Royal Docks
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MKM227 Postgraduate Dissertation

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Introduction *Identification of a valid topic, research question and objectives framed to Masters Level standard with academic rationale developed, clear industry contextualisation of the research topic*	**Supervisor Comments:**	10%	
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An examination of how the market entry decision influences the business ability to internationalise and survive in a foreign market
(The case study of Diageo in African market)

A dissertation submitted in partial fulfillment of the requirements of the Royal Docks Business School, University of East London for the degree of **MBA International Business**

[May 2014]

[Word Count: 14,710]

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ABSTRACT

This research is design to examine the market entry decision and how it can influences the business ability to internationalize and survive in a foreign market. The researcher has chosen the case study methodology for this research; the case study is on Diageo PLC upon how they took their decisions to select a particular entry mode on African markets. Diageo is one of the world's largest producer and distributer of branded premium of wine, beer and sprits, for many years the company has build its business by expanding in different foreign markets, especially in Africa where new growth is emerging and there is favorable demographics ready for beverage consumption. Wide numbers of researchers have study about market entry mode because it "lies at the vey heart of international business" (Koch, 2001), also its believe that the importance of such study and its outcomes decision develop with the growing dependence of the companies on the international business survival. The entry mode decision can be very complex process and the decision can have strong implications over the entire firm performance. Therefore this research has focused on analyzing the factors influencing Diageo decision to select a particular entry mode, also the research has focused on evaluating the success of Diageo entry into African market by analyzing their (ROI) return on investment, profit and brand position.

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My supervisor Dr. Raula Al-abdulrazak for her guidance and support through out the research.

My parents and friends for their endless support and advice whom with out them I will not get the chance to write this research.

1.0 CHAPTER ONE: INTRODUCTION

This research was organised to critically evaluate and analyze the entry mode selection, and how the entry decision influences the firm ability to internationalize and survive in a foreign market. However the main focus of this research will be on market entry methods and effectiveness of entry mode decision-making. (Pehrsson, 2008) defined entry mode "as an institutional arrangement that facilitate firm's bringing their product and services into foreign market". Companies that try to enter foreign markets normally attempt to answer one important question, which entry mode to consider "Alone or together with some one" (Serban, 2012).

The market entry mode choice is one of the crucial decisions in market entry strategy, and firm's trying to penetrate foreign market faces a biting decision in choosing the best and the right market to enter because the decision may have a continues impact on the firm entire international performance (Chung and enderwick, 2011). Also (O'cass et al, 2012) argue that the entry mode is a vital decision firm's has to make because the choice may influence the entire firm's strategies on the market. According to Root, (1994) there are different types of entry of entry mode base on the firms level of control and resources, thus include export, joint ventures, licensing, franchising, merger and acquisition. Furthermore (Root, 1994) also added that firm can choose among this modes base on their advantages and disadvantages, which will be evaluated in the literature review chapter.

In the field of international business and market expansion, a wide number of scholars have conducted a research on markets entry strategies, these areas that are related to market selection, location choice, market entry modes, entry timing and entry barriers. (Cleaver et al, 2007) argue in their research that the choice to penetrate the foreign market should be base on resources availability, risk and control. The characteristics of entry mode consist of resources availability, which refers to the management capability to allocate resources in a particular foreign market, control that refers to the firm's ability to influence the system, methods on decision-making and risk, which can be resulted because of a high resources commitment and responsibilities (Agarwal and Ramaswani, 1992). There are various modes alternatives a firm can choose from ranging from export, licensing, franchising, wholly owned subsidiary and joint ventures (Taylor et al, 2002). Each entry mode has a strong implications base on the degree of control that the firm can apply on international operations, including the choice of resources and risk, and for this reason the decision and the choice of entry mode has become a complicated and challenging task for the management (Hollensen et al, 2011). The process of entry decision can be very complex issue therefore management has to exert much time in choosing the appropriate mode decisions. (Root, 1994) argue in his book how crucial the strategic decision is because a well-chosen mode can lead a firm to achieve competitive advantage while a bad mode entry can lead to poor performance "sinking boat" (Osland et al, 2001).

1.1 RESEARCH BACKGROUND

More often wide number of firm's try to improve or expand their market operations into foreign market, to gain or open doors for new market opportunities, which may lead there firm's to raise operational efficiency and generate profit (Serban, 2012). However for the firm's to succeed, in executing foreign market penetration it has to take proactive plans as "advance planning has been often regarded as important to the success of new international ventures (Knight, 2000) according to Stevens and Dykes, (2013) when penetrating international markets firm's are faced with three important questions where? How? And when to enter the market? These questions are related to location choice, entry mode, and entry timing. The market entry strategy can be one of the important topics in international markets. Market entry strategy " is a comprehensive plan, it sets forth the objectives and goal resources and policies that will guide the company in international business operation over a future period" (Root, 1994).

