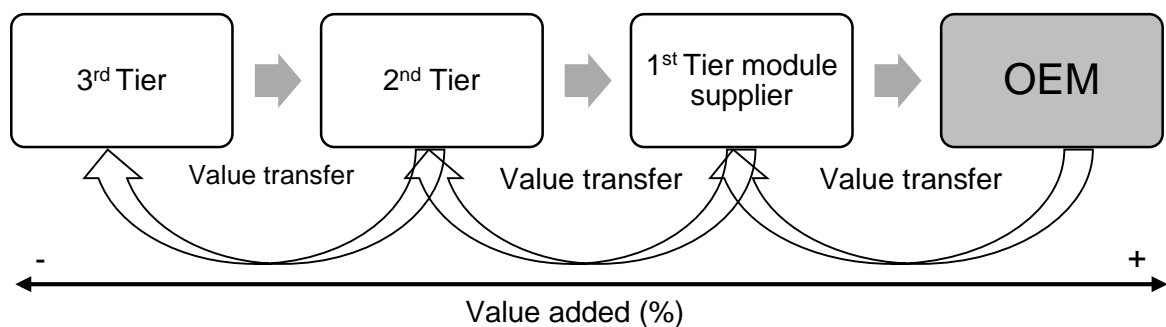


Source: (Lambert, Cooper, Pagh 1998), page 3

**Fig. 3 Supply chain network structure**

In such network value added rate increases from the lowest to highest levels, (lowest number in tier level represents the highest contribution to the value added). Additionally, suppliers from the lower levels are representing lowest value added processes (e.g. raw materials and/or simple components, which consist from less than five details, depending on the complexity of OEM demands in terms of willingness to achieve better quality control (Lambert, Cooper 2000)).

In general, it is possible to suggest that intricacy of value chains directly depends on complexity of final product – amount of components and services used for manufacturing.



Source: (Doran 2004), page 103

**Fig. 4 Modular supply chain**

Modular supply chain is the concept, which involves deeper cooperation between different tier suppliers, compared to the non-modular approach. Modular method includes transfer of low value-adding activities (e.g. labour intensive technological processes) to the second and/or third level tiers (Doran 2003).

The motivation for modular outsourcing application is quite simple and it is directly related to the technological complexity in cars manufacture (Morris et al., 2004). In general modular outsourcing, is an approach in organisation of chain value, which simplifies management of the cycles, thus making it more optimal in terms of time and funds (Mikkola 2003), however it covers issues mostly connected with production (Morris et al., 2004).

Two general fields were identified, where the concept of modularity is applied (Pandremenos et al., 2009):

- Modularity in design;
- Modularity in assembly.

Modularity in design means that supplier for the final assembly prepares components (e.g. radio, air conditioning, etc.), whereas modularity in assembly implicates placing sub-assembly lines to separate supplier facilities close to the final assembly plant (Pandremenos et al., 2009).

However, modular approach can be applied in organisational processes as well. In such case, modularity refers to managerial processes, governance structures that are used to fit modular production within intra and inter-firm context (Doran 2003).

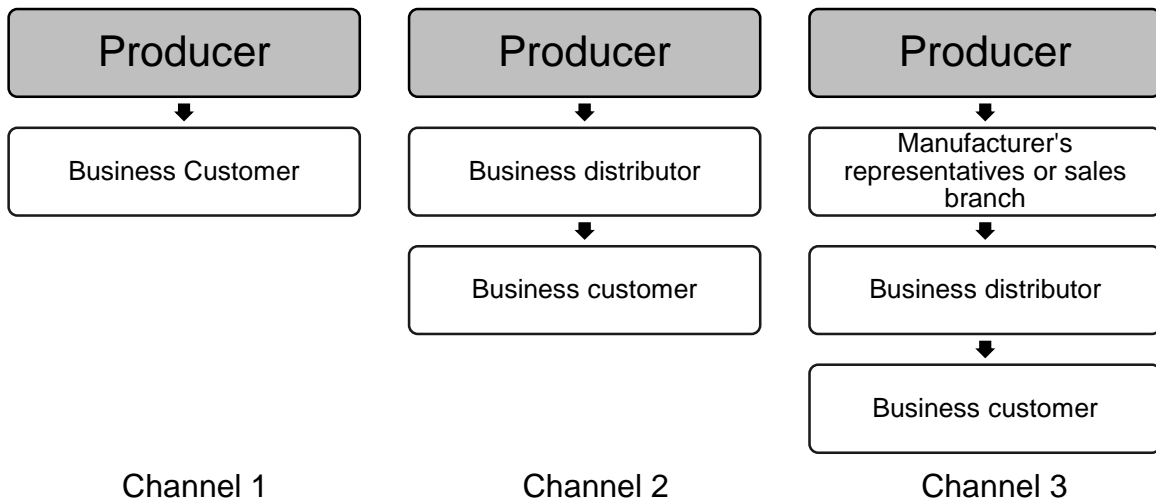
### 1.2.2 B2B – distribution

Another part of automotive B2B market is connected with the distribution channels, which can be presented by two types (Kotler, Armstrong 2012):

- Customer distribution channels (B2C);
- Business distribution channels (B2B).

B2C channels are not common in automotive industry because of product specifics (physical parameters (takes relatively long time to be produced; requires much of storing space, etc.) and legal issues (a car is subject for applying different taxes

and other related fees). More common are B2B channels, which are consisting from at least one level, which takes responsibility of car sales in B2C market.



Source: (Kotler, Armstrong 2012), page 343

**Fig. 5 Business distribution channels**

All of three channels presented on figure above exist in automotive industry. In case of the first channel it can be Rent-a-Car companies in local market or independent importer, which is functioning as a dealer (such occurrences happen in geographically small countries, e.g. Malta, Cyprus, etc.).

The scheme of second channel is more common for small to medium size developing automotive markets. This channel includes importer, as a business distributor, which cooperates with dealers/retailers.

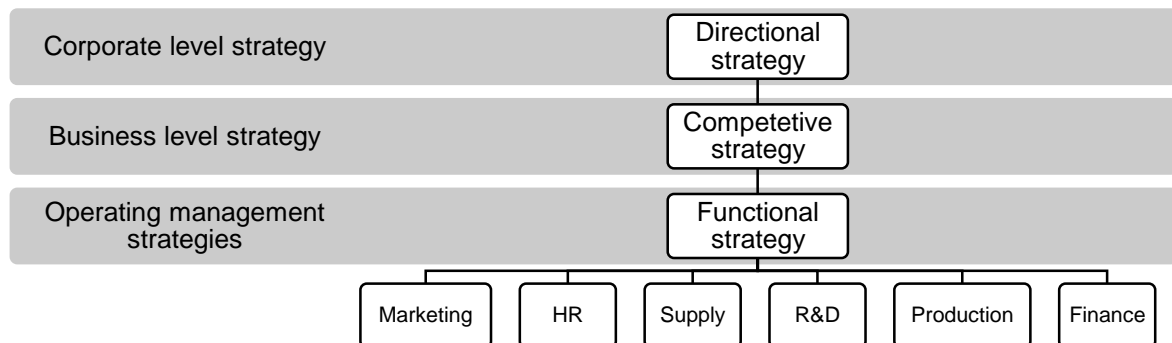
The third channel is the case of big markets, where the automotive manufacturer's interest should be represented by own sales branch, which will coordinate the efforts within all further levels of distribution channel. This is the case of VW AG in Spain, which is the owner of national sales company VAESA (Volkswagen-Audi España S.A.) (*Volkswagen-Audi España en cifras: Datos y resultados. 2015*), (*Volkswagen-Audi España: Trayectoria de la compañía 2015*).

It is necessary to admit that for automotive companies, cooperation with national sales company is more preferable, compared to independent importers. This is due to the fact that own sales branch is more transparent in terms of cooperation, whereas independent importers pursue the aim of own profit maximisation.

### 1.3 International strategies of automotive companies

Strategies are applied on every level of a company – during decision making of which market to enter or how to manufacture some products. In general, it is possible to state that international strategies of companies, representing different industries are similar by general principles; however, there are some adjustments depending on industry.

Strategies are the outcomes of decisions, which are taken on different levels of any company. Glowik and Smyczek define three hierarchy types of international strategies, based on the level of decision-making, which are shown on the figure below.



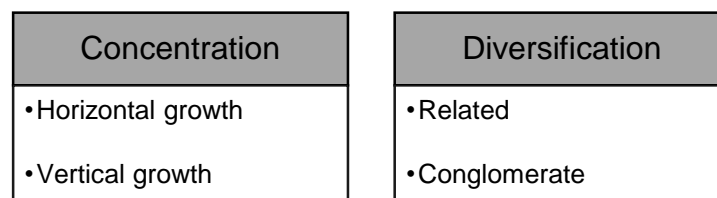
Source: (Glowik, Smyczek 2011), page 110

**Fig. 6 Strategy decision levels**

#### 1.3.1 Directional strategy

Directional strategies are planned, executed and managed on the highest strategic level of a company – corporate level. Direction chosen there will influence which actions and strategies will be applied on more tactical levels of a company.

There are two polar forms of directional strategies – concentration and diversification.



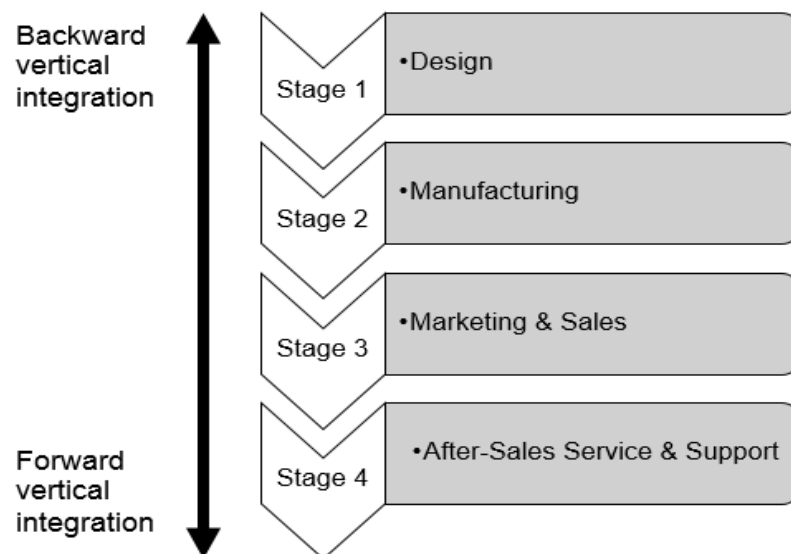
Source:(Glowik, Smyczek 2011), page 101

**Fig. 7 Typology of directional strategies**

The set of concentration strategies aims on converging of all available resources on one specific industry, where a company strives to achieve success (Hill, Jones 2009). It can be done by two approaches, which are defined on the **figure 7**.

The first approach is horizontal growth or horizontal integration (different authors use various terms, however the second one is the most common), where a company develops externally by acquisitions and strategic alliances with other firms in the same industry or internally, by operating in new markets and by improving both quality and quantity the current product range (Wheelen, Hunger 2012).

Within second approach of vertical growth or vertical integration, a company tries to have more control on supply operations, thus running more valued-added operations (Rainey 2010). Given the fact that vertical integration is done within company's value chain, it can be performed within two opposite directions – forward and backward.



Source: (Rothaermel 2015), page 252

**Fig. 8 Directions of vertical integration in value chain**

The only difference is the stage in the value chain, where a company plans to achieve more control on selected operations.

Within the second, diversification set of strategies, presented on the **figure 6**, a company enters new industries, which are not similar to the original industry in order to secure against the competition and increase profitability (Hill, Jones 2009),

however this strategy might be risky, as it may involve a lot of investments for various actions of new product implementation.

In the first form of diversification strategy, a firm's operations in new businesses are in some way linked to the original business (Rothaermel 2015). For example, Arcam AB. entered completely new industry of additive manufacturing, which is different from the original one (electron beam melting equipment), however the base principles are similar (similar equipment is adjusted for specific purposes and tasks) (*Electron Beam Melting - EBM Process, Additive Manufacturing* 2014). Whereas in the second form of conglomerate diversification, which is also defined as unrelated diversification, a firm enters new industries, which are absolutely unrelated to the current one, to seek for new opportunities (Wheelen, Hunger 2012).

### 1.3.2 Competitive strategy

In the level of business strategy, competition strategy is formed to define how a company will compete in market. Porter defined three categories of competitive strategies (Porter, Ehrlich 1992):

- Cost leadership;
- Differentiation;
- Concentration.

Within cost leadership competitive strategy, a firm tries to get the leading position in terms of lowering costs on each of the firm's layers (from production and up to distribution). However, a firm should have relatively big share in market or possess other sources of advantage (e.g. access to better and cheaper resources) (Porter, Ehrlich 1992).

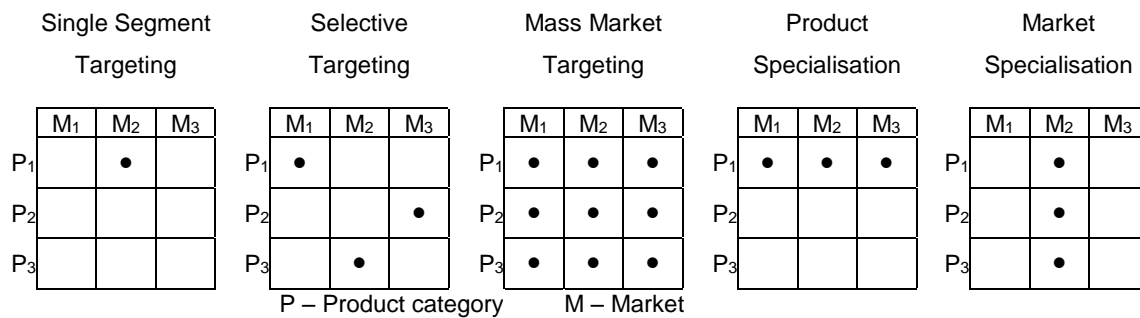
Another strategy is differentiation strategy, which creates preconditions for a firm to be unique in market by creation of completely new product or technology, which previously were not present (Porter, Ehrlich 1992). In case of automotive companies it means, that some company may access new car segment (e.g. BMW entered the segment of hybrid cars (*BMW i: Philosophy* 2014)) or stay at the current segment with the product, which characteristics may provide competitive advantage for some period of time.



The last competitive strategy – concentration strategy, may be applied in case a company has high potential in one of the market segments, thus it tries to maximise the market share. This approach allows to improve the quality of management and may positively influence the level of profitability (Porter, Ehrlich 1992). That strategy can be clearly visible within any automotive company – Porsche and Ferrari stay only at the segments of premium sport cars.

It is necessary to mention that it is quite rare case, when only one of the competitive strategies is applied, due to the limitation of company’s resources.

Another approach of definition how to compete in market is division of market into different segments, which have completely different characteristics. This approach is called targeting strategies (Ferrell, Hartline 2011).



Source: (Ferrell, Hartline 2011), page 182

**Fig. 9 Targeting strategies**

Various approaches presented in **figure 9** require different levels of investments, which depend on variety and/or complexity of offered products. Moreover, selection process of specific targeting strategy is connected to the product characteristics, such as life cycle.

### 1.3.3 Functional strategies

Functional strategies are the base of firm’s operation, as they define how a company will achieve designated targets, defined by corporate and business level strategies (Mallya 2007).

### Marketing strategy

There are many different approaches for definition of marketing strategy. For example, Yip defines it is a global strategy, which consists from one or more of

marketing-mix elements, which can be used in many countries with identical or similar approach to market, however there is a precondition which requires the global standardisation and marketing-mix localisation should be balanced (Yip, Bolesta-Kukułka 2004).

“Marketing strategy is a concept, applying which a firm aims to create customer value and achieve profitable customer relations” (Kotler, Armstrong 2012, p. 48). Authors argue that under marketing strategy, company creates marketing mix of product, price, place and promotion (4P). Hill (2013) also defines marketing strategy with connection to marketing mix of 4P. Application of marketing mix leads to adoption of international policies for products, pricing, place as a distribution network, and promotion, which can be considered as communication tool to potential customers.

#### *Product policies*

Product policies should involve positioning of a product not as such with physical characteristics but primarily with branding strategy, as the brand image makes the product recognisable (Hollensen 2008). “The branding strategy should be built in such way that the following requirements will be met” (Hollensen 2008, p. 314):

- Customer will be able to distinguish a company’s product and differentiate it from competitors;
- Brand awareness and identification;
- Guarantee of a certain level of perceived quality and satisfaction;
- To assist with product promotion.

#### *Pricing policies*

When a company operates in different countries it is impossible to have absolutely similar prices for certain goods. In case of automotive industry, usually there is a fixed invoice price, which is then converted into retail price, including various adjustments, such as importer and retailer margins, transportation costs, taxes, etc.

Hollensen (2008) describes two approaches for pricing policies:

- Prices standardisation (price is fixed across the markets being inflexible to local conditions of each separate market);

- Price differentiation (prices are set by the participants of distribution channels, thus being more flexible to local conditions).

Given the fact that in marketing mix effectiveness of all elements is interconnected, any price changes may influence product, distribution and promotion strategies (Ferrell, Hartline 2011).

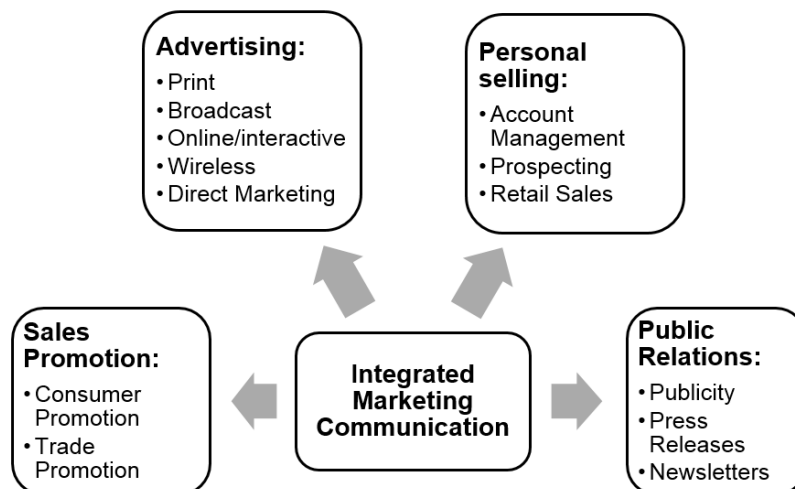
### *Distribution policies*

Automotive industry has three main channels of distribution as described in the **chapter 1.2.2**. However, automotive company may require that all showrooms will have similar design and variety of offer because of franchise agreement. For example, Škoda Auto a.s. has started rebranding project in 2013 for all showrooms in all markets to have identical appearance, accordingly to the brand promotion strategy (*The new face of the ŠKODA Dealer Network - ŠKODA 2013*).

### *Promotion policies*

Promotion policies or communication strategy may vary from country to country because of cultural differences. For example advertisement of Škoda Auto cars in UK (*The new ŠKODA Rapid: 30 Second TV Ad 2015*) and in India (*Presenting the New Škoda Rapid 2015*) is completely different not only because of product adoptions but for cultural aspects, which are different in UK and in India.

Nonetheless, any communication strategy may use different tools in various combinations, which may be optimal in terms of costs or effectiveness, depending on the budget.