For the past decades research on market entry modes has rises and this is not strange since market entry mode is one of the main topics in international business research (Ahsan and Musteen, 2011). Also (Moen, 2002) argue in his research that past international marketing researchers has given minor attention to the newly established firms, which were engaging in a foreign market. However for the previous decades the direction has altered because there are quite a number of researchers exploring newly established firms with significant export involvement. (Ghauri and Cateora, 2010) argue of how and why firms go into foreign market, as to achieve earlier growth or identification of some market potentials, through incremental process and learning experience gradually, this is what they referred as establishment chain model meaning gradually internationalization from no regular export to manufacturing subsidiary.

1.2 RESEARCH QUESTION

An examination of how the market entry decision influences the business ability to internationalize and survive in a foreign market (the case study of Diageo in African market).

1.3 RESEARCH OBJECTIVES

1- To identify the process of reaching the decision making in selecting the entry mode.
2- To examine the factors influencing the choice of entry mode base on the case study selected.
3- To investigate the effectiveness and survival of selected entry mode, based on the return on investment, sales, profit and brand position of company selected.

1.4 RESEARCH RATIONALE

The fundamental reasons behind the selection of this particular topic is that the selection of overseas market and market entry modes “lies at the very heart of any international strategy” (Koch, 2001), also market entry mode choice has become a major field of concern in the international marketing. The significance of such analysis and of outcomes decision develop with growing dependence of the companies on the international business for survival. (Hollensen et al, 2011) believes that after company has made a decision to expand internationally, it has to choose the foreign market in which it wants to penetrate, the selection of the market includes analyzing strategic needs and orientation, the company's operations depends on its choice of foreign market entry mode, as its one of the vital decision influencing all future decisions. Therefore this research is focused in identifying and evaluating the effectiveness of the decision making process of selecting the market entry mode. The entry mode decision can be very complex and complicated, and management exerts a lot of effort in choosing the wise entry mode. The main significant reason behind choosing this specific research topic is that many researchers had argued that the entry mode decisions have strong implications on the firm performance, and also the mode of entry is difficult to change because of its long-term consequences for the company (Morschett et al, 2010). Choosing the right entry mode can provide the firms with many opportunities, such as potentials for new market, new resources, and consequently raises challenges regarding uncertainties, sizing of the market, regulations in the host country. Therefore ineffective decision in choosing the entry mode may lead to collapse "sinking boat" (Osland et al, 2001).

The company selected for the case study is Diageo PLC and its one of the world's largest producers and distributer of branded premium of wine, beer and sprits. Many of the company brands we're ranked in the number one or two positions in the beverage industry. The company operates in Africa, Latin America, Asia, Europe and Middle East. One of the main brand objectives of Diageo is to keep expanding its businesses especially where new growth is emerging. The fundamental reason behind the selection of this particular company is that; for several years they have expanded their business into many foreign markets. Therefore the case study will focus on Diageo entry into African Markets.

1.5 STRUCTURE OF THE RESEARCH

The research consists of six chapters. Chapter one was organize to highlight the purpose of the research, including the reason why this topic has been selected, and objectives that need to be achieve in the research. While the second chapter has been organized to provide the critical literature review of market entry modes, in that case the argument of the scholars will be used, and the research gap will also be develop. The third chapter has been created to explain the methodology of this research, including the reason why case study method has been selected for this research. The fourth chapter of the research will be base on analysis of the company selected, discussion and findings will also be develop in this chapter. The fifth and last chapter will be base on conclusion and recommendations for the whole research.

2.0 CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION OF THE CHAPTER

This chapter has been design to provide the critical literature review of market entry methods and their relation to internalization theories, upon how they lead to specific entry modes selection, based on the firms risk, cost, resources involvement, control and speed. According to Whitelock, (2002) the study of market entry and internationalization theories are inevitably linked.

2.2 INTERNATIONALISATION THEORIES

There are wide number of internationalization theories that tries to explain the complexity of market entry decision as (Moen, 2001) established his arguments on one of the popular model, the “Uppsala model" represents theory by which a firm's see internationalization as gradual developments process overtime, this is based on their learning experience in the foreign market to develop incremental knowledge. However According to Whitelock, (2002) Uppsala model is helped by psychic distance by which the firm's first expand into market, which were close and after they develop their knowledge, then they expend into distance market. However according to Bell, (1995) based on "establishment chain" model proposed by Johanson and Wiedersheim-Paul, less experience firms are likely to follow export entry mode, export through independent intermediary, export through sales subsidiary.