Source: (Ferrell, Hartline 2011), page 293

**Fig. 10 Communication strategy components**

One of the measurements of marketing strategy effectiveness is customer loyalty, which can be measured by customer defection rate. This “rate determines the percentage of a company’s customers, who switch every year to competitors” (Hill, Jones 2013, p. 128). For any company is beneficial to minimise this rate, as it will also decrease the cost of marketing campaign.

### **Human Resources**

A company creates a scheme of future actions by using different functional strategies, both for planning and implementation. However, it is impossible to apply any strategy without human resources.

There are various approaches for managing human resources. As always, one of the main constraints are the finances. It means that SMEs will rather use own employees abroad, whereas big international companies can afford to employ as much as possible, the people from the country of internationalisation interest (Yip, Bolesta-Kukułka 2004).

Hill (2014) defines three strategies for managing human resources:

- Hiring strategy;
- Employee training;
- Self-managing teams.

Within the first strategy, a company aims to hire the most motivated people, who potentially can provide higher output than less motivated. The second strategy is employee training – a firm constantly trains and assesses the level of employees’ productivity, which can be a key to the cost optimisation. Application of self-managing teams concepts involves creation of work groups of professionals to make a range of decisions regarding the execution of team tasks, which include hiring, training, work, etc. (Cordery 2015).

Cavusgil, in distinction to Hill, uses different approach of presenting HR strategies, which is presented on the figure below.

International staffing policy	Choosing of employees between home and foreign country
	Expatriates
Preparation and training of employees	Development of effectiveness
	Increasing cooperation between people from various cultural origins
Compensation policy	Development of guidelines and other issues with salaries
International labour relations	Managing of relationships with labour unions
Diversity in international workforce	Recruiting talent from diverse backgrounds to utilise their experience and knowledge

Source: (Cavusgil et al., 2008), page 552

**Fig. 11 HR strategies**

Evaluation of approaches suggested by Cavusgil and Hill, leads to conclusion that none of the strategies cannot be used separately, as it will not be optimal, meaning that it is better to apply a combination of them.

## **Supply**

Supply strategies are directly connected with strategies in the fields of manufacturing and sales. Supply strategy can be defined as a tool which covers all value chain processes, such as raw materials supplies, transport of materials to and from company, goods manufacturing and their distribution to customer (Chopra, Meindl 2001). Based on that it is possible to state that supply strategies are in fact logistics strategies.

“Logistics strategy is a set of guiding principles, driving forces and ingrained attitude that help to interconnect goals and plans between partners across a network” (Harrison, Hoek 2008, p. 31).

The first crucial element in strategy is transport, for which the most important prerequisite of optimal work is the level of infrastructure development in various countries, as that factor has the highest influence on the required time for delivery (Rugman, Hodgetts 2003).

The second element is the group of criteria, which influence the design of strategy (Rugman, Hodgetts 2003):

- Time (depending on a kind of product or time frames of its delivery, specific transport sources might be chosen);
- Predictability (climatic factor, e.g. a storm on sea may influence the ship's arrival time and safety of cargo);
- Costs (the value of various transport sources);
- Non-economic factors (e.g. human factor).

One of the broadly used approaches within logistics strategy is Just-in-Time principle, which aims to reduce the costs of logistics and storing. Just-in-Time principle is a process which starts only when the end-customer is demanding more of new parts for manufacturing processes (Harrison, Hoek 2008). For example, a customer orders a car, order is put to the system of producer (production is planned e.g., in one month), only when production process starts, necessary components are being delivered for the time, when the parts should be ready for manufacturing.

It is necessary to admit that along with increasing quantity of sale and manufacturing facilities complexity of supply network is increasing, thus it may cause higher risks of different problems appearance because of various factors.

Another important component of supply strategy is purchasing strategy, which relates to getting raw materials, parts, components and other supplies, which are required for manufacturing operations (Wheelen, Hunger 2012).

### **Research & Development**

The aim of R&D strategy is to improve operational performance, applying sub-strategies, such as benchmark, product improvement, development of new products and their enhancement (Sharma 2003). In other words, the aim of R&D strategy is to create innovation and develop such technologies, which being used in the final product will satisfy the needs of customers. Based on that, R&D departments should be organised in the way, which ensures rapid communication between engineers and sales & marketing departments, thus allowing faster launch of new products in market (Hill, Jones 2007).

During implementation of R&D strategy, a company's management has to decide about development of new technologies through the usage of own resources or by acquirement from outside. Technological development, which is based on creation of innovation in own R&D departments is better solution, in case technology is the key component in defeating the rivals, however that approach is risky because of high financial and other risks (Johnson et al., 2005). The acquirement of technology outside of company is cheaper than previous method. Nonetheless, this method also has its own disadvantages, depending on the source of technology (e.g. acquirement, strategic alliance, etc.).

Selection of R&D strategy highly depends on the characteristics of a company. In case of automotive companies, which can be also characterised as technology firms, R&D strategy should be rather offensive, aimed on reaching leadership in the selected market segment (Kaleta, Moszkowicz 2010).

## **Production**

Manufacturing strategies, as all other strategies in some extent are connected with business and even corporate level strategies because some of them require big investments.

There are various approaches towards manufacturing strategies. Hill (2013) generalises them into two groups:

- Internal manufacturing;
- External manufacturing (outsourcing).

There are different sub-strategies and concepts within these approaches. In case of internal manufacturing a company, a company may use lean methods, which are expanded concept of just-in-time principle adopted for mass-production (Harrison, Hoek 2008). External manufacturing involves the application of outsourcing, which was described in **chapter 1.2.1**.

Another important set of manufacturing strategies are the localisation strategies of manufacturing facilities. The main factors influencing effectiveness of such strategies are (Yip, Bolesta-Kukułka 2004):

- Conditions which favour manufacturing operation (cheap materials and labour force and its productivity);

- Closeness of main markets (allows to reduce costs of logistics);
- Country of origin effect;
- Presence of competitors manufacturing facilities (may influence more rapid development of own manufacturing facilities).

Generally, manufacturing strategies might be highly influenced by other functional strategies, such as financial, supply, R&D and marketing.

### **Finance**

Financial strategy can be described as a group of criteria and rules for implementation of company's strategic aims, moreover, it has one of the most important functions in linking other functional strategies, as any decision is more or less related with finances (Kołosowska 2006).

Another definition of financial strategy is slightly different -- financial strategy involves management process of search and implementation of financing sources for firm's activities' to ensure realisation of strategic targets (Strużycki 2002).

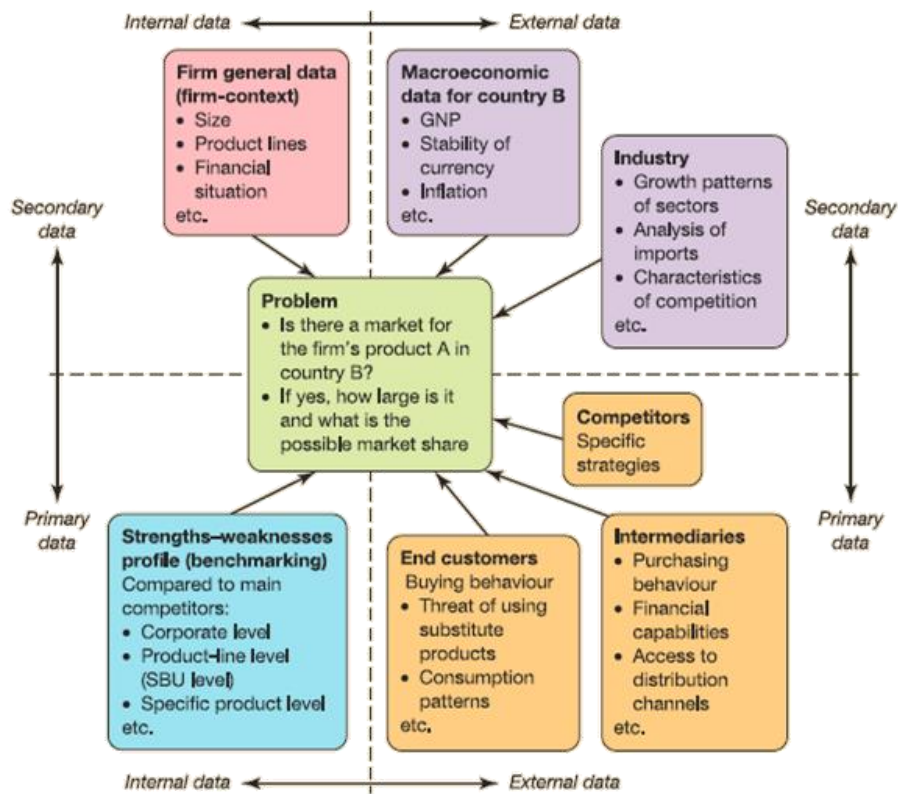
The first definition fits better for firms operating internationally. This is because any action is linked to some expenditure, which firm will have to cover by own capital or by a loan. Second definition is more complicated, as various factors, including political, qualification of managerial personnel, etc., should be considered.



## 2 Indicators for Measuring the Level of Market Potential

One of the main precedents before decision of internationalisation is analysis of selected country's/market's potential.

The research may be conducted based on the primary and/or secondary data – depending on budget, time limits, openness and availability of various data sources.



Source: (Hollensen 2011), page 176

**Fig. 12 Categorisation of data for assessment of market potential**

On the above figure, Hollensen categorises various criteria to take into account while conducting a research. Moreover, he makes a split between external and internal data.

External data includes all kind of information, which relates to a company's external operating environment, whereas internal data comprises all information about company's internal environment, such as information about products, finances, etc.

Based on the Hollensen's approach it is possible to define three aspects of market research:

- Firm general data;
- Country-specific data;
- Industry/market specific data.

To analyse firm’s current situation SWOT analysis is broadly used to analyse organisation from various aspects – internal and external (Mallya 2007).

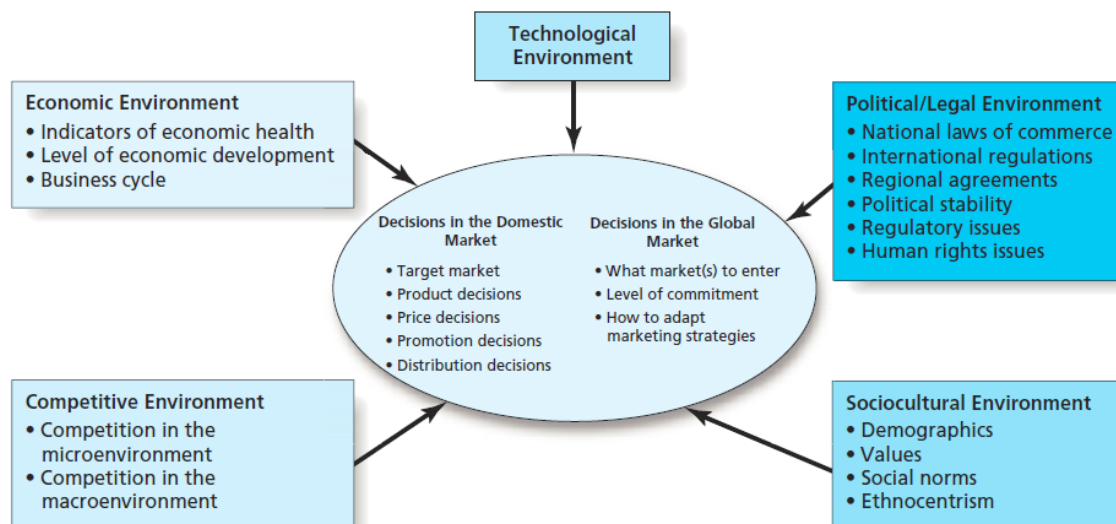
	<b>Favourable factors</b>	<b>Unfavourable factors</b>
<b>Internal factors</b>	Strengths	Weaknesses
<b>External factors</b>	Opportunities	Threats

Source: (Valentin 2001), page 54

**Fig. 13 SWOT framework**

“Strengths and weaknesses usually include image, structure, access to natural resources, capacity and efficiency, and financial resources, whereas opportunities and threats including customers, competitors, trends in the market, partners and suppliers, social changes and new technology, and various environmental economic, political and regulatory issues are included” (Helms, Nixon 2010, p. 216).

For analysis of country-specific data or external environment elements, which form different categories, PEST analysis may be applied.



Source: (Solomon et al., 2012), page 74

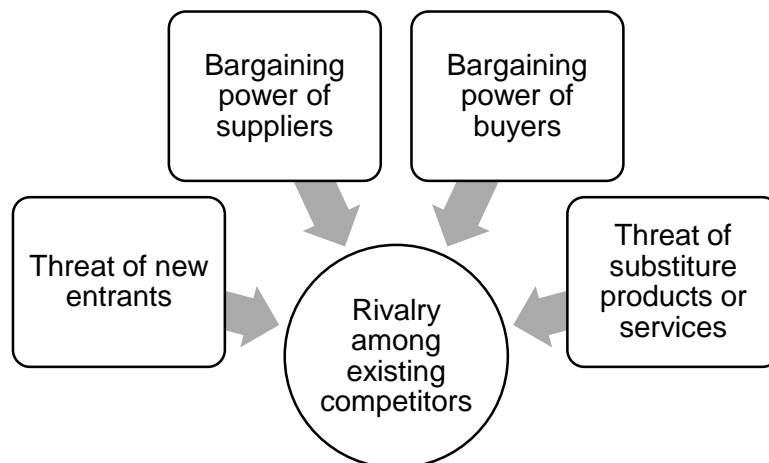
**Fig. 14 External environment elements**

PEST analysis consists of (Hollensen 2011):

- Political/legal factors;
- Economic factors;
- Social factors;
- Technological factors.

As seen on the **figure 14**, most of the factors are presented in detail with exception of technological factors, which describe infrastructure (only that one, which is essential for firm's operation), various R&D incentives and R&D activity level (Berndt et al., 2007).

Industry/market specific data can be evaluated by many different methods. Among the most broadly used ones is Porter's five forces of competition. He defines them as forces that shape competition.



Source: (Porter 2008)

**Fig. 15 Porter's five competitive forces**

### *Competitors*

To get more or less realistic evaluation of a company's position it is crucial to know the competition.

Competition can be analysed from different perspectives. In the present work will be used perspective defined by Bergen and Peteraf. They define three groups of competitors (Bergen, Peteraf 2002):

- Indirect competitors;

- Direct competitors;
- Potential competitors.

Indirect competitors represent the group of firms, which serve similar market demand with different – substitute products. Direct competitors are the companies, which have comparable products and they operate in the same markets and/or segments. Last group of potential competitors also have comparable product portfolio but they operate in different market(s).

One of the important things of competition measurement is that competitors compete in the same dimensions, such as price discounting, new product introductions, marketing campaigns, etc. (Porter 2008).

### *Entrants*

Threat from new entrants is viewed by Porter as an extra pressure on prices, costs and other market-related issues (Porter 2008). However, he argues that such a threat (its probability) can be measured by the complexity of barriers of entry, which include (Porter 2008):

- Supply-side economies of scale (firms are able to cover the fixed costs among higher amount of output);
- Demand-side benefits of scale (increasing amount of potential customers);
- Customer switching costs (costs of switching to another product/service);
- Capital requirement;
- Position advantages independent of size (arise from intangible assets and/or access to better suppliers, etc.);
- Unequal access to distribution channel (not applied for automotive industry);
- Restrictive government policy (different kinds of regulations, taxes, etc.).

### *Suppliers*

Power of suppliers usually is not high enough or it does not make much sense for them in case they want to raise the prices or to shift cost to the industry participants. This is because suppliers are supposed to be interested in mutually beneficial cooperation with automotive companies.

### *Buyers*

Buyers in comparison to suppliers, are the main consumers of all the products in the market, so they can dictate desirable price level, demand better quality, etc. (Porter 2008).

### *Substitute products or services*

For automotive companies not many substitutes exist. One of them might be public transport, when potential customers are forced to refuse driving a car (e.g., the government raises vehicle-related taxation).

## **Research adjustments**

Adjustment of outcomes of marketing research may be unique for any company because each firm has different priorities and aims in the foreign markets, thus it is possible to conclude that there are two kinds of factors, based on the research results:

- Qualitative factors;
- Quantitative factors.

Quality of factors directly relates to the methodology and research type (primary or secondary). Both factors and their importance for automotive companies are reviewed further in that thesis.

## **2.1 Qualitative Factors**

Usually qualitative factors are perceived as those, which do not have much connection with statistical data. Basing on the discussion above, it is possible to include following factors as qualitative for measuring country's/market's potential specifically for automotive companies:

- Outcomes of PEST analysis:
  - Political;
  - Economical;
  - Social;
  - Technological.
- Presence of competition, which can be split by:

- Core (international) competitors;
- Local (new) competitors.
- How long competitors are present in selected country/market;
- Competition performance (e.g. market shares, customer awareness);
- Governmental incentives stimulating car market (e.g. scrapping programmes).

Outcomes of PEST analysis that are evaluating political, partially economical, social and technological environments are defined as qualitative factor because of their importance of showing country's potential (various barriers of entry, easiness of business operations, socio-cultural aspects and technological level).

The most important factor in that ranking is the presence of competition. The competition can be split between international, core and local competitors. In both cases, different strategic approaches have to be developed due to country specifics, which can be found e.g. in segmentation. Another important thing to consider is how long competition is present in market because through the time, it may have developed outstanding client base, distribution network, etc.

Measurements of competition performance may be performed by different methods. One of the ways is to benchmark by market shares (amount of cars per brand sold among others) and customer awareness/satisfaction.

Quite popular among various countries are the scrapping incentives, which stimulate potential customers to purchase new vehicles, therefore this factor should be considered as an important one.

## **2.2 Quantitative Factors**

Under quantitative factors, statistically analysed information is usually included. Typically there are:

- Selected outcomes of PEST analysis;
- Total car market:
  - Size of total market;
  - Size of segments;

- Shares of channels.
- Car penetration rate;
- Oil prices.

Selected outcomes of PEST analysis are the statistically measured indicators and indexes including economic (usually macro) and social (population, age residuals, etc.).

Total car market of passenger vehicles usually is divided by segments (based on the car body dimensions) and by channels of sale (private, fleet and Rent-a-Car). This specific information is important as it allows adjusting proper strategy of operation and it can show, which types of cars are the most popular.

Another important factor is the car penetration rate, which shows how many cars are owned among defined amount of people (usually it is 1000 people).

Finally, oil prices may have significant influence on market situation, depending on geographical location of a country.

### **3 Market Analysis of Chosen Countries**

#### **3.1 Methodology of Analysis**

The aim of empiric research is to identify indicators for market entry in selected emerging markets and to apply them in Škoda Auto case study.

Selected emerging markets:

- Brazil;
- India;
- China.

Main assumption of research:

Automotive industry has specific criteria for market entry, which may be general for an industry and thorough for individual company.

Following research questions were formulated:

1. What are the most important country-related factors for automotive company?
2. What are the most important market-related factors for automotive company?

Research methods, which were applied in that thesis, included secondary data from public-access sources for countries analyses, whereas for Škoda Auto case study, primary research was conducted, along with analysis of secondary data in form of company's annual reports. Main research tool was the list of questions, which was used during the interviews with middle-level managers from Škoda Auto, who work with Chinese division of Škoda Auto a.s. on daily basis and/or were in China on business trips with duration of more than two years:

- 1) Assuming that Škoda Auto a.s. entry to China was highly influenced by VW group, how the decision-making process was shared?

How much time did it take?

Which points were important in such decision?

- 2) Given the fact that VW group is present in China more than 25 years (before Škoda Auto a.s. entry), did VW provide own facilities not only for



manufacturing/assembly processes but for, e.g. administrative purposes, etc., as well?

- 3) Was R&D as well internationalised to China or was kept at Czech Republic?

Is there any R&D facility of VW group in China?

- 4) How the Škoda Auto cars were positioned in the relevant segments in Chinese market?

How they were positioned towards cars from the VW group?

Which differences of China and domestic markets (e.g. Czech Republic, EU) were important?

How the pricing policy was adopted, compared to domestic markets?

- 5) How the distribution network has been developing since the moment of entry?

- 6) Did Škoda use VW group dealers?

- 7) How management process was built and controlled?

- 8) What were the product adaptations to Chinese market?

How the Chinese market specifics (e.g. cultural differences) influenced this process?

- 9) Why some models are assembled as CKD, while others are produced from “zero”?

How it was decided about such a split (what were the reasons)?

- 10) What were the support incentives from VW group (e.g. HR, manufacturing, etc.) and how big was their intensity (e.g. duration)?

- 11) How the HR management process was organised? (By functions of employees; split between Chinese employees and expatriates)

How many people were expatriates, how many Chinese people were employed and for which positions (by level of responsibilities and functions)?

Did company send any locally employed people to Europe to gain experience and come back later?

- 12) What were the main competitors at the moment of entry?

Were they different, compared to domestic markets (e.g. Czech Republic, EU)?

13) Were there any green/brown field investments planned?

14) How the supplier network was built (given the fact that VW was sharing factories with Škoda Auto a.s.)?

Did main suppliers move to China or they were already represented there?

15) How the customer awareness has been created?

What type of communications strategies were applied to attract the customers?

16) Were there any differences in customer target groups, compared to other (e.g. from European markets)?

Answers were given for most of the questions because some questions were linked to confidential information, which is not available for public access.

Apart from primary research results, which were gained during the interview, information from secondary sources were also analysed (e.g. Škoda Auto a.s. web page, annual reports).

### **3.2 Introduction of Selected Countries**

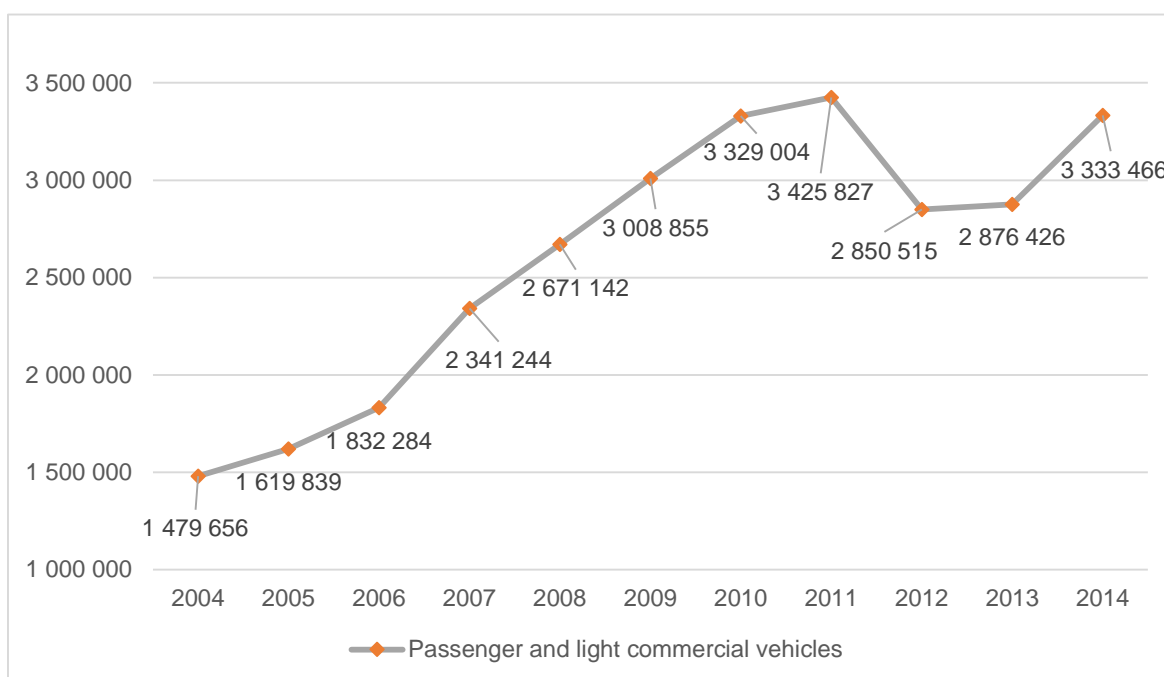
For the purposes of this work, author selected three countries from BRIC group, which have the potentially the highest capacity of automotive market:

- Brazil;
- India;
- China.

The reason for selecting specifically these three countries is that they have the highest potential, which is to be shown further in that chapter. As BRIC group also consists of Russia, it was decided not to include it into analysis because of very unbeneficial conditions for international cooperation, including unpredictable economical and especially political situation, and disrespect to international agreements and obligations.

## Brazil

According to the ANFAVEA, the total market of passenger vehicles has been constantly growing since 2000, reaching 3.76 million cars registered in 2013 and 3.49 million cars in 2014 (Associação Nacional dos Fabricantes de Veículos Automotores 2015a), which is in line with the passenger and LCV segments as shown below, though these segments were the main market driver in 2014.



Source: (Associação Nacional dos Fabricantes de Veículos Automotores 2015b)

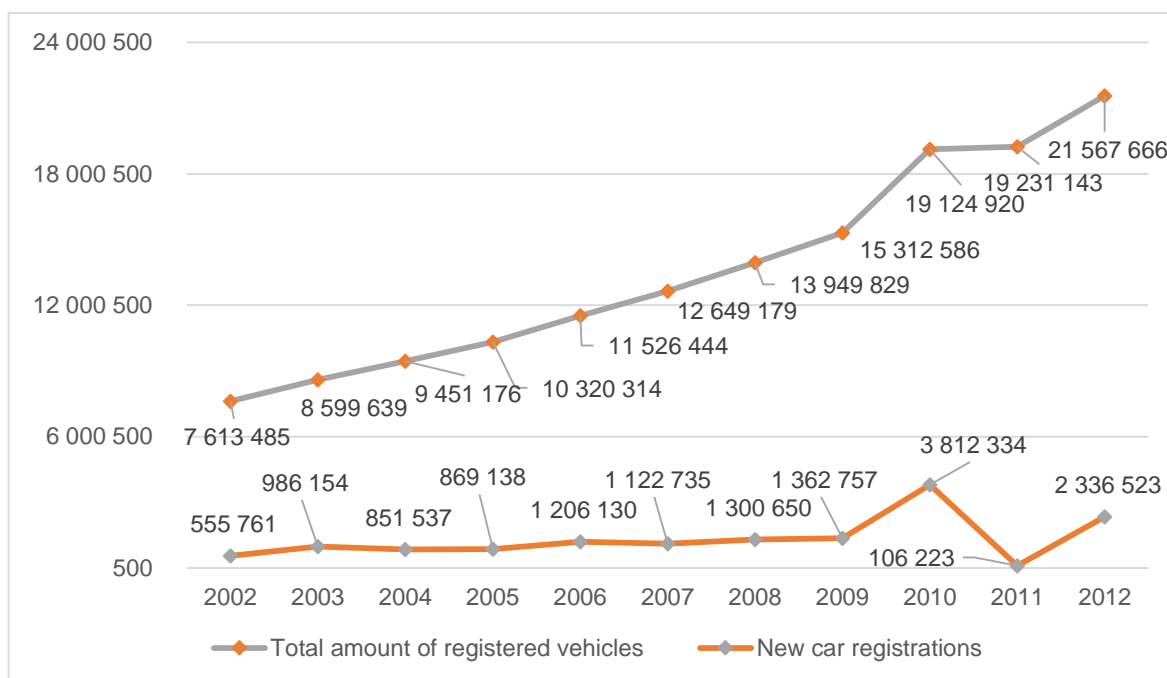
**Fig. 16 New car registrations in Brazil, time series 2004-2014**

Nevertheless it is expected, that the market will recover in 2015, being stimulated by governmental incentives, prepared in cooperation with ANFAVEA; moreover, no external influence, such as elections or international sport events, should not occur.

## India

According to the Ministry of Statistics and Programme Implementation, since 2002 and until 2012, 149,346,381 vehicles (according to the classification of Ministry of Statistics and Programme Implementation, the number includes cars, jeeps, taxis

and excludes light motor vehicles (they also contain three-wheelers) and commercial vehicles (no distinction is done between LCV and other types)).



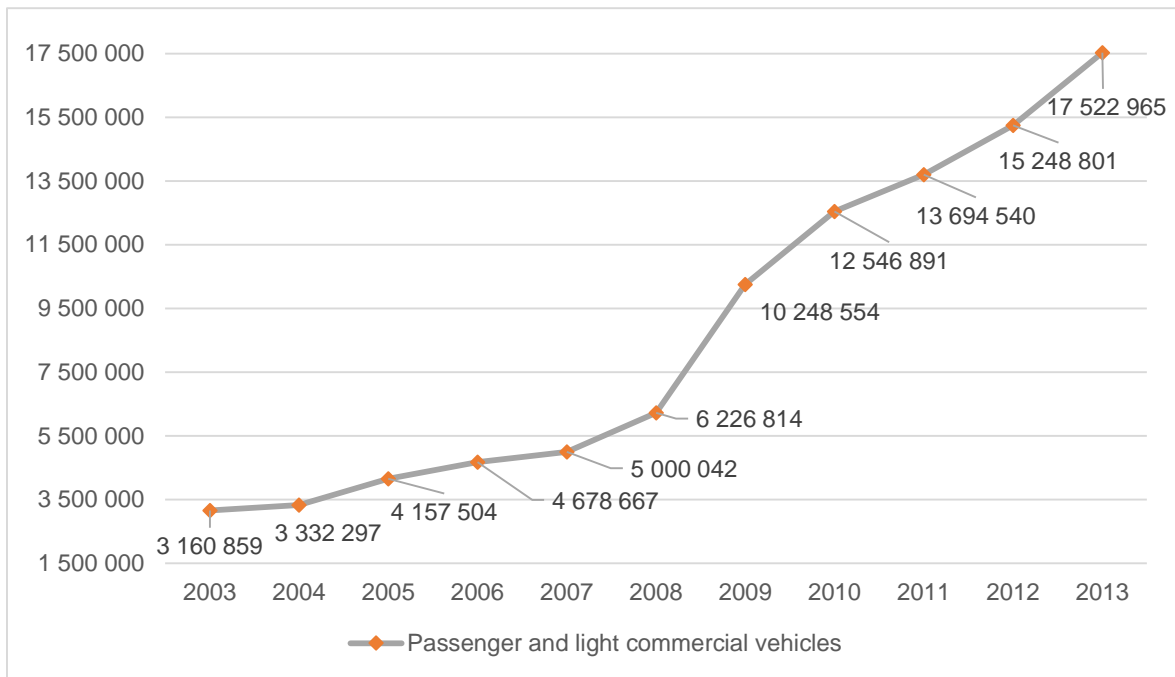
Source: (Ministry of Statistics and Programme Implementation 2014)

**Fig. 17 New car registration in India, time series 2003-2013**

As seen on the **figure 17**, there was significant drop by 97% in 2011 for new car registrations. One of the main reasons of such market shock was unbeneficial macroeconomic situation, which heavily influenced car market.

### China

During the 10 years period (from 2003-2013), Chinese total market has been continuously growing, starting from 4,337,485 new vehicles registered in 2003 and 20,309,394 new vehicles registered in 2014 with average Year-over-Year growth of 18.7%.



Source: (China Statistics Press 2014a)

**Fig. 18 New car registrations in China, time series 2003-2013**

As seen on above chart, new car registrations were not affected by the financial crisis, which started in 2008; moreover annual increase of car registrations on average was 2,535,511 vehicles per year. Unfortunately Chinese bureau of statistics does not have data for 2014, however CAAM states that in 2014 19,700,600 passenger and LCV units were sold, which is 5.8% less than in previous year (CAAM 2015)<sup>1</sup>.

Unfortunately, there are big differences on methodology of count, preparation and presentation of such information as new car registrations, especially in China and India. In cases of these two countries, the most recent information was not available.

Nevertheless, three countries have big car markets, which offer a bundle of various opportunities for car manufacturers.

### 3.3 Analyses of Countries

The analyses will be performed according to the methods described in **chapter 2**, meaning that analysis starts with PEST analysis and ends with division by qualitative and quantitative factors.

<sup>1</sup> This figures were not included in chart to keep consistency

### 3.3.1 Brazil

#### PEST analysis:

##### *Political factors*

In Brazil there is no limitation on type of company, which can be established by foreign entity, thus it can be (Government of Brazil 2014):

- Limited Liability Company;
- Corporation;
- Joint Venture.

For foreign companies is especially beneficial that there is no obligation of Brazilian individuals/firms involvement in ownership of newly established entity.

Brazil applies high internal taxes in automotive industry. As a result, goods imported and sold in Brazil face higher taxes than Brazilian products. For instance, the tax on imported vehicles may exceed that, which is collected on Brazilian-made cars by 30% of a car's value. Combined with customs duties levied at the border and other charges, this may amount in some cases to a prohibitive tax of 80% on the import value (European Commission 2014).

In addition, Brazil restricts trade by demanding from Brazilian manufacturers to use domestic components as a condition to benefit from tax advantages. This promotes import substitution by inducing foreign producers to relocate to Brazil and to limit foreign sourcing.

##### *Economic factors*

Brazil is one of the leaders in terms of economy's velocity of development. The **table 4** shows major macroeconomic indicators of Brazil.

**Tab. 4 Selected Brazilian macroeconomic indicators**

	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP (current US\$ in billions))	664	882	1089	1367	1654	1620	2143	2477	2249
GDP growth (annual %)	6	3	4	6	5	0	8	3	1
Inflation, GDP deflator (annual %)	8	7	6	6	8	7	8	7	5
Industry, value added (% of GDP)	30	29	29	28	28	27	28	28	26

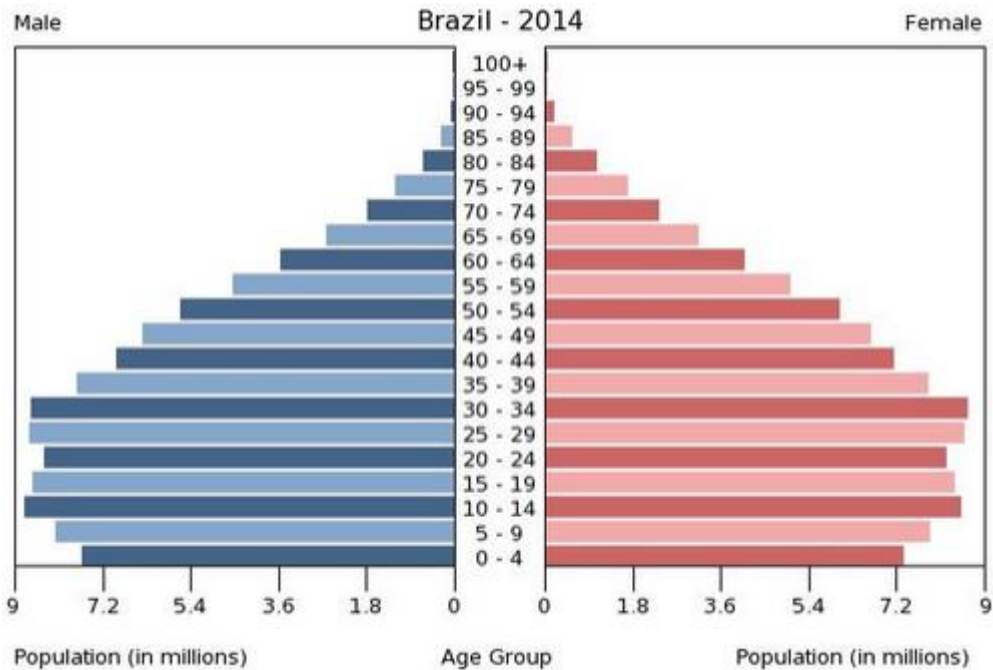
Exports of goods and services (% of GDP)	16	15	14	13	14	11	11	12	13
Imports of goods and services (% of GDP)	13	12	11	12	13	11	12	13	14
Inflation, consumer prices (annual %)	6,60	6,87	4,18	3,64	5,66	4,89	5,04	6,64	5,40
Real interest rate (%)	43,40	44,93	42,07	35,76	35,92	34,95	29,35	34,51	30,22

Source: (The World Bank Group 2015a)

As seen in the above table, Brazilian economy has been developing quite steady. However, the growth rate suffered during the crisis, in 2009 but then had recovered previous tempo. It is necessary to mention that industrial contribution to GDP has been facing constant decline, due to the growth of services contribution to GDP.

*Social factors*

By the end of 2014, total population of Brazil was 202,656,788 people, making the country sixth in the world; urban population was 85.4% with an annual growth by 1.17% (Central Intelligence Agency 2015a).



Source: (Central Intelligence Agency 2015a)

**Fig. 19 Age distribution in Brazil**

According to the data presented on the above chart, Brazilian population can be characterised as “medium-age”, which is result of baby boom in the late 1980s.

In 2014 GDP per capita was \$15,200, which is not high, comparing to EU countries, however high poverty rate of 30% of total population should be taken into consideration as well.

#### *Technological factors*

In 2011, total spending on R&D was 1.21% of GDP (The World Bank Group 2015b). Despite the fact that this number is not extraordinary, it is the biggest in South America, placing Brazil on the first place by that factor (Martin Grueber 2012).

### **Factors adjustments**

#### *Qualitative factors:*

PEST outcomes:

- Trade barriers are high because of import duties and taxes, pushing foreign companies to establish a subsidiaries in Brazil to avoid that barriers;
- Economy is growing, however tempo is slowing down;
- Most of the population lives in the urban areas;
- Significant share of young and middle age people among total population.

Presence of competition:

National Association of Automotive Manufacturers (ANFAVEA), currently unites local and international companies among which are (Associação Nacional dos Fabricantes de Veículos Automotores 2015c):

Audi, BMW Group, CAO Hyundai, Ford, Chevrolet, Renault, Volkswagen and others

Government incentives:

In 2012, the Brazilian Government issued a program, designed to support the automotive industry's technology development, innovation, safety, environmental protection, energy efficiency and quality improvement. In order to benefit from tax reduction incentives, OEMs are expected to invest in research and development in Brazil and to achieve production of more economical, lower priced and safer vehicles (*Doing business in Brazil* 2014).



*Quantitative outcomes:*

PEST outcomes:

- GDP per capita is relatively low but considering the fact that almost 30% of people are below poverty line than it may have correlation;

Total car market:

As it was shown on **figure 16**, Brazilian car market has been growing from year to year, meaning that demand for new cars is stable –it creates beneficial conditions for current and new rivals.

Unfortunately, it is not possible to provide detailed data of the segment sizes and channels because such information is usually not available for public access. This information is prepared in most of the countries by private companies, which can provide it on the monetary compensation base.