The firms with less experience or going international market for the first time are likely to use export entry mode, to minimize the risk over international operations, and gain more flexibility. Through export mode a company can achieve expletory advantage, by gaining knowledge and experience about the foreign market and use it into its advantage to compete in that market this is what (Root, 1994) referred as "international learning experience". According to Hollensen, (2012) export can be categories as follows, direct export and indirect export. Indirect exporting is when a company uses intermediaries such as trading company or export house whom are located in the home country, and take responsibility to perform their shipping and market product activities (Osland, et al, 2001). Through export method, companies export their product indirectly to the foreign market, and it may be for the purpose resources or lack of international experience, instead a firm uses this advantage to penetrate the "international market gradually" exploring the market before fully engaging full company resources to evolve export organization (Hollensen, 2012, p.235). While the Direct exporting it involves choosing an agent, or a distributer or establishing a branch or subsidiary to represent the firm in the market place (Daring and Seristo, 2004). Direct exporting is an arrangement in which the producer operates without the help of the middleman in the host country (Osland et al, 2001). Not like indirect exporting, this method gives the company advantage to actively handle international market directly. The direct export provide the firm with he full control over its product in the foreign market, through direct export company can acquire knowledge about the pricing, promotions, and other marketing plans. But nevertheless (Whitelock, 2002) argued that even large firms with substantial international experience and commitment used variety of export approach.

However (Bell, 1995) believes that psychic distance has become more less focus, as global communication and transportation infrastructure has improve as market become increasingly homogeneous, that's why companies are moving toward alternative strategies such as licensing and joint ventures which were adopted more often by firms as initial foreign market entry mode. (Chetty and Holm, 2000) argued that joint ventures can be part of firm international collaboration and networking theory, the networking is a way through which firms expand their market base on mutual exchange relationship, and the networking represents a firms with collaborative capabilities in which they maintain trust and reputation by collaborating with other firms.

The international joint ventures have become an important topic in the field of internationalization, and also in the area of international expansion (Lu and Beamish, 2006). Also there are a growing number of researches made on the field of international joint ventures. The joint ventures is an entry strategy in a target country in which two organizations come together to share ownership and create newly business entity (Keegan and Green, 2003, p. 330) the sharing can be reward or risk, each partner contributes some equity, it may be technology, money, equipment and knowledge. Firms follow joint venture as entry mode for many reasons; first it can be to avoid the political uncertainty or to reduce the financial risk. Additionally a firm can choose joint venture in order get exposure in a new market environment or alternatively firm enter joint ventures to raise their financial capacity. (Keegan and Green, 2003, p. 333) mentioned some advantages and disadvantages that companies can potentially meet when they enter into a joint venture agreement. Some of the advantages are through joint ventures firm can get access to target market or abstain from any trade barriers and tariffs; also ventures allow access to transfer new technology experience. (Talay and Cavusgil, 2009) argue in their research that joint ventures agreement may come with the disadvantage, firms have to take the risk of creating awaiting competitor meaning the partner may copy their product, technology or skills and becoming their competitor in the local market, and also it come with low control. That's why it is argued that firms may be better off if they pursue high control modes (Vandeven and Poole, 1989) mentioned in (Talay and Cavusgil, 2009).

Licensing: is a "non equity contractual mode" (Osland, 2001), in which the organization licensor transfer their intangible asset such as skills, knowledge, trademark, company name, patents technology, business method, or any advise to the licensee. This kind of arrangement typically involves long-term commitment, and it includes only the transfer of intangible asset. The company may choose to engage in licensing for number of different reasons, such as to raise the financial capacity of the firm. However there are some advantages and disadvantages associated with licensing agreement as an entry mode, one of the main advantage is that it reduces the cost for the company, it does not have to be concerned about exporting goods in foreign market because the firm transfer only intangible assets. In the other hand the firm can use the licensing to target the market even if the export is not possible, another advantage is it minimizing the political risk of the firm because the firm does not own the intangible asset in the target market. The disadvantages are that not all companies posses the resources to use licensing as an entry mode, e.g. the company must have a charming name or trademark that will be attractive to the foreign market, for the firm that does not posses this licensing is no longer an option (Root, 1990).