Car penetration rate:

In 2012, penetration of vehicles per 1,000 people in Brazil was relatively high – around 200 cars. It means that market is quite saturated, even though it continues to grow.

### 3.3.2 India

#### **PEST analysis:**

##### *Political factors*

There are different options to enter Indian market, however the most common ones are (Invest India 2012):

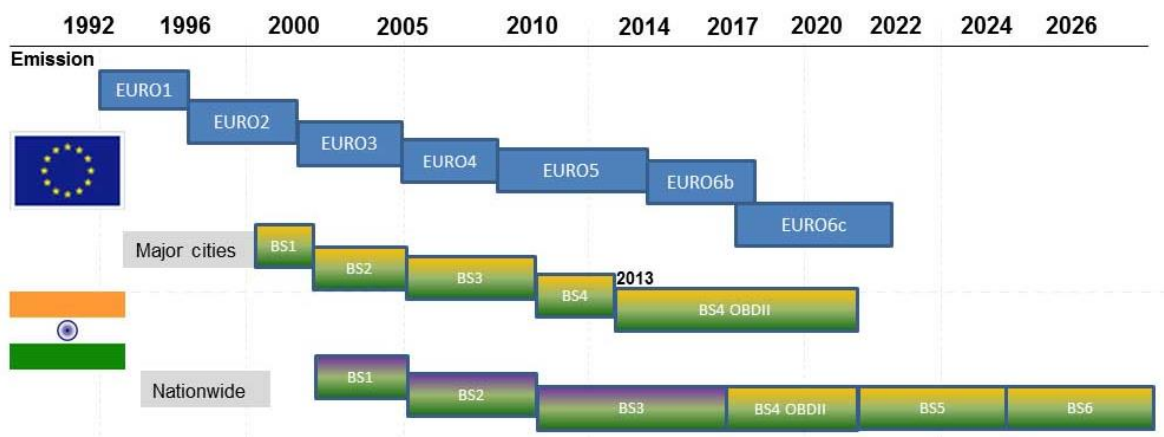
- Branch office;
- Wholly owned subsidiary;
- Joint venture with Indian company.

In case of branch office, foreign companies can conduct their business in India through its branch office which can be opened after approval from Reserve Bank of India. One of the available activities of operations includes import and export of goods.

Foreign companies can set up wholly owned subsidiary companies in India in form of private companies. The main benefit of such company is flexibility of performing various kinds of business in India.

Joint venture with Indian company is the third option. There are no separate laws for joint ventures in India – laws governing domestic companies apply equally to joint ventures (Invest India 2012).

Due to the Indian governmental policy, there is high import duty for CBU, depending on the car dimensions and engine size, it is 60% or 100% (Society of Indian Automobile Manufacturers 2015a). Additionally excise duties apply, also depending on the dimensions and engine, starting from 6% and up to 30%.



Source: (Society of Indian Automobile Manufacturers 2015b)

**Fig. 20 Indian regulations on emissions**

Additionally there are regulations on level of emissions, which are relatively similar to European standards. For European automotive manufacturers it has both positive and negative effects. The positive is that engines are similar to those sold in domestic markets, potentially meaning that it is possible to apply larger economy of scale, whereas negative effect is that the product life cycle is artificially shorten by the regulations.

*Economic factors*

India is usually recognised as one of the most rapidly developing countries. Its performance is shown in the **table 5**.

**Tab. 5 Selected Indian macroeconomic indicators**

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP (current US\$ in billions))	834	949	1239	1224	1365	1708	1843	1836	1875
GDP growth (annual %)	9	9	10	4	8	10	7	5	7
Inflation, GDP deflator (annual %)	4	6	6	9	6	9	6	8	6
Industry, value added (% of GDP)	28	29	29	28	28	27	33	32	31
Exports of goods and services (% of GDP)	22	24	24	29	25	26	31	31	28
Imports of goods and services (% of GDP)	19	21	20	24	20	22	24	24	25
Inflation, consumer prices (annual %)	4,25	6,15	6,37	8,35	10,88	11,99	8,86	9,31	10,91
Real interest rate (%)	6,25	4,48	6,87	4,28	5,77	-0,60	3,54	2,77	3,80

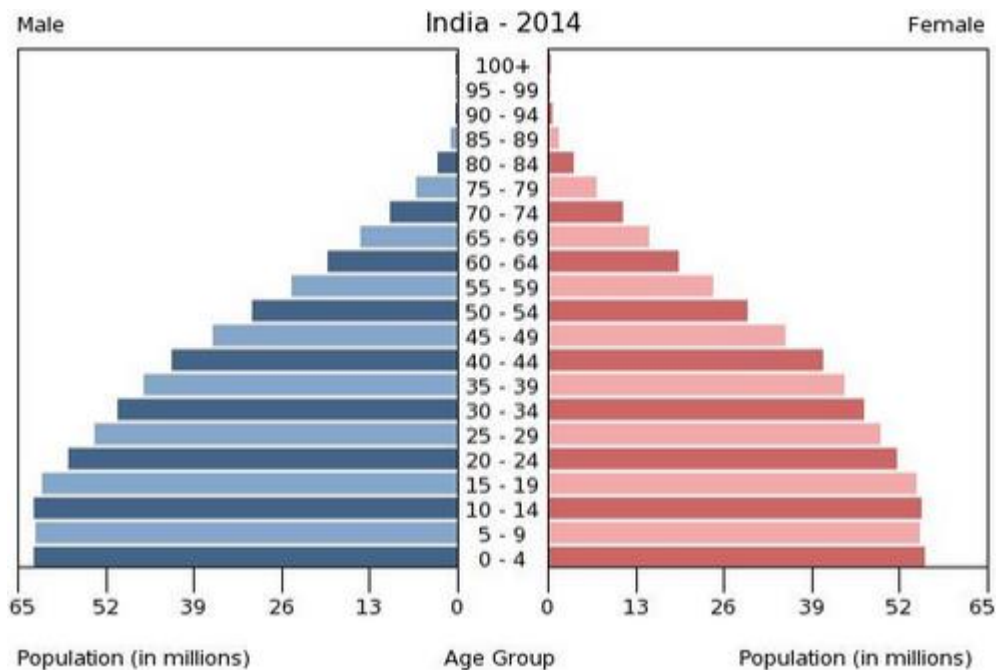
Source: (The World Bank Group 2015a)

As it was stated previously, India's economy has been growing for a long time, however data in **table 5** covers only the period since 2005. Even though since 2005, the growth was constant, just slightly affected by the world financial crisis but afterwards being recovered in 2009. Contribution of industry to GDP is only 31% in 2013, so it is possible to state that the government will try to develop it by attracting foreign companies and supporting domestic ones.

#### *Social factors*

India is the second most populated country in the world after China. By the end of July 2014, population of India was 1,236,344,631 people; urban population was 32.4% (2014) of total population with annual growth of 2.38% (Central Intelligence Agency 2015b).

As seen on the **figure 21**, majority of population is in the age range of 0-19, meaning that there will be a very intense market of labour, thus it may be beneficial for foreign companies, as the demand may be potentially higher than supply.



Source: (Central Intelligence Agency 2015b)

**Fig. 21 Age distribution in India**

By the end of 2013 GDP per capita in India was \$1,497.5 (The World Bank Group 2015c). It is not a great number, however there should be taken into account amount of population, as it may greatly influence that figure.

#### *Technological factors*

In 2013, India was eighth largest country in terms of R&D investments, accounting for \$42 billion. The total patent applications stood at 186,000. Patent and design applications accounted for 17.4 per cent (32,425 applications) and 3.4 per cent (6,410) share, respectively. The number of MNC R&D centres in India have grown at a compound annual growth rate of 14.4 per cent to 1,031 over 2000-2013, with an overall employment base of 244,000 (India Brand Equity Foundation 2015).

#### **Factors adjustments**

*Qualitative factors:*

PEST outcomes:

- Trade barriers are high because of import duties, however there are beneficial conditions for establishment of a company in India;

- Economy is growing, however some decisions done by the government caused the outflow of capital, negatively resulting in growth of inflation;
- Most of the population lives in the rural areas;
- Significant share of young people among total population.

Presence of competition:

Society of Indian Automobile Manufacturers, which represents (SIAM) is the apex leading vehicle and vehicular engine manufacturers in India, currently unites local and international companies among which are:

BMW India Pvt Ltd, Fiat India Automobiles Pvt Ltd, Ford India Pvt Ltd, Foton Motors Manufacturing India Pvt Ltd, General Motors India Pvt Ltd, Hyundai Motor India, Maruti Suzuki India Ltd, Renault India Pvt Ltd, Škoda Auto India Pvt Ltd, Tata Motors Ltd, Volkswagen India Pvt Ltd.

Government incentives:

One of the active incentives is focused on electric powered cars, offering tax reductions or subsidies for purchase of electric car. It specifies incentives of up to 29,000 rupees (\$457) for scooters and motorcycles, and up to 138,000 rupees (\$2,177) for cars (Edelstein 2015).

*Quantitative outcomes:*

PEST outcomes:

- Current population age distribution creates beneficial conditions for manufacturing, as the labour cost should not be high;
- R&D expenditures are increasing, being stimulated by government.

Total car market:

As it was shown on the **figure 17**, Indian car market has been growing from year to year, meaning that potentially there should be a space for new companies, which will manage to compete against current rivals.

Unfortunately, it is not possible to provide detailed data of the segment sizes and channels because such information is usually not available for public access. This

information is prepared in most of the countries by private companies, which can provide it on the monetary compensation base.

Car penetration rate:

In 2014 Penetration of vehicles in India was very low at around 18 per 1,000 individuals (*Can Volkswagen Succeed In India?* 2014). This is caused by the fact, that the biggest part of population lives in rural areas, and cannot afford to buy a car.

### 3.3.3 China

#### **PEST analysis:**

##### *Political factors*

Given the fact that any entrance of foreign company to China is considered as an FDI, therefore there are different options available (Ministry of Commerce of the People's Republic of China 2014):

- Chinese-Foreign Equity Joint Ventures;
- Chinese-Foreign Cooperative Joint Ventures;
- Wholly Foreign-Owned Enterprises;
- Joint Stock Limited Companies with Foreign Investment.

The first three are the most common ones in China. The first option involves joint investment and operation with sharing profits and losses accordingly to proportion of shares in the registered capital (participation of foreign party should not be less than 25%). This type of joint venture is a limited liability company and possesses the status of Chinese legal entity. Capital contributions may be done both in forms of tangible and intangible assets.

The second option involves cooperation on the basis of contract, which defines conditions, rights, profit/loss distribution, etc. Important aspect of such joint venture is that usually foreign party provides more than half of the capital and other assets, whereas the Chinese party provides the right for land usage and all the buildings on it or certain amount of capital. However, after the expiration of the contract all the fixed assets involved have to be returned for free to Chinese party (even though,

before the expiration of the agreement, foreign party may apply to recover its capital outlay).

The third option does not involve participation of a Chinese firm, as it is invested completely by foreign enterprises. The organisational form of Wholly Foreign-Owned Enterprises is limited liability company (if allowed, it is possible to take any other liability form).

The fourth option Joint Stock Limited Companies with Foreign Investment implicates cooperation between foreign and Chinese companies on the principle of equality and mutual benefits. Because of this, total capital is equally divided between the parties, meaning also that all duties, responsibilities, etc., are equal for all of the shareholders.

One of the reasons why foreign companies start cooperation with Chinese firms is high level of customs for imported cars. Currently it is set at 25% for passenger vehicles (buses are not included), and LCV with gross weight less than five tons. 25% (World Trade Organization 2015) is quite a lot for the mass-market car manufacturers because if the invoice price of a car is 14.000 EUR, the retail price will include that custom, becoming at least 17.000 EUR (not counting transportation cost, different local taxes, importer and dealer margins, etc.).

#### *Economic factors*

According to the data from the World Bank, which is shown below in the table, Chinese economy is very powerful and constantly growing.

**Tab. 6 Selected Chinese macroeconomic indicators**

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP (current US\$ in billions))	2257	2713	3494	4522	4990	5931	7322	8229	9240
GDP growth (annual %)	11	13	14	10	9	10	9	8	8
Inflation, GDP deflator (annual %)	4	4	8	8	-1	7	8	2	2
Industry, value added (% of GDP)	47	48	47	47	46	47	47	45	44
Exports of goods and services (% of GDP)	37	39	38	35	27	29	29	27	26
Imports of goods and services (% of GDP)	32	31	30	27	22	26	26	25	24
Inflation, consumer prices (annual %)	1.82	1.46	4.75	5.86	-0.70	3.31	5.41	2.65	2.63

Real interest rate (%)	1.60	2.23	-0.16	-2.28	5.95	-0.78	-1.15	3.93	4.22
------------------------	------	------	-------	-------	------	-------	-------	------	------

Source: (The World Bank Group 2015a)

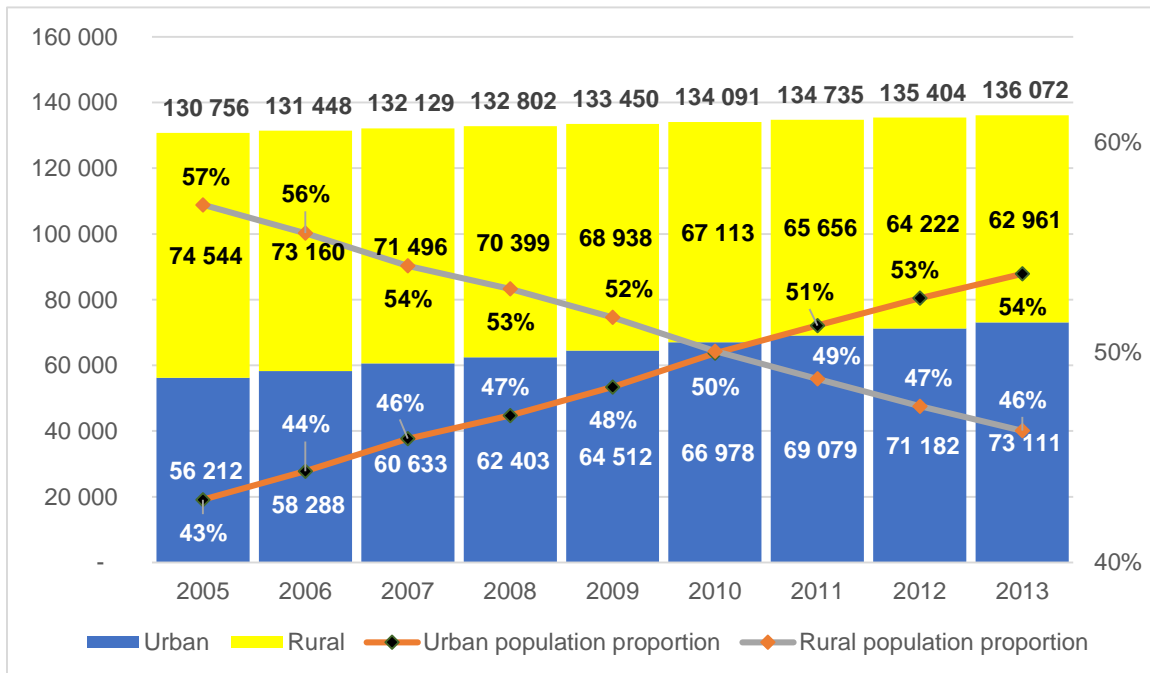
It is necessary to admit that the velocity of economy growth started to decrease, being affected by the financial crisis in 2008, nevertheless the growth is still positive, and shall remain the same until the end of the decade.

China is very industrial country, which is seen on the contribution to GDP. It means that there are many factors, which make industrial development beneficial. The primary factors include cheap labour force, raw materials, etc.

Low interest rates may attract new companies from abroad, meaning that it is possible for them to get relatively cheap financing. Quite often foreign companies establish in China manufacturing facilities, which produce goods in China and then ship them abroad, as seen on export values in table above. Given the fact, that the trade balance is positive, meaning that export prevails on import, China benefits from it a lot.

### Social factors

China is the most populated country in the world. By the end of 2013, total population was 1,360,720,000 people.



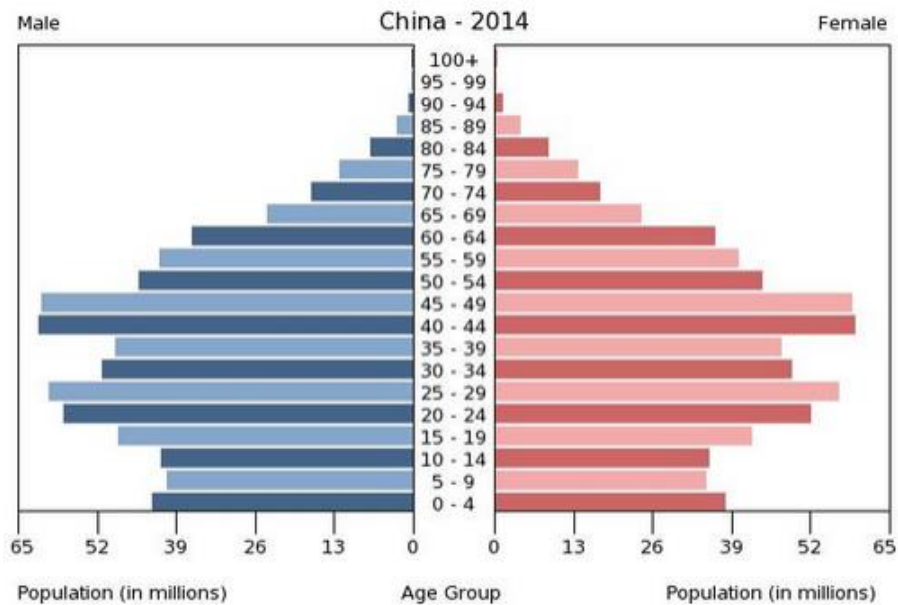
Source: (China Statistics Press 2014b)

**Fig. 22 Composition of population in China (scale in 10 000 persons)**



In 2005, most of the population lived in rural zones, however with industrialisation, more and more people were moving to the urban zones as seen on the **figure 22**.

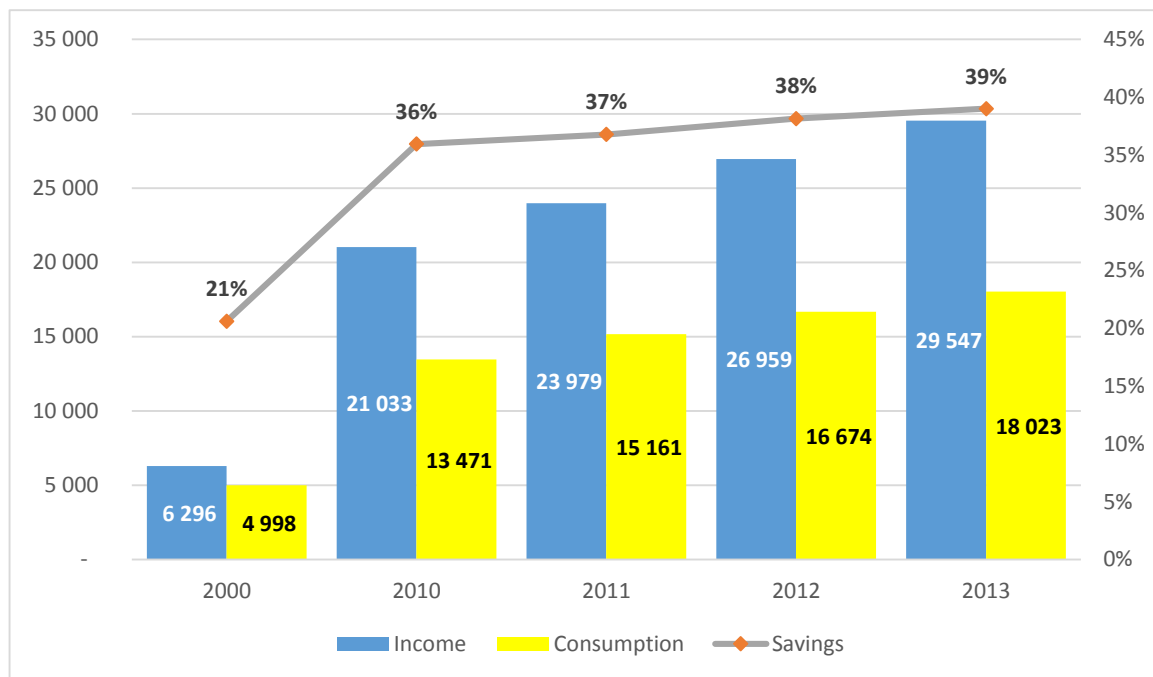
The most of the population are men, as seen below on the age distribution graph. Moreover, the biggest part of total population is in the age between 20-24 and 45-49, meaning that these people potentially have the highest ability to consume to produce different goods and services.



Source: (Central Intelligence Agency 2015c)

**Fig. 23 Age distribution in China**

In addition, it is important, that there is high percentage of young population (below 18 years), which can potentially keep the current rates of population growth.



Source: (China Statistics Press 2014b)

**Fig. 24 Per Capita Income, Expenditure, and savings rate of Urban Households in Yuan**

Due to the increasing rate of urban population, rural population will is not considered in the **figure 24**.

From year 2010, income was constantly increasing more than consumption, allowing people to save money, thus potentially allowing them to buy more valuable goods, as consumption shown on the above chart includes only expenses on food, clothing, residence, household facilities, transport and communications, education, culture, recreation and health care.

#### *Technological factors*

China's R&D activity can be evaluated by expenditures and number of patent applications granted (input and output).

**Tab. 7 Scientific and Technological Activities in China**

Item	2009	2010	2011	2012	2013
Expenditure on R&D (100 million yuan)	5802.1	7062.6	8687.0	10298.4	11846.6
Ratio of Expenditure on R&D to GDP (%)	1.70	1.76	1.84	1.98	2.08
Number of Patent Applications Granted (piece)	581,992	814,825	960,513	1,255,138	1,313,000

Source: (China Statistics Press 2014c)

In China, annual expenditure on R&D purposes has been constantly growing since 2009. It means that Chinese government aims on development of technology, which will be comparable by all criteria with western (Europe and North America) science. As a result of such development, higher automation levels may be implemented, allowing to decrease cost of production and produce more complex products.

### Factors adjustments

*Qualitative factors:*

PEST outcomes:

- Relatively medium barriers of entry, however customs are quite high (25%), making import unbeneficial, thus joint venture, as a starting point, might be a solution.
- Economy is still growing, meaning that demand and supply in market should be also developing;
- Most of the people live in the cities, which is beneficial for automotive companies, as it is easier to set up a distribution network within big cities;
- Income per household in urban area is growing, making possible purchase of various durable goods, including passenger vehicles.

Presence of competition:

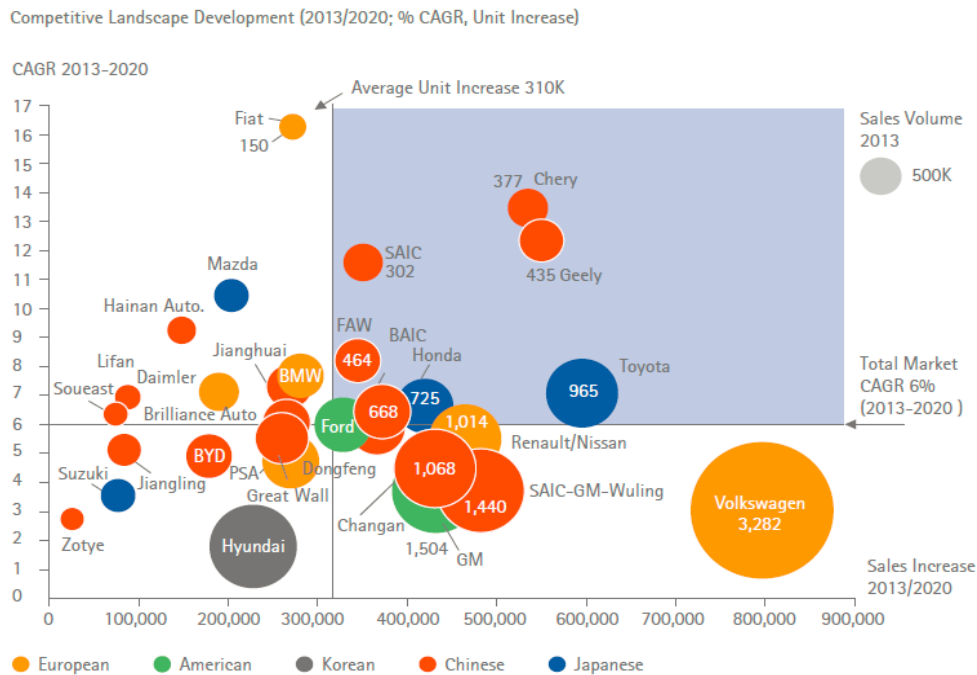
**Tab. 8 Chinese automotive market participants**

Chinese Automakers	Semi-Foreign Joint Ventures
BAIC (Beijing Auto, Beiqi)	Beijing Benz, Beijing Hyundai, Foton Daimler
Brilliance Auto, Huachen Auto Group	BMW Brilliance
BYD Auto, BYD Company	Shenzhen BYD Daimler New Technology Co., Ltd
Chery Auto	Qoros Auto, Chery Jaguar Land Rover
CHTC Auto	
Cowin Auto	
Dongfeng Motor (DFM, "Eastwind")	Dongfeng Nissan, Zhengzhou Nissan, Dongfeng Peugeot Citroen, Dongfeng Honda, Dongfeng Yueda Kia , Dongfeng Infiniti, Dongfeng Volvo
Dongfeng Yulon	
FAW (First Automobile Works)	FAW Volkswagen, FAW Audi, FAW GM, FAW Mazda, FAW Toyota
Foday (Guangdong Foday Automobile Co., Ltd.)	

Foton, BAIC. (Beiqi Foton)	Foton Daimler
Fujian Motors	Soueast Mitsubishi, Fujian Benz
GAC (Guangzhou Automobile Group Co.)	GAC Honda, GAC Toyota, GAC Fiat Chrysler, GAC Mitsubishi
Geely Auto	Volvo Cars
Gonow, GAC.	
Great Wall Motor (GWM)	
Hawtai	Hawtai Hyundai
Huanghai, SG Automobile Group	
JAC (Jianghuai Auto)	
JMH (Jiangling Motor Holding)	Jiangling Ford, Jiangxi Isuzu
Jonway Auto	ZAP Jonway
(Sichuan) Nanjun Auto	Sichuan Hyundai
Qoros Auto	
SAIC (Shanghai Automotive Industry Corporation)	Shanghai GM, Shanghai Volkswagen, SAIC-GM-Wuling (SGMW), Nanjing Iveco (Naveco), Shanghai Sunwin Bus
SGMW (SAIC-GM-Wuling)	
Shuanghuan Auto	
Soueast Motor	Soueast Mitsubishi
Victory (Chengong) Auto	
Liuzhou Wuling Motors, Co., Ltd	SAIC-GM-Wuling (SGMW)

Source: (Chinese Auto Companies, Sino-Foreign Joint Ventures | ChinaAutoWeb 2015)

In total, there are at least 40 Chinese auto manufacturers, from which 38 have joint ventures with foreign companies, resulting in were strong competition between local and foreign brands.



Source: (Accenture 2013), page 6

**Fig. 25 Performance of automotive brands in China in 2013**

In 2013, Volkswagen was the market leader in terms of sales volume, however local brands such as Chery, Geely, FAW, etc., and international ones including Toyota and Honda are relatively close to the leader, meaning that these brands can be called one of the most popular on the market, considering the product offers for different segments.

Government incentives:

In the past years, Chinese government decided to start lowering emissions, including automotive. To stimulate demand for environmentally friendly cars, mostly electric powered, various incentives were implemented. These incentives are subsidising the purchase of such cars – up to 60,000 Yuan are provided for completely electric powered car and up to 35,000 Yuan for hybrid cars (*China to offer tax breaks on electric cars, limited mostly to local brands 2014*).

However, there is one limitation regarding those incentives, and it is connected with protectionist politic of China -- 17 vehicles from 11 automakers, including one model each from the Chinese joint ventures of Nissan Motor Co Ltd, General Motors Co and Daimler AG (*China to offer tax breaks on electric cars, limited mostly to local brands 2014*).

*Quantitative outcomes:*

PEST outcomes:

- High import duty tax pushes foreign automotive companies to cooperate with Chinese on the basis of joint-ventures;
- Current population age distribution creates beneficial conditions for manufacturing, as the labour cost should not be high.

Total car market:

As it was shown on **figure 18**, Chinese car market has been growing from year to year, meaning that potentially there should be a space for new companies, which will have to manage competition against current rivals.

Unfortunately, it is not possible to provide detailed data of the segment sizes and channels because such information is usually not available for public access. This information is prepared in most of the countries by private companies, which can provide it on the monetary compensation base.

Car penetration rate:

According to the Bloomberg's article, in 2011 car penetration rate per 1000 people in China was quite low – only 69 cars (*China Has More Space Than U.S. for Adding Car Ownership* [no date]). However, when considering the total amount of population, situation does not appear to be unfavourable.

### 3.4 Ranking of countries according to the market potential

After analysis of basic indicators and factors, it is possible to group the results of three countries results into one table. Normally the table should be a ranking, based on the weights of each factor. The company's management usually defines the weights, as they perfectly know their firm's portfolio, which includes information not only about product range but also about current markets (in case there are some). In case of the following table the weights are not applied, as they vary, depending on company's profile.

**Tab. 9 Main findings**

Country	Qualitative factors	Quantitative factors
Brazil	<ul style="list-style-type: none"> <li>• High trade barriers, pushing foreign companies to establishment of subsidiaries;</li> <li>• No limitations for choosing the legal form of subsidiary;</li> <li>• Total economy is growing slowly but still its size is one of the biggest in South America;</li> <li>• Significant share of young and middle age people;</li> <li>• Most of the population lives in urban areas;</li> <li>• All major international automotive firms are present in Brazil;</li> <li>• Incentive in form of regulations to stimulate production of more economical and cheaper cars;</li> </ul>	<ul style="list-style-type: none"> <li>• GDP per capita is low, probably being affected by the almost 30% of total population, which lives below poverty line;</li> <li>• Brazilian car market has been growing from year to year;</li> <li>• There is no specific segmentation as in India in case of two and three wheelers;</li> <li>• Very high car penetration of 200 cars per 1,000 people.</li> </ul>
India	<ul style="list-style-type: none"> <li>• Very high trade barriers (import duties);</li> <li>• Economy is growing, however velocity of growth is going down;</li> <li>• Most of population live in rural areas;</li> </ul>	<ul style="list-style-type: none"> <li>• Second place in the world by the size of population;</li> <li>• Most of the people are of young to middle age;</li> <li>• Total car market is very specific, as the biggest share there have two and three wheelers, however the share of four</li> </ul>

	<ul style="list-style-type: none"> <li>• All major European and American brands have subsidiaries in India in form of limited liability companies;</li> <li>• Government incentives are focused on electric cars.</li> </ul>	<ul style="list-style-type: none"> <li>• wheels passenger vehicles has been increasing each year;</li> <li>• Penetration rate of cars is not high, only 18 per 1,000 people, which caused by the fact that most of the people live in rural areas and does not have big income enough to buy a four-wheel car.</li> </ul>
China	<ul style="list-style-type: none"> <li>• Medium barriers of entry (import duties);</li> <li>• Entry is possible only through cooperation with Chinese firm;</li> <li>• Growing economy;</li> <li>• High level of urbanisation</li> <li>• All of the international automotive companies have joint ventures with Chinese;</li> <li>• Total car market is the biggest in the world and still growing</li> </ul>	<ul style="list-style-type: none"> <li>• Average income per household is growing from year to year;</li> <li>• The biggest population with urbanisation trends;</li> <li>• Very high R&amp;D activity (up to 2% of GDP);</li> <li>• Relatively low penetration rate of cars per 1000 people (69 cars), however amount of total population should be considered.</li> </ul>

Source: own elaboration

According to the data available, it is possible to put the countries into the following order (the first is best and the last one is the worst):

1. China
2. Brazil
3. India

The reason for such ranking is that China shows the highest market potential, which should be analysed deeper to evaluate details about segmentation, market shares, etc. Another reason is geographical location, meaning that it is possible to use China as a manufacturing base, from which internationalisation to the neighbouring countries can be performed.

Brazil is on the second place, despite very high trade barriers. This country also shows high potential (in smaller scale, than China), which should be analysed deeper. Extra argument for Brazil is geographical location, so it is possible to manufacture cars in Brazil and then export them to other countries in South America or even to Africa.

India is on the last place because of specific market segmentation, low percent of urbanisation and low income. Even though that the entry barriers are not high, the

market itself does not look beneficial. In addition, geographical location may not bring as much benefits as, e.g. China. Recommendation for Indian market is to wait until macro-economic conditions will improve.

Generally, there were identified such crucial factors for market entry:

- Macroeconomic situation;
- Level of entry barriers;
- Total car market (its segmentation and performance);

However, there is a limitation towards these factors as they provide only entry level of information, which should be enough for decision to conduct more detailed analysis, covering bigger variety of different country and market related factors.



## 4 Škoda Auto Case Study

Škoda Auto a.s. entered Chinese market in 2007 and it was one the best decisions in history of a company. That chapter presents the case study, connected with Škoda Auto a.s. internationalisation to China.

### 4.1 Škoda Auto company profile

Škoda Auto has been one of the oldest, biggest and most well-known brands in Czech Republic for a long time, especially after acquisition by VW AG, company's potential had increased, as a result of different incentives from the Group.

#### 4.1.1 Markets

Currently Škoda Auto is present in most of European countries; additionally Škoda sells the cars to the countries from all continents, with exception of USA, Canada and Japan.

*Tab. 10 Škoda Auto deliveries to customers in 2014 (top 15 markets)*

	Deliveries to customers (vehicles)		Change in %
	2014	2013	2014/2013
<b>Total Škoda brand</b>	<b>1,037,226</b>	<b>920,750</b>	<b>12.7%</b>
China	281,412	226,971	24.0%
Germany	149,538	136,415	9.6%
Russia	84,437	87,456	-3.5%
Great Britain	76,027	66,029	15.1%
Czech Republic	70,200	60,042	16.9%
Poland	46,650	38,710	20.5%
France	21,054	20,400	3.2%
Austria	20,487	20,073	2.1%
Netherlands	18,567	13,597	36.6%
Switzerland	17,820	16,984	4.9%
Belgium	17,807	15,482	15.0%
Spain (excluding the Canary Islands)	17,783	13,421	32.5%
Slovakia	16,402	14,827	10.6%
India	15,538	22,563	-31.1%
Israel	15,118	14,387	5.1%

Source: (Škoda Auto a.s. 2015), page 24

Škoda Auto is showing good performance in main Asian and European markets, stating that 2014 was the best year in history in terms of sales volume.

#### 4.1.2 Organisational structure

Škoda Auto a.s. is 100% owned by Volkswagen Finance Luxembourg S.A., which shares are owned by Volkswagen AG. Detailed structure of ownership is presented in **appendix 1**.

#### 4.1.3 Product portfolio and manufacturing

In 2014, seven different models, covering different segments, represented Škoda Auto product range.



Source: (*Fleets and Diplomatic Sales - ŠKODA 2015*)

**Fig. 26 Škoda Auto a.s. product range**

Škoda Auto smallest car, Citigo (number 1) is designed for the small city cars segment is available in three and five doors versions. Škoda Fabia (number 2), which is available as hatchback and combi, is the brand's second-highest-selling car after the Škoda Octavia. Car's features make it one of the most popular models in its segment among different markets. The newest car of Škoda Auto is Rapid (number 3), introduced in autumn 2013, and was designed to fill the gap between Škoda Fabia and Škoda Octavia. Škoda Rapid is available as a hatchback (the model is called Spaceback) and limo. Škoda Octavia (number 4) is brand's bestselling car in the history, is targeted to A segment, which is one of the biggest among many countries. Škoda Octavia is available as both limo and combi with variety of different trims – from basic to sport and off-road. Škoda Superb (number 5) is the firm's representative in the premium, B segment, offered also as a limo and combi. Škoda Auto only SUV, Škoda Yeti (number 6) is sold in segment of compact SUV, A0 SUV. Škoda Roomster (number 7) is brand's only MPV, being available as passenger car and LCV.

**Tab. 11 Portfolio of models manufactured worldwide in 2014**

	Citigo	Fabia	Rapid	Roomster	Octavia	Yeti	Superb
Mladá Boleslav (Czech Republic)		•	•		•		
Kvasiny (Czech Republic)				•		•	•
Bratislava (Slovakia)	•						
Kaluga (Russia)		•	•				
Nizhny Novgorod (Russia)					•	•	
Aurangabad (India)					•	•	
Pune (India)			•				
Anting (China)		•			•	•	
Yizheng (China)			•				
Ningbo (China)					•		•

Source: (Škoda Auto a.s. 2015), page 22

Most of the brand's vehicles are manufactured not only in Europe but also in Russia, India and China. Škoda Auto a.s. also has license agreements for manufacturing in Ukraine and in Kazakhstan (Škoda Auto a.s. 2015).

## **4.2 Škoda Auto internationalisation to China**

Škoda Auto entry to China was successful decision as seen on sales results in **table 11**. The following chapters will present the process of company's internationalisation to China.

### **4.2.1 SWOT before entry to China**

In order for the best possible evaluation of internationalisation motives of Škoda Auto a.s., the method of SWOT analysis (described in **chapter 2**) will be used.

The following analysis will cover the years, prior to entry to China in 2007. It will start with analysis of internal causes in company. Next will be covered the external aspects of close and distant firm's environment.

Given the fact that company started to publish annual reports since 2000, data for earlier years was not available for that research.

#### **Strengths before entry to China:**

- Strong support from VW, due to the acquisition;

- Stable financial position;
- Increasing model range;
- Growing brand image and awareness in markets, as an outcome of sponsorship of various sport events (mainly cycling and hockey);
- Positive influence of German management on rising of quality in all company's areas;
- Positive customer satisfaction;

***Weaknesses before entry to China:***

- Limited degree of freedom of actions – influence from VW;
- VW group strategy influences pricing strategies, product characteristics and launches, etc.;
- Intense competition with other brands from the concern, particularly in core segments with highest volume;
- Moderately low market share in some EU markets;

***Opportunities before entry to China:***

- Improvement of product design;
- Model range development to cover more market segments;
- Possibility to produce components (engines and gearboxes) for companies from VW group;
- Option to enter new markets, for example countries from BRIC group.