Franchising: according to (Hollensen, 2012, p.248) the franchising took it's meaning from the French and it means, " to be free from servitude" the franchising is a form of contractual agreements and is like licensing. The franchising is a situation in which typically the independent company operates its business by the trade name of franchisor. (Hollensen, 2012) also added in this situation the franchisee follows all the rules set by the franchisor in return the company receive some kind of benefit or payment. Likewise this kind of arrangement has some advantages and disadvantages. Mentioned by Root, (1994) some of the advantages and disadvantages may include quick penetration into foreign market with minimum capitals, standardized method of marketing with distinctive image and low political risk. While the disadvantages include limitation in the franchisors profit, lack of full control over the franchisors operations and restrictions put by the government on the terms of franchise agreements (Root, 1990).

According (Nielsen and Nielsen, 2011) transaction cost (TC) theory can be seen as one of the important internationalization theory, they also added According to transaction cost theory, the decision on weather to take full or shared ownership should be based on cost and benefit in order to maximize the cost. (Anderson and Gatignon, 1986) argued that the degree of control is the center of transaction cost because it provides the incentives to actuate the risk and profitability. Also additionally (Nielsen and Nielsen, 2011) believes that " when a market transactions or contract are subjected to high transaction cost, sharing equity is efficient because it aligns to the incentives of the parties and reduce the risks of opportunism". However according to (Keegan and Green, 2003) Most of the full or shared ownership can be through merger and acquisition. Additionally (Keegan and Green, 2003) added that the investment entry mode requires large managerial commitment than any other entry mode, but in return it provides larger participation into the market and the companies can shift from joint ventures or export strategies to investment entry mode in order to gain quick expansion. But according to (Root, 1994) the investment decision is a complex process and it requires good evaluation of target market. (Hollensen et al, 2011) believes that both foreign direct investment (FDI) and original equipment manufacturers (OEMs) are form of investment modes and they involved full control activities in a foreign market. Root, (1994) mentioned some of the advantages and disadvantages of the investment entry mode, the advantages involve a firm to gain a full sense of control ownership, additionally he mentioned firm can save the transportation cost or marketing advantage in the local market by adopting company's product to local preference and purchasing power. However (Keegan and Green, 2003) believes that most of the joint ventures advantages also applied to ownership such as access to market and escaping of tariff or entry barriers. While the disadvantages according to (Root, 1994) include the need for higher financial capabilities and resources, and high political risk than any other mode because it contain greater uncertainties.

According to (Hollensen, 2012) Acquisition is a way to penetrate a foreign market quickly it normally provide access to distribution channels. However (Serban, 2012) believes that acquisition provides access to local organizational resources such as human capital and local authorities because they want to establish strong market position, also (Hollensen 2012) believes that this might be a good choice for firms with little international experience and or little knowledge about local market. According to (Root, 1994) the companies may acquire firms through horizontal, vertical, concentric and conglomerate, also he added that Acquisition mode require careful selection if not the firm can end up acquiring a firm that has a problem or financial insecurity. However (Keegan and Green, 2003) mentioned that acquisition is less expensive approach to market entry expansions strategy.

2.3 DECIDING ON THE RIGHT ENTRY MODE

This part of the research in the literature answers the question of how managers in the organizations decide the right entry mode. Different international marketing literature has revealed that, there are three kinds of decisions rules for entry mode selection (Root, 1994) mentioned in (Hollensen, 2012) thus are:

Naïve rule: is a situation in which managers in an organizations approach all foreign market with the same entry mode. The decision, which is consider being naïve e.g. " we only export " (Koch, 2001). According to (Root, 1994) this kind of method lead managers to neglect the heterogeneity of entry conditions in the foreign market, also it may lead the path for the firm's to end up making mistake because they enter foreign market with the naïve mode. Furthermore (Root, 1994) added that the naïve rule block the firm from checking the target foreign market in order to determine the long-term profitability and opportunities.

Pragmatic rule: according to Koch, (2001) this is situation in which managers in international business initiating their business in a pragmatic rule using low risk only as entry mode. However (Root, 1994) believes that this low risk may be an export mode in the case that it doesn't work out or it doesn't generate profit the firm will look for workable entry mode as an alternative, managers use it at learning experience, and also he argued that the pragmatic rule tends to reduce the risks as well as provide some advantages for the managers and business because it create solutions to reject any entry mode that is not workable. But (Hollensen, 2012) continued in this area that the problem with pragmatic rule is that not all alternatives modes are explored, leading to the workable entry mode that might result of being not the best entry mode.

The strategy rule: according to (Koch, 2001) this approach "involves a systematic