***Threats before entry to China:***

- Growth of low-cost brands, which will offer comparable quality for much more lower price;
- Customer loyalty – they may switch to other brands;
- Change in macroeconomic environment in key markets;
- Growth of input prices (labour cost, raw materials, energy, fuel, etc.).

As seen from SWOT analysis above, Škoda Auto was quite strong (in its market segments) player, which had well developed own resources and opportunities of entering new markets. Analysing strong and weak sides of the company, it is possible to state, that main motives for entry to new markets were first of all market and cost factors.

The first group of market factors appeared due to the limited capacity of European market and relatively low market shares of Skoda Auto. This was motivating the management to seek for new options, one of which in 2001 was Ukraine.

Another group of factors – cost, were important to gain higher profits from new markets in order to be able to develop new model ranges, R&D facilities, etc.

#### 4.2.2 Forms and strategies of internationalisation

Škoda Auto a.s. officially recognised year of entry to China was 2007 – it considered to be the first year of sales. However, preparation process for internationalisation had started 4-5 years before.

Management of the company understanding limited capacity and scope of opportunities in Europe decided to entry Chinese market, which at that moment was highly promising in terms of growth. What is more important, that it was not 100% decision of Škoda Auto a.s. – it was also influenced by the VW AG.

One of the main factors of China, which were influencing the choice of entry mode were high trade barriers, as they were limiting possibility to internationalise by import of cars, for example from India, where Škoda Auto at that moment already had manufacturing facilities.

Given the fact that it was not beneficial to use import as an entry mode, it was decided to establish manufacturing facility. However, such decisions require a lot of investment, so the VW AG adopted an incentive to support Škoda Auto internationalisation.

To support Škoda Auto, VW AG decided to enlarge already existing manufacturing facilities of VW in China and to provide some of the production capacity for Škoda Auto. As VW in China has two joint ventures, which are located near Beijing (FAW-Volkswagen) and near Shanghai (Shanghai Volkswagen Automotive Co., Ltd.), second one was chosen because of good localisation in well-developed region.

Due to the fact, that Škoda Auto was going to start cooperation with Shanghai Volkswagen Automotive Co., Ltd., which is joint venture between VW AG and SAIC Motor, another agreement was signed. The agreement intended the start of Škoda Octavia manufacturing on basis of license for manufacturing.

Regarding the marketing strategies, they did not differ much from European. Prior to the launch of new model, an exclusive sales and service network was created in China, where by end of 2007, “70 new model showrooms had been opened and another 15 were under construction” (Škoda Auto a.s. 2008, p. 61). These numbers did not include dealers, which were selling vehicles from all the Group brands. Communication campaigns were intended mainly on motor shows and classical (in case of automotive companies, targeting retail markets) methods of advertisement. Given the fact that all facilities in China are owned by VW, Škoda Auto does not have any property there. However all employees working for Škoda brand, are considered to be also Škoda Auto a.s. employees not VW.

Majority of employees are Chinese, whereas the expatriates (mostly from Germany and Czech Republic) occupy top and middle managerial positions. Average annual number of expatriates has been around 40-50 people. Since 2007, they have been working in all departments – production, sales and marketing, controlling and quality control. Each year company has been providing training of employees of Chinese origin. Depending on occupied position, an employee may be sent to Europe at least for 1-2 years. The purpose of such approach is to establish network of business contacts in order to ensure future effective cooperation between employees in Czech Republic and in China. In other cases, trainings are done in China primarily before launch of new vehicle.

The final issue regarding HR strategy is organisation of work. It is organised in tandem – foreign employees and local (Chinese) are working together on some projects. Additionally, given the fact that firm in China is joint venture, being managed by expatriates, the official communication language is English.

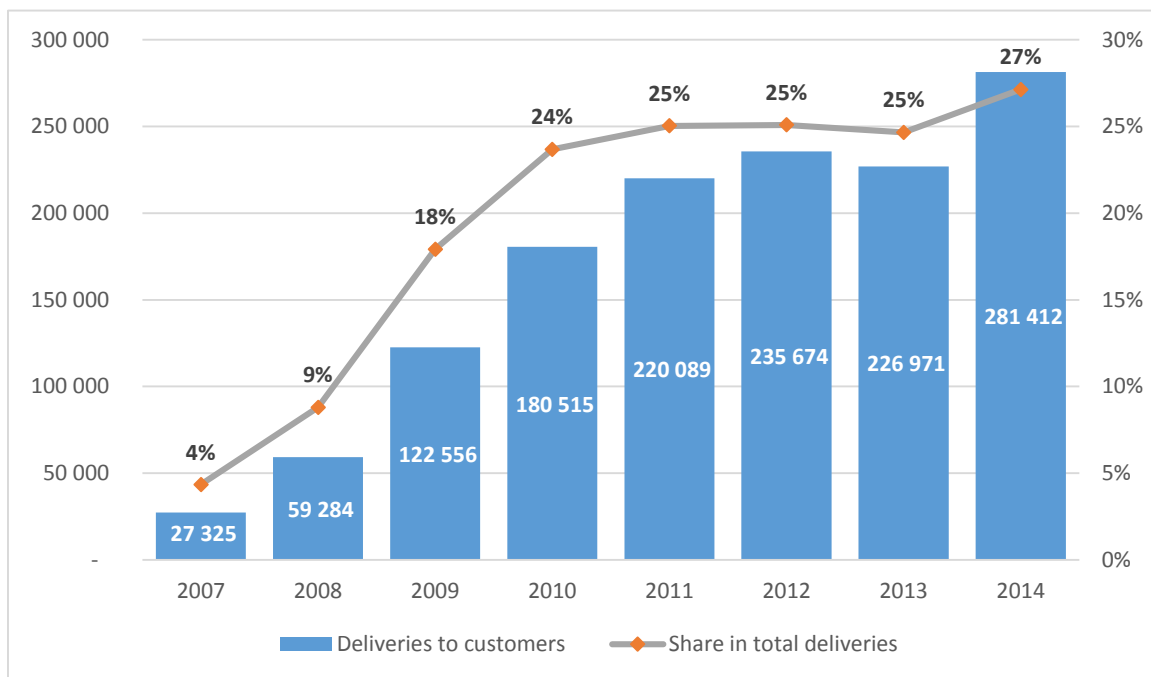
#### 4.2.3 Effects of internationalisation

Effects of internationalisation may be seen in following:

- Increased sales and profit due to entry to China;

- More funds for investments;
- Enlarged product range;
- Strengthening international position in terms of competitiveness with core rivals.

Since the moment of entry, sales were growing on annual basis.



Source: (Škoda Auto a.s. 2009), page 66; (Škoda Auto a.s. 2011), page 85; (Škoda Auto a.s. 2013), page 23; (Škoda Auto a.s. 2015), page 24

**Fig. 27 Development of deliveries to customers in China since 2007**

Development of sales in China was constantly increasing since 2007, with exception of 2013. The decline was caused by the fact the key model, the ŠKODA Octavia, was coming to the end of its lifecycle, and the ŠKODA Rapid model was introduced in China later than in the European markets. However in 2014, there was a significant influence from launch of Škoda Rapid model line on deliveries.

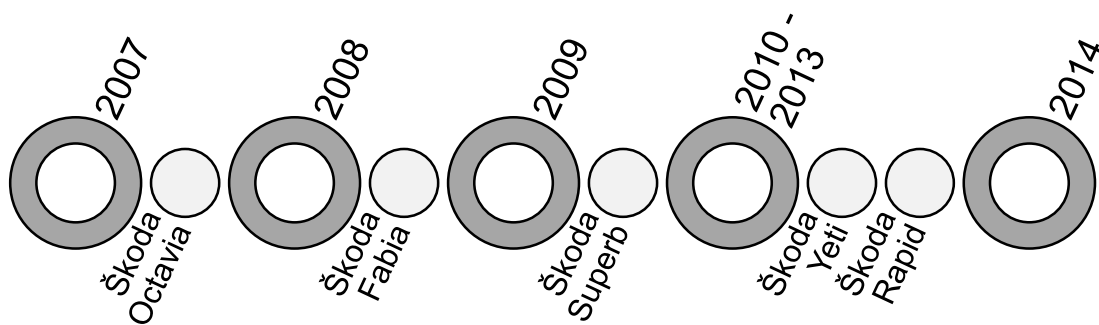
Unfortunately, company cannot provide the data of profitability per country or region (e.g. Western Europe, Asia/Overseas), due to the fact that it is confidential information. Basing on the annual reports it is also difficult to identify it, because annual sales were growing in most of the markets.

Nevertheless, it is possible to state that, thanks to the internationalisation to China, Škoda Auto gained many benefits. One of them may be decreased level of

dependence from the VW AG, as Škoda had more funds for investments, which were generated by sales, not given by the Group.

Extensive investments at Volkswagen Group level underscore the Škoda Auto commitment to the country. Financing of that investments was done from the cash flow of the Chinese joint venture and had increased production capacities over the next years, since 2010 (Škoda Auto a.s. 2011).

Production capacities had to be expanded because nearly every year, new model was launched based on positive results, achieved in previous years.



Source: (Škoda Auto a.s. 2008), page 6; (Škoda Auto a.s. 2009), page 7; (Škoda Auto a.s. 2011), page 39; (Škoda Auto a.s. 2012), page 29

**Fig. 28 Timeline of launch of new Škoda Auto models in China**

Expanding of production every after entry to China required adopting new contacts with suppliers. Due to this, Škoda Auto started to cooperate with local suppliers, which cooperation resulted in 95% level of locally (Chinese) produced components, which also allowed Škoda Auto to optimise purchasing processes.

Another effect of internationalisation was strengthening international competitive position. This is because of similarity of competitive basket – majority of core competitors from European markets were present in China as well. However, for Škoda Auto it was not easy to compete in Chinese automotive market, even though it was the biggest in the world. One of the reasons for is that Chinese market is in some way unique to Škoda Auto because of “double competition”. In that case it means, that Škoda Auto had to compete not only with international core competitors but also with local automotive companies, which were developing own market shares each year. After the entry, it was decided by management to keep existing



model positions, which was done in line with corporate strategy (focus on lower to middle segments (mostly middle)).

However, to ensure better performance in selected segments, it was also decided to develop exclusive models for Chinese market. One of them is Yeti, as it faced the most of localisation adjustments.



Source: (ŠKODA Yeti - Overview - ŠKODA 2015), (Shanghai Volkswagen Škoda 2015)

**Fig. 29 Comparison of European and Chinese versions of Škoda Yeti**

Other models had just minor adjustments, such as interior changes, adoption of trim names, etc. However for the purposes of most optimal model adoption, it was decided to establish small R&D department on the base of VW facilities. One of the supporting factors was that more than 95% of all components were produced in China, so in order to decrease the time lag in development and further implementation of its outcomes, R&D department was established in China.

#### 4.2.4 SWOT after entry

As seen on the **figure 27**, Škoda Auto decision for internationalisation to China was absolute success, which resulted in fact that China became the biggest market for the brand.

##### **Strengths after entry to China:**

- Stronger international position in terms of competitiveness;
- Stable financial position;
- Increasing model range;
- Positive customer satisfaction;

- The top of capabilities for sales not yet reached – there is room to improve;
- Level of support from VW remained unchanged – became even deeper;
- Good results in the current decade may lead the VW AG management to analyse possibilities of Škoda Auto a.s. introduction to completely new markets in South or even North America;
- All new models will be built on new platform MQB developed by VW, thus Škoda Auto a.s. potentially may achieve competitive advantage by reducing the cost on R&D;
- Export of models assembled in China to other geographically close overseas markets;
- Level of sales allow covering the losses in other countries – Chinese market may be perceived as a cushion.

***Weaknesses after entry to China (they mostly remained the same as before entry):***

- Limited degree of freedom of actions – influence from VW AG;
- VW group strategy influences pricing strategies, product characteristics and launches – generally all firm layers and divisions act accordingly to the strategy framework of the Group;
- Intense competition with other brands from the concern, particularly in core segments with highest volume;
- Moderately low market share in some EU markets, even though most of markets had grown.

***Opportunities after entry to China:***

- Improvement of product range and design;
- Distribution network may be expanded to new regions in China;
- Škoda Auto a.s. may adopt a concept of selling used cars in regions, where the level of welfare is significantly lower, compared to eastern regions.
- Model range development to cover more market segments;

- Possibility to enter geographically close markets of South Korea and Japan;
- Application of similar method of internationalisation to enter the market of Brazil.

***Threats after entry to China:***

- Macroeconomic environment is highly influenced by the government in China;
- Environmental regulations in China may become more strict, resulting in shortage of engine and gearbox product lifecycle;
- More competition arise in low-price segments from low-cost brands, such as Dacia, Indian and Chinese brands;
- Growth of local Chinese brands, which in some circumstances may be supported by government;
- Customers may switch to cheaper brands with comparable level of quality;
- Sudden decline in market growth may result in overall losses, as the company will be unable to cover the losses in other markets.

From conducted analysis it is possible to conclude that internationalisation to China had very positive influence on the brand's performance and growth. The total level of sales had increased significantly and it took only 3 years for Chinese market to become the indisputable leader in terms of sales among all other brand's markets.

Comparison of SWOT analyses before entry and after does not show big changes. However some of them were important, which may had significant influence on company of Škoda Auto a.s. and the owner, VW AG. Internationalisation process to China was relatively easy thanks to the incentives and support from VW, otherwise it could be difficult to state how many years it would have taken to return all the possible investments.

## Conclusion

The aim of the thesis was to present the essence of internationalisation of automotive companies, to identify indicators for market entry in selected emerging markets and to apply them in Škoda Auto case study.

Realisation of the thesis's aim allowed answering the following research questions:

1. What are the most important country-related factors for automotive company?
2. What are the most important market-related factors for automotive company?

Further, the answers are given for each of the questions.

Basing on the market analysis of chosen countries, which were Brazil, India and China two crucial country-related factors were identified – macroeconomic and the level of entry barriers. In general these factors are similar for any automotive company, which operates in different markets, e.g. not only passenger cars but lorries, busses, etc. This is because for any company it is crucial to know the economic conditions of country, which have direct influence mainly on demand and supply of automobiles. The level of entry barriers can be considered as very important factor, as it directly effects the management's decision of appropriate entry mode selection. Depending on the selected entry mode, different strategies have to be applied, which differ not only by function but by what is more important, by involvement of investments for successful operation in new foreign market. The importance of entry barriers was shown on Škoda Auto a.s. internationalisation to China case study. Due to the high level of entry barriers, for the company it was more beneficial to use licensed manufacturing abroad as an entry mode, which allowed starting market conquest being not limited by trade-barrier factors, which is beneficial in the long-term strategy.

Similarly basing on the market analysis and research of Škoda Auto a.s. case study, important market-related factors were identified – again level of entry barriers and the total car market. The reason for double classification of level of entry barriers factor is that it may limit effectiveness of market conquest, wittingly creating unbeneficial conditions for operation in new foreign market. Total car market is clearly identified as market-related factor, which also has direct influence on

managerial decision to internationalise to selected market or not. Total car market as a factor cannot be analysed in general because it is very broad topic, however automotive companies should consider the segmentation and overall market performance.

The research shows the importance of market analysis prior to internationalisation. However, there is a limitation in that thesis that only publicly available sources were used. In real case, automotive companies are able to conduct analysis that is more detailed by involvement of information from the firms, which are tracking the situation in automotive markets and have specific information about the market segmentation and other important data in relation to the discussed issue.

## References

ACCENTURE, 2013, *China's Automotive Market: How to Merge into the Fast Lane with Consumer and Digital Marketing Insights* [online]. 15 July 2013. [Accessed 18 May 2015]. Available from: <http://www.accenture.com/sitecollectiondocuments/pdf/chinas-automotive-market-cosumer-digital-marketing-insights.pdf>

ACEA, 2014, *The Automobile Industry Pocket Guide 2014–2015* [online]. September 2014. [Accessed 3 April 2015]. Available from: [http://www.acea.be/uploads/publications/POCKET\\_GUIDE\\_2014-1.pdf](http://www.acea.be/uploads/publications/POCKET_GUIDE_2014-1.pdf)

ALBAUM, Gerald S., 2008, *International marketing and export management*. 6th ed. Harlow, England ; New York : Financial Times/Prentice Hall. ISBN 9780273713876.

ASSOCIAÇÃO NACIONAL DOS FABRICANTES DE VEÍCULOS AUTOMOTORES, 2015a, Guide to the Brazilian Automotive Industry Sector. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://www.anfavea.com.br/automotiveguide/BAG2015.zip>

ASSOCIAÇÃO NACIONAL DOS FABRICANTES DE VEÍCULOS AUTOMOTORES, 2015b, Automotive timeseries. [online]. April 2015. [Accessed 20 May 2015]. Available from: <http://www.anfavea.com.br/docs/SeriesTemporais.zip>

ASSOCIAÇÃO NACIONAL DOS FABRICANTES DE VEÍCULOS AUTOMOTORES, 2015c, Empresas Associadas à ANFAVEA. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://www.anfavea.com.br/associadas.html>

BENNETT, Roger and LOSKA, Magdalena, 1998, *Wszystko o eksporcie: praktyczny poradnik dla eksporterów*. Kraków : Wydaw. Profesjonalnej Szkoły Biznesu. ISBN 9788385441748.

BERGEN, Mark and PETERAF, Margaret A., 2002, Competitor identification and competitor analysis: a broad-based managerial approach. *Managerial and Decision Economics*. June 2002. Vol. 23, no. 4-5, p. 157–169. DOI 10.1002/mde.1059.

BERNDT, Ralph, FANTAPIÉ ALTOBELLI, Claudia and SANDER, Matthias, 2007, *Mezinárodní marketingový management; [globalizace a světové trhy; marketingové plánování a controlling; potenciál a lidské zdroje]*. 1. vyd. Brno : Computer Press. Business books. ISBN 9788025116418.

BMW i: Philosophy, 2014. [online], [Accessed 5 May 2015]. Available from: <http://www.bmw.com/com/en/insights/corporation/bmwi/philosophy.html>

BOSWORTH, Derek and YANG, Deli, 2000, Intellectual property law, technology flow and licensing opportunities in the People's Republic of China. *International Business Review*. August 2000. Vol. 9, no. 4, p. 453–477. DOI 10.1016/S0969-5931(00)00013-5.

CAAM, 2015, Passenger cars drove the overall growth. [online]. 14 January 2015. [Accessed 16 May 2015]. Available from: <http://www.caam.org.cn/AutomotivesStatistics/20150114/0905144505.html>

Can Volkswagen Succeed In India?, 2014. *Forbes* [online], [Accessed 17 May 2015]. Available from: <http://www.forbes.com/sites/greatspeculations/2014/09/29/can-volkswagen-succeed-in-india/>

CATEORA, Philip R, GRAHAM, John L and SALWAN, Prashant, 2007, *International marketing*. [New York] : McGraw-Hill. ISBN 9780070666993.

CAVUSGIL, S. Tamer, KNIGHT, Gary A. and RIESENBERGER, John R., 2008, *International business: strategy, management, and the new realities*. Upper saddle River, N.J : Pearson Prentice Hall. ISBN 9780131738607.

CENTRAL INTELLIGENCE AGENCY, 2015a, The World Factbook - Brazil. [online]. 2015. [Accessed 20 May 2015]. Available from: <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/br.html>

CENTRAL INTELLIGENCE AGENCY, 2015b, The World Factbook - India. [online]. 2015. [Accessed 20 May 2015]. Available from: <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/in.html>

CENTRAL INTELLIGENCE AGENCY, 2015c, The World Factbook - China. [online]. 2015. [Accessed 20 May 2015]. Available from: <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/ch.html>

CHETTY, Sylvie and CAMPBELL-HUNT, Colin, 2004, A Strategic Approach to Internationalization: A Traditional versus a “Born-Global” Approach. *Journal of International Marketing*. 2004. Vol. 12, no. 1, p. 57–81.

China Has More Space Than U.S. for Adding Car Ownership, [no date]. *Bloomberg.com* [online], [Accessed 17 May 2015]. Available from: <http://www.bloomberg.com/news/articles/2015-01-18/china-has-more-space-than-u-s-for-new-cars-chart-of-the-day>

CHINA STATISTICS PRESS, 2014a, Statistics on New Registrations of Civil Vehicles. [online]. 2014. [Accessed 20 May 2015]. Available from: <http://www.stats.gov.cn/tjsj/nds/2014/zk/html/Z1827E.HTM>

CHINA STATISTICS PRESS, 2014b, Per Capita Income and Expenditure of Urban Households. [online]. 2014. [Accessed 20 May 2015]. Available from: <http://www.stats.gov.cn/tjsj/ndsj/2014/zk/html/Z0605E.htm>

CHINA STATISTICS PRESS, 2014c, Basic Statistics on Scientific and Technological Activities. [online]. 2014. [Accessed 20 May 2015]. Available from: <http://www.stats.gov.cn/tjsj/ndsj/2014/zk/html/Z2001E.HTM>

China to offer tax breaks on electric cars, limited mostly to local brands, 2014. *Reuters* [online], [Accessed 17 May 2015]. Available from: <http://www.reuters.com/article/2014/08/29/us-china-autos-idUSKBN0GT0UX20140829>

Chinese Auto Companies, Sino-Foreign Joint Ventures | ChinaAutoWeb, 2015. [online], [Accessed 20 May 2015]. Available from: <http://chinaautoweb.com/auto-companies/>

CHOPRA, Sunil and MEINDL, Peter, 2001, *Supply chain management: strategy, planning, and operation*. Upper Saddle River, N.J : Prentice Hall. ISBN 0130264652.

CORDERY, John, 2015, Self-Managing Teams. In : *Wiley Encyclopedia of Management* [online]. Chichester, UK : John Wiley & Sons, Ltd. p. 1–1. [Accessed 6 May 2015]. ISBN 9781118785317. Available from: <http://doi.wiley.com/10.1002/9781118785317.weom110253>

Cultural Dimensions - Geert Hofstede, [no date]. [online], [Accessed 18 April 2015]. Available from: <http://geert-hofstede.com/cultural-dimensions.html>

CYGLER, Joanna, 2002, *Alianse strategiczne*. Warszawa : Difin. ISBN 9788372512239.

DANA, Léo-Paul (ed.), 2004, *Handbook of research on international entrepreneurship*. Cheltenham : Elgar. ISBN 9781843760696.

DASZKIEWICZ, Nelly and WACH, Krzysztof, 2014, Motives for Going International and Entry Modes of Family Firms in Poland. *Journal of Intercultural Management* [online]. 1 January 2014. Vol. 6, no. 2. [Accessed 3 May 2015]. DOI 10.2478/joim-2014-0008. Available from: <http://www.degruyter.com/view/j/joim.2014.6.issue-2/joim-2014-0008/joim-2014-0008.xml>

DENG, Ping, 2001, WFOEs: the most popular entry mode into China. *Business Horizons*. July 2001. Vol. 44, no. 4, p. 63–72. DOI 10.1016/S0007-6813(01)80049-5.

DIJK, Marc and YARIME, Masaru, 2010, The emergence of hybrid-electric cars: Innovation path creation through co-evolution of supply and demand. *Technological Forecasting and Social Change*. October 2010. Vol. 77, no. 8, p. 1371–1390. DOI 10.1016/j.techfore.2010.05.001.



DI MININ, Alberto and ZHANG, Jieyin, 2010, An Exploratory Study on International R&D Strategies of Chinese Companies in Europe: Chinese International R&D Strategies. *Review of Policy Research*. 25 June 2010. Vol. 27, no. 4, p. 433–455. DOI 10.1111/j.1541-1338.2010.00450.x.

*Doing business in Brazil*, 2014. [online], [Accessed 18 May 2015]. Available from: [http://www.export.gov/brazil/static/Chap4\\_Automotive\\_Latest\\_eg\\_br\\_078150.pdf](http://www.export.gov/brazil/static/Chap4_Automotive_Latest_eg_br_078150.pdf)

DORAN, Desmond, 2003, Supply chain implications of modularization. *International Journal of Operations & Production Management*. March 2003. Vol. 23, no. 3, p. 316–326. DOI 10.1108/01443570310462785.

DORAN, Desmond, 2004, Rethinking the supply chain: an automotive perspective. *Supply Chain Management: An International Journal*. February 2004. Vol. 9, no. 1, p. 102–109. DOI 10.1108/13598540410517610.

EDELSTEIN, Stephen, 2015, Indian Government Adds Electric-Car Purchase Incentives To Boost Sales. *Green Car Reports* [online]. 6 May 2015. [Accessed 17 May 2015]. Available from: [http://www.greencarreports.com/news/1098162\\_indian-government-adds-electric-car-purchase-incentives-to-boost-sales](http://www.greencarreports.com/news/1098162_indian-government-adds-electric-car-purchase-incentives-to-boost-sales)

Electron Beam Melting - EBM Process, Additive Manufacturing, [2015]. *Arcam AB* [online], [Accessed 5 May 2015]. Available from: <http://www.arcam.com/technology/electron-beam-melting/>

EUROPEAN COMMISSION, 2012, CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe. [online]. 8 November 2012. [Accessed 18 April 2015]. Available from: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52012DC0636>

EUROPEAN COMMISSION, 2014, European Commission - PRESS RELEASES - Press release - EU requests WTO panel on Brazil's discriminatory taxes. [online]. 31 October 2014. [Accessed 20 May 2015]. Available from: [http://europa.eu/rapid/press-release\\_IP-14-1224\\_en.htm](http://europa.eu/rapid/press-release_IP-14-1224_en.htm)

Eurostat - Tables, Graphs and Maps Interface (TGM) table, 2015. [online], [Accessed 18 April 2015]. Available from: <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00001>

FERRELL, O. C. and HARTLINE, Michael D., 2011, *Marketing strategy*. 5th ed. Australia ; Mason, Ohio : South-Western Cengage Learning. ISBN 9780538467384.

Fleets and Diplomatic Sales - ŠKODA, 2015. [online], [Accessed 20 May 2015]. Available from: <http://www.skoda-auto.com/en/company/fleet>

FROOT, Kenneth, 1993, *Foreign direct investment* [online]. Chicago : University of Chicago Press. [Accessed 2 May 2015]. ISBN 9780226266220. Available from: <http://site.ebrary.com/id/10229995>

GILLESPIE, Kate and HENNESSEY, Hubert D, 2011, *Global marketing*. Mason, OH : Cengage South Western. ISBN 9780538473392.

GLOWIK, Mario and SMYCZEK, Slawomir, 2011, *International marketing management: strategies, concepts and cases in Europe*. München : Oldenbourg. ISBN 9783486597493.

GOVERNMENT OF BRAZIL, 2014, *Investment Guide to Brazil* [online]. 2014. [Accessed 18 May 2015]. Available from: <http://www.brasilexport.gov.br/sites/default/files/publicacoes/publicacoes/investme ntguidetobrasil2014.pdf>

GRIFFIN, Ricky W. and PUSTAY, Michael W., 2005, *International business: a managerial perspective*. 4th ed. Upper Saddle River, NJ : Pearson Prentice Hall. ISBN 0131422634.

HARRISON, Alan and HOEK, Remko I. van, 2008, *Logistics management and strategy: competing through the supply chain*. 3rd ed. Harlow, England ; New York : Prentice Hall Financial Times. ISBN 9780273712763.

HELMS, Marilyn M. and NIXON, Judy, 2010, Exploring SWOT analysis – where are we now?: A review of academic research from the last decade. *Journal of Strategy and Management*. 10 August 2010. Vol. 3, no. 3, p. 215–251. DOI 10.1108/17554251011064837.

HESSELS, Jolanda and KEMNA, Madeleine, 2008, Internationalization of European SMEs towards emerging markets. *Scientific Analysis of Entrepreneurship and SMEs*. Netherlands Ministry of Economic Affairs. 2008.

HILL, Charles W. L. and JONES, Gareth R., 2007, *Strategic management: an integrated approach*. 7th ed. Boston : Houghton Mifflin. ISBN 9780618641628.

HILL, Charles W. L. and JONES, Gareth R., 2009, *Essentials of strategic management*. 2nd ed. Australia ; Mason, Ohio : South-Western/Cengage Learning. ISBN 9780547194325.

HILL, Charles W. L. and JONES, Gareth R., 2013, *Strategic management: an integrated approach*. 10th ed. Mason, OH : South-Western, Cengage Learning. ISBN 9781111825843.

HILL, Charles W. L., 2013, *International business: competing in the global marketplace*. 9 ed. New York : McGraw-Hill Irwin. ISBN 9780078029240.

HILL, Charles W. L., 2014, *Strategic management: an integrated approach, theory and cases*. 11th Ed. Mason, OH : Cengage Learning. ISBN 9781285184487.

HOLLENSSEN, Svend, 2007, *Global marketing: a decision-oriented approach*. 4. ed. Harlow : Financial Times Prentice Hall. ISBN 9780273706786.

HOLLENSSEN, Svend, 2008, *Essentials of global marketing*. Harlow, Essex, England : Pearson Education. ISBN 9780273717843.

HOLLENSSEN, Svend, 2011, *Global marketing: a decision-oriented approach*. 5th ed. Harlow, England; New York : Financial Times Prentice Hall. ISBN 9780273726227.

HOLLENSSEN, Svend, 2013, *Global marketing: a decision-oriented approach*. Sixth edition. Harlow, England : Pearson. ISBN 9780273773160.

INDIA BRAND EQUITY FOUNDATION, 2015, Indian Innovation and Patent Industry Analysis. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://www.ibef.org/industry/indian-innovation-and-patent-industry-analysis-presentation>

INVEST INDIA, 2012, Entry Options for Businesses in India | Invest India. [online]. 2012. [Accessed 20 May 2015]. Available from: <http://www.investindia.gov.in/entry-options/>

JOHANSON, Jan and VAHLNE, Jan-Erik, 2009, The Uppsala internationalization process model revisited: From liability of Foreignness to Liability of Outsidership. *Journal of International Business Studies*. 2009. Vol. 40, no. 9, p. 1411–1431.

JOHANSSON, Johnny K., 2009, *Global marketing: foreign entry, local marketing, & global management*. 5th ed. Boston : McGraw-Hill Irwin. ISBN 9780073381015.

JOHNSON, Gerry, SCHOLE, Kevan and WHITTINGTON, Richard, 2005, *Exploring corporate strategy*. 7th ed. Harlow, Essex, England; New York : FT/Prentice Hall. ISBN 0273687395.

Joint Ventures — a tool for growth during an economic down | KPMG | VG, 2010. [online], [Accessed 18 April 2015]. Available from: <http://www.kpmg.com/vg/en/issuesandinsights/articlespublications/pages/joint-ventures.aspx>

JOURNAL, Norihiko Shirouzu Staff Reporter of THE WALL STREET, 2004, Big Three's Outsourcing Plan: Make Parts Suppliers Do It. *Wall Street Journal* [online]. 10 June 2004. [Accessed 18 April 2015]. Available from: <http://www.wsj.com/articles/SB108681404285632984>

KACZMAREK, Tadeusz Teofil, 2006, *Nietypowe transakcje w praktyce handlu międzynarodowego: barter, buy-back, offset*. Warszawa : Centrum Doradztwa i Informacji Difin. ISBN 9788372516602.

KACZMAREK, Tadeusz Teofil and ZARZYCKI, Marian, 2005, *Poradnik eksportera: generalne zasady eksportu: specyficzne regulacje obowiązujące w Unii Europejskiej*. Bydgoszcz; Warszawa : Branta. ISBN 9788389073914.

KALETA, Andrzej and MOSZKOWICZ, Krystyna (eds.), 2010, *Zarządzanie strategiczne w praktyce i teorii*. Wrocław : Wydaw. Uniwersytetu Ekonomicznego. ISBN 9788376950822.

KARRA, Neri, PHILLIPS, Nelson and TRACEY, Paul, 2008, Building the Born Global Firm. *Long Range Planning*. August 2008. Vol. 41, no. 4, p. 440–458. DOI 10.1016/j.lrp.2008.05.002.

KNIGHT, Gary A. and CAVUSGIL, S. Tamar, 2004, Innovation, Organizational Capabilities, and the Born-Global Firm. *Journal of International Business Studies*. 2004. Vol. 35, no. 2, p. 124–141.

KNIGHT, Gary, 2000, Entrepreneurship and Marketing Strategy: The SME under Globalization. *Journal of International Marketing*. 2000. Vol. 8, no. 2, p. 12–32.

KOŁOSOWSKA, Bożena, 2006, *Strategie finansowania działalności przedsiębiorstw*. Kraków : Oficyna Ekonomiczna. ISBN 9788389355959.

KOTHANDARAMAN, Prabakar and WILSON, David T, 2001, The Future of Competition. *Industrial Marketing Management*. May 2001. Vol. 30, no. 4, p. 379–389. DOI 10.1016/S0019-8501(00)00152-8.

KOTLER, Philip and ARMSTRONG, Gary, 2012, *Principles of marketing*. 14th ed. Boston : Pearson Prentice Hall. ISBN 9780132167123.

KOWALIK, Izabela and BARANOWSKA-PROKOP, Ewa, 2013, Determinanty powstawania i motywy ekspansji polskich przedsiębiorstw wcześniej umiędzynarodowionych. *Gospodarka Narodowa*. 2013. No. 4, p. 41–64.

LAMBERT, Douglas M., COOPER, Martha C. and PAGH, Janus D., 1998, Supply chain management: implementation issues and research opportunities. *The international journal of logistics Management*. 1998. Vol. 9, no. 2, p. 1–20.

LAMBERT, Douglas M and COOPER, Martha C, 2000, Issues in Supply Chain Management. *Industrial Marketing Management*. January 2000. Vol. 29, no. 1, p. 65–83. DOI 10.1016/S0019-8501(99)00113-3.

LONSDALE, Chris and COX, Andrew, 2000, The historical development of outsourcing: the latest fad? *Industrial Management & Data Systems*. December 2000. Vol. 100, no. 9, p. 444–450. DOI 10.1108/02635570010358384.

MACHKOVÁ, Hana, 2010, *International marketing: theory, practices and new trends*. Praha : Vysoká škola ekonomická, Nakladatelství Oeconomica. ISBN 9788024516431.

MALLYA, Thaddeus, 2007, *Základy strategického řízení a rozhodování*. Praha : Grada. ISBN 9788024719115.

MARTIN GRUEBER, 2012, BRIC - Brazil. *Research & Development* [online]. 17 December 2012. [Accessed 17 May 2015]. Available from: <http://www.rdmag.com/articles/2012/12/bric-brazil>

MIKKOLA, Juliana Hsuan, 2003, Modularity, component outsourcing, and inter-firm learning. *R and D Management*. September 2003. Vol. 33, no. 4, p. 439–454. DOI 10.1111/1467-9310.00309.

MINISTRY OF COMMERCE OF THE PEOPLE'S REPUBLIC OF CHINA, 2014, *Invest in China* [online]. September 2014. Available from: <http://img.project.fdi.gov.cn//21/1800000121/File/201409/201409181050140718365.pdf>

MINISTRY OF STATISTICS AND PROGRAMME IMPLEMENTATION, 2014, *Number Of Motor Vehicles Registered In India (Taxed And Tax-Exempted)* [online]. 2014. [Accessed 18 May 2015]. Available from: [http://mospi.nic.in/Mospi\\_New/upload/SYB2014/CH-20-MOTOR%20VEHICLES/Table-20.1.XLS](http://mospi.nic.in/Mospi_New/upload/SYB2014/CH-20-MOTOR%20VEHICLES/Table-20.1.XLS)

MORRIS, David, DONNELLY, Tim and DONNELLY, Tom, 2004, Supplier parks in the automotive industry. *Supply Chain Management: An International Journal*. April 2004. Vol. 9, no. 2, p. 129–133. DOI 10.1108/13598540410527024.

MOUTINHO, Luiz and SOUTHERN, Geoff, 2010, *Strategic marketing management: a business process approach*. United States : Cengage Learning. ISBN 9781844800001.

OCHIENG, Edward, PRICE, A. D. and MOORE, David R., 2013, *Management of global construction projects*. Basingstoke : Palgrave Macmillan. ISBN 9780230303218.

PANDREMENOS, J., PARALIKAS, J., SALONITIS, K. and CHRYSOLOURIS, G., 2009, Modularity concepts for the automotive industry: A critical review. *CIRP Journal of Manufacturing Science and Technology*. January 2009. Vol. 1, no. 3, p. 148–152. DOI 10.1016/j.cirpj.2008.09.012.

PATEL, Pari and VEGA, Modesto, 1999, Patterns of internationalisation of corporate technology: location vs. home country advantages. *Research Policy*. March 1999. Vol. 28, no. 2-3, p. 145–155. DOI 10.1016/S0048-7333(98)00117-6.

PORTER, Michael E and EHRLICH, Andrzej, 1992, *Strategia konkurencji: metody analizy sektorów i konkurentów*. Warszawa : Polskie Wydawnictwo Ekonomiczne. ISBN 9788320813074.

PORTER, Michael E., 2008, The Five Competitive Forces That Shape Strategy. *Harvard Business Review* [online]. January 2008. [Accessed 10 May 2015]. Available from: <https://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy>

POTHUKUCHI, Vijay, DAMANPOUR, Fariborz, CHOI, Jaepil, CHEN, Chao C. and PARK, Seung Ho, 2002, National and Organizational Culture Differences and International Joint Venture Performance. *Journal of International Business Studies*. 2002. Vol. 33, no. 2, p. 243–265.

*Presenting the New Škoda Rapid*, 2015. [online], [Accessed 8 May 2015]. Available from:  
[https://www.youtube.com/watch?v=UKY3scPIMd8&feature=youtube\\_gdata\\_player](https://www.youtube.com/watch?v=UKY3scPIMd8&feature=youtube_gdata_player)

PRZYBYLSKA, Krystyna, 2010, Born global–nowa generacja małych polskich przedsiębiorstw. *Gospodarka Narodowa*. 2010. No. 7-8, p. 63–84.

RAINEY, David L, 2010, *Enterprise-wide strategic management achieving sustainable success through leadership, strategies, and value creation* [online]. Cambridge, UK; New York : Cambridge University Press. [Accessed 5 May 2015]. ISBN 9780511691263. Available from: <http://site.ebrary.com/id/10395480>

ROTHAERMEL, Frank T., 2015, *Strategic management*. Second edition. New York, NY : McGraw-Hill Education. ISBN 9780077645069.

RUGMAN, Alan M. and HODGETTS, Richard M., 2003, *International business*. 3. ed. Harlow : Financial Times/Prentice Hall. ISBN 9780273673743.

RYMARCZYK, Jan and ADAMCZUK, Franciszek, 2012, *Handel zagraniczny: organizacja i technika*. Warszawa : Polskie Wydawnictwo Ekonomiczne. ISBN 9788320820065.

RYMARCZYK, Jan, 2005, *Handel zagraniczny: organizacja i technika: praca zbiorowa*. Warszawa : Polskie Wydawnictwo Ekonomiczne. ISBN 9788320815689.

Shanghai Volkswagen Škoda, 2015. [online], [Accessed 20 May 2015]. Available from: <http://www.skoda.com.cn/yeti/index.html>

SHARMA, B., 2003, R&D strategy and Australian manufacturing industry: an empirical investigation of emphasis and effectiveness. *Technovation*. December 2003. Vol. 23, no. 12, p. 929–937. DOI 10.1016/S0166-4972(02)00035-4.

SHENKAR, Oded and LUO, Yadong, 2008, *International business*. 2nd ed. Thousand Oaks, Calif : Sage Publications. ISBN 9781412949064.

SHETH, Jagdish N. and MALHOTRA, Naresh K. (eds.), 2011, *Wiley international encyclopedia of marketing*. Chichester : Wiley-Blackwell. ISBN 9781405161787.

ŠKODA AUTO A.S., 2008, *Škoda Auto a.s. Annual Report 2007* [online]. Annual Report. [Accessed 18 May 2015]. Available from: <http://www.skoda-auto.com/SiteCollectionDocuments/company/investors/annual-reports/en/skoda-auto-annual-report-2007.pdf>

ŠKODA AUTO A.S., 2009, *Škoda Auto a.s. Annual Report 2008* [online]. Annual Report. [Accessed 18 May 2015]. Available from: <http://www.skoda-auto.com/SiteCollectionDocuments/company/investors/annual-reports/en/skoda-auto-annual-report-2008.pdf>

ŠKODA AUTO A.S., 2011, *Škoda Auto a.s. Annual Report 2010* [online]. Annual Report. [Accessed 18 May 2015]. Available from: <http://www.skoda-auto.com/SiteCollectionDocuments/company/investors/annual-reports/en/skoda-auto-annual-report-2010.pdf>

ŠKODA AUTO A.S., 2012, *Škoda Auto a.s. Annual Report 2011* [online]. Annual Report. [Accessed 18 May 2015]. Available from: <http://www.skoda-auto.com/SiteCollectionDocuments/company/investors/annual-reports/en/skoda-auto-annual-report-2011.pdf>

ŠKODA AUTO A.S., 2013, *Škoda Auto a.s. Annual Report 2012* [online]. Annual Report. [Accessed 18 May 2015]. Available from: <http://www.skoda-auto.com/SiteCollectionDocuments/company/investors/annual-reports/en/skoda-auto-annual-report-2012.pdf>

ŠKODA AUTO A.S., 2015, *Škoda Auto a.s. Annual Report 2014* [online]. Annual Report. [Accessed 18 May 2015]. Available from: <http://www.skoda-auto.com/SiteCollectionDocuments/company/investors/annual-reports/en/skoda-annual-report-2014.pdf>

ŠKODA Yeti - Overview - ŠKODA, 2015. [online], [Accessed 20 May 2015]. Available from: <http://www.skoda-auto.com/en/models/new-yeti/>  
ŠKODA AUTO - Car Company

SMITH, Mark and CROTTY, Jo, 2008, Environmental regulation and innovation driving ecological design in the UK automotive industry. *Business Strategy and the Environment*. September 2008. Vol. 17, no. 6, p. 341–349. DOI 10.1002/bse.550.

SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS, 2015a, Economic Affairs. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://www.siamindia.com/economic-affairs.aspx?mpgid=16&pgid1=18&pgidtrail=20>

SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS, 2015b, Regulatory Framework. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://www.siamindia.com/technical-regulation.aspx?mpgid=31&pgidtrail=32>

SOLOMON, Michael R., MARSHALL, Greg W. and STUART, Elnora W., 2012, *Marketing: real people, real choices*. 7th ed. Boston : Prentice Hall. ISBN 9780132176842.

ŠTRACH, Pavel, 2009, *Mezinárodní management*. Praha : Grada. ISBN 9788024729879.

STRUŻYCKI, Marian, 2002, *Zarządzanie przedsiębiorstwem*. Warszawa : Difin. ISBN 9788372512130.

SULLIVAN MORT, Gillian and WEERAWARDENA, Jay, 2006, Networking capability and international entrepreneurship: How networks function in Australian born global firms. *International Marketing Review*. September 2006. Vol. 23, no. 5, p. 549–572. DOI 10.1108/02651330610703445.

SUURS, Roald A.A., HEKKERT, Marko P., KIEBOOM, Sander and SMITS, Ruud E.H.M., 2010, Understanding the formative stage of technological innovation system development: The case of natural gas as an automotive fuel. *Energy Policy*. January 2010. Vol. 38, no. 1, p. 419–431. DOI 10.1016/j.enpol.2009.09.032.

The new face of the ŠKODA Dealer Network - ŠKODA, 2013. [online], [Accessed 2 May 2015]. Available from: <http://www.skoda-auto.com/en/news/2013-12-09-dealer-network>

ŠKODA AUTO - Car Company

*The new ŠKODA Rapid: 30 Second TV Ad*, 2015. [online], [Accessed 8 May 2015]. Available from: [https://www.youtube.com/watch?v=UKY3scPIMd8&feature=youtube\\_gdata\\_player](https://www.youtube.com/watch?v=UKY3scPIMd8&feature=youtube_gdata_player)

THE WORLD BANK GROUP, 2015a, The World Bank DataBank | Explore . Create . Share. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://databank.worldbank.org/data/home.aspx>

THE WORLD BANK GROUP, 2015b, Research and development expenditure (% of GDP) | Data | Table. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS>

THE WORLD BANK GROUP, 2015c, GDP per capita (current US\$) | Data | Table. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

TIMOTHY J. STURGEON, OLGA MEMEDOVIC, JOHANNES VAN BIESEBROECK and GARY GEREFFI, 2009, Globalisation of the automotive industry: main features



and trends. *International Journal of Technological Learning, Innovation and Development*. 2009. Vol. 2, no. 1/2, p. 7–24.

VAHLNE, Jan-Erik, IVARSSON, Inge and JOHANSON, Jan, 2011, The tortuous road to globalization for Volvo's heavy truck business: Extending the scope of the Uppsala model. *International Business Review*. February 2011. Vol. 20, no. 1, p. 1–14. DOI 10.1016/j.ibusrev.2010.05.003.

VALENTIN, E. K., 2001, Swot Analysis from a Resource-Based View. *Journal of Marketing Theory and Practice*. 2001. Vol. 9, no. 2, p. 54–69.

Volkswagen-Audi España en cifras: Datos y resultados., 2015. [online], [Accessed 18 April 2015]. Available from: <http://www.volkswagen-audi-espana.es/compania/datos.php>

Volkswagen-Audi España: Trayectoria de la compañía, 2015. [online], [Accessed 18 April 2015]. Available from: <http://www.volkswagen-audi-espana.es/compania/trayectoria.php>

WHEELEN, Thomas L. and HUNGER, J. David, 2012, *Strategic management and business policy: toward global sustainability*. 13th ed. Upper Saddle River, N.J : Pearson Prentice Hall. ISBN 9780132153225.

WORLD TRADE ORGANIZATION, 2015, WTO | Tariff Download Facility: WTO tariff data base. [online]. 2015. [Accessed 20 May 2015]. Available from: <http://tariffdata.wto.org/ReportersAndProducts.aspx>

YAMAKAWA, Yasuhiro, PENG, Mike W. and DEEDS, David L., 2007, What Drives New Ventures to Internationalize from Emerging to Developed Economies? *Entrepreneurship Theory and Practice*. 13 December 2007. Vol. 32, no. 1, p. 59–82. DOI 10.1111/j.1540-6520.2007.00216.x.

YIP, George S and BOLESTA-KUKUŁKA, Krystyna, 2004, *Strategia globalna*. Warszawa : Polskie Wydaw. Ekonomiczne. ISBN 9788320814743.

YU, Peter K., 2005, ID 578585: *From Pirates to Partners (Episode II): Protecting Intellectual Property in Post-WTO China* [online]. SSRN Scholarly Paper. Rochester, NY : Social Science Research Network. [Accessed 18 April 2015]. Available from: <http://papers.ssrn.com/abstract=578585>

## Figures and Tables

### List of Figures

Fig. 1 Types of counter trade.....	16
Fig. 2 Typical value chain .....	26
Fig. 3 Supply chain network structure .....	27
Fig. 4 Modular supply chain.....	27
Fig. 5 Business distribution channels .....	29
Fig. 6 Strategy decision levels.....	30
Fig. 7 Typology of directional strategies .....	30
Fig. 8 Directions of vertical integration in value chain.....	31
Fig. 9 Targeting strategies.....	33
Fig. 10 Communication strategy components .....	35
Fig. 11 HR strategies.....	37
Fig. 12 Categorisation of data for assessment of market potential.....	41
Fig. 13 SWOT framework.....	42
Fig. 14 External environment elements.....	42
Fig. 15 Porter's five competitive forces.....	43
Fig. 16 New car registrations in Brazil, time series 2004-2014.....	51
Fig. 17 New car registration in India, time series 2003-2013.....	52
Fig. 18 New car registrations in China, time series 2003-2013 .....	53
Fig. 19 Age distribution in Brazil .....	55
Fig. 20 Indian regulations on emissions .....	58
Fig. 21 Age distribution in India .....	60
Fig. 22 Composition of population in China (scale in 10 000 persons).....	64
Fig. 23 Age distribution in China.....	65

Fig. 24 Per Capita Income, Expenditure, and savings rate of Urban Households in Yuan.....	66
Fig. 25 Performance of automotive brands in China in 2013.....	68
Fig. 26 Škoda Auto a.s. product range .....	74
Fig. 27 Development of deliveries to customers in China since 2007 .....	79
Fig. 28 Timeline of launch of new Škoda Auto models in China.....	80
Fig. 29 Comparison of European and Chinese versions of Škoda Yeti .....	81

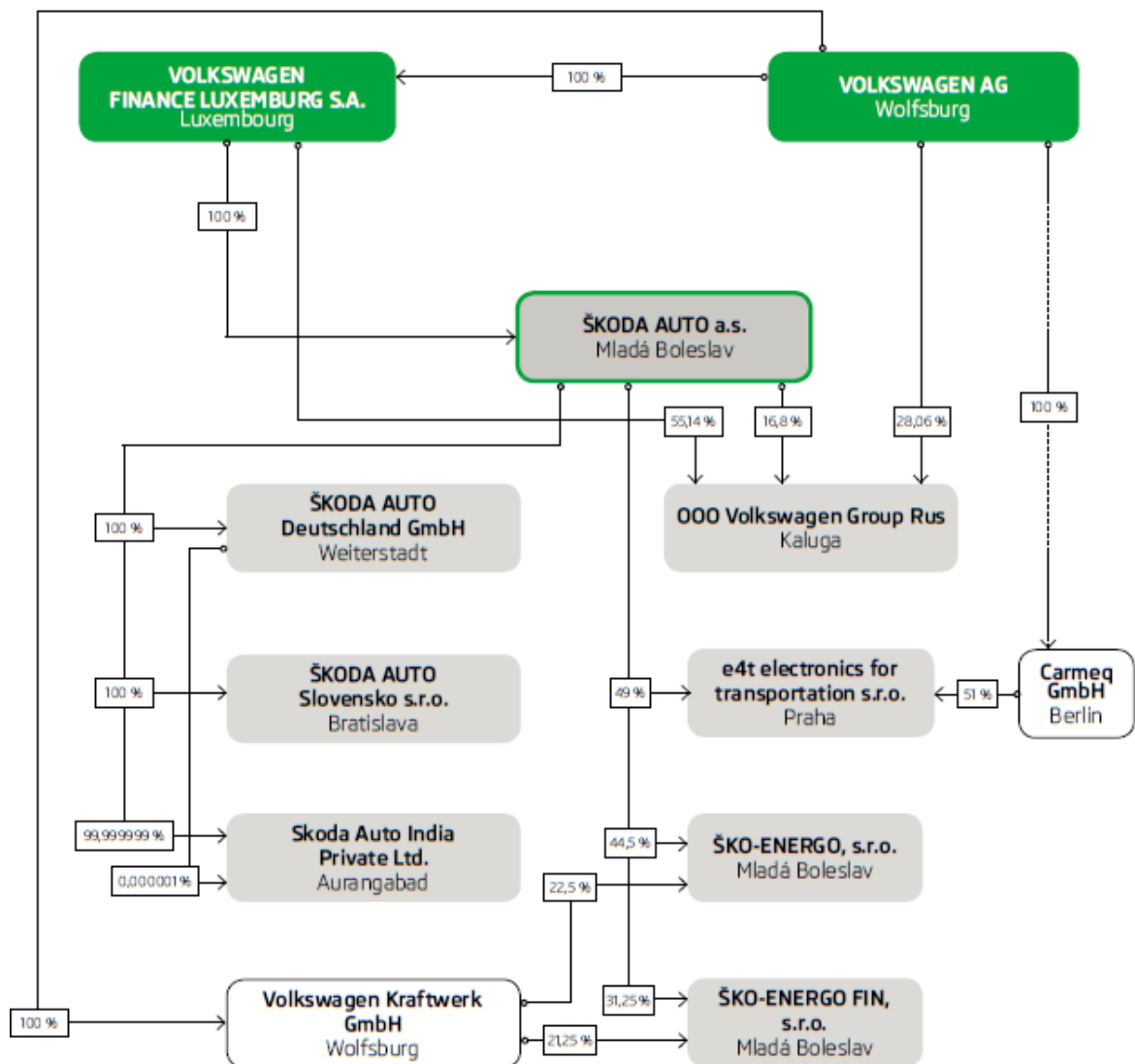
### **List of Tables**

Tab. 1 Proactive and reactive motives for internationalisation .....	12
Tab. 2 The most important features of direct and indirect export .....	14
Tab. 3 The most important features of direct and indirect import .....	15
Tab. 4 Selected Brazilian macroeconomic indicators .....	54
Tab. 5 Selected Indian macroeconomic indicators .....	59
Tab. 6 Selected Chinese macroeconomic indicators.....	63
Tab. 7 Scientific and Technological Activities in China.....	66
Tab. 8 Chinese automotive market participants .....	67
Tab. 9 Main findings .....	70
Tab. 10 Škoda Auto deliveries to customers in 2014 (top 15 markets) .....	73
Tab. 11 Portfolio of models manufactured worldwide in 2014 .....	75

## **Appendices**

Appendix No. 1 – The ownership structure of Škoda Auto a.s. ....	101
--	-----

## Appendix No. 1 – The ownership structure of Škoda Auto a.s.



Source: (Škoda Auto a.s. 2015), page 116

## ANOTAČNÍ ZÁZNAM

<b>AUTOR</b>	Kyrylo Kovalchuk		
<b>STUDIJNÍ OBOR</b>	6208T139 Globální podnikání a marketing		
<b>NÁZEV PRÁCE</b>	Internacionalizace výrobců automobilů na vybraných rozvíjejících se trzích		
<b>VEDOUCÍ PRÁCE</b>	doc. Ing. Jana Přikrylová, Ph.D.		
<b>KATEDRA</b>	KMM - Katedra managementu a marketingu	<b>ROK ODEVZDÁNÍ</b>	2015
<b>POČET STRAN</b>	101		
<b>POČET OBRÁZKŮ</b>	29		
<b>POČET TABULEK</b>	11		
<b>POČET PŘÍLOH</b>	1		
<b>STRUČNÝ POPIS</b>	<p>Cílem práce je prezentovat podstatu internacionalizace automobilových společností, identifikovat vhodné ukazatele při vstupech na vybrané rozvojové trhy a použít je v případové studii Škoda Auto.</p> <p>K určení kritérií pro vstup na trhy byl proveden výzkum sekundárních zdrojů (veřejně dostupných informací o trzích ve vybraných zemích). K aplikaci těchto kritérií v případové studii byly využity obě formy výzkumu, tj. primární - interview s představiteli firmy a sekundární – obchodní dokumentace.</p> <p>Zpracovaná studie pak zdůrazňuje specifika faktorů použitých pro vybranou zemi a její trh.</p> <p>Formulovaná metoda tržní analýzy má za cíl určit relevantní faktory související s konkrétní zemí a trhem. Na tomto základě byla analýza zemí provedena a hlavní výsledky byly prezentovány formou pořadí vhodnosti zemí s výkladem tohoto hodnocení.</p> <p>Případová studie Škoda Auto přináší živý příklad toho, jak důležitá jsou předběžně identifikovaná kritéria v mezinárodních aktivitách. Na příkladu ŠA je dokumentována velká důležitost faktorů vázaných na konkrétní zemi a trh. Výsledky odhalily rozsáhlé příležitosti pro internacionalizaci na analyzovaných rozvíjejících se trzích.</p>		
<b>KLÍČOVÁ SLOVA</b>	Automobilový průmysl, automobilové společnosti, internacionalizace, země BRIC, Škoda Auto a.s.		
<b>PRÁCE OBSAHUJE UTAJENÉ ČÁSTI: Ne</b>			

## ANNOTATION

<b>AUTHOR</b>	Kyrylo Kovalchuk		
<b>SPECIALISATION</b>	6208T139 Marketing Management in the Global Environment		
<b>THESIS TITLE</b>	Internationalisation of automotive companies in selected emerging markets		
<b>SUPERVISOR</b>	doc. Ing. Jana Příkladová, Ph.D.		
<b>DEPARTMENT</b>	KMM - Department of Management and Marketing	<b>YEAR</b>	2015
<b>NUMBER OF PAGES</b>	101		
<b>NUMBER OF PICTURES</b>	29		
<b>NUMBER OF TABLES</b>	11		
<b>NUMBER OF APPENDICES</b>	1		
<b>SUMMARY</b>	<p>The aim of the thesis is to present the essence of internationalisation of automotive companies, to identify indicators for market entry in selected emerging markets and to apply them in Škoda Auto case study.</p> <p>In order to identify criteria for market entry, research was performed with secondary sources (publicly available information about markets of selected countries). For application of those criteria in Škoda Auto case study, research was conducted with both primary (direct interview with company representatives) and secondary sources (business documentation).</p> <p>In the study, the importance of specific country and market related factors is presented.</p> <p>The market analysis was developed to identify country and market related factors in chosen countries. Then in form of ranking, the main findings were presented along with explanation of such classification.</p> <p>Škoda Auto case study was analysed as a real life example to show the importance of previously identified criteria on the internationalisation approach.</p> <p>Based on conducted research, big importance of country and market related factors was shown on example of Škoda Auto a.s. The findings also revealed broad opportunities for internationalisation to analysed emerging countries.</p>		
<b>KEY WORDS</b>	Automotive industry, automotive companies, internationalisation, BRIC, Škoda Auto a.s.		
<b>THESIS INCLUDES UNDISCLOSED PARTS: No</b>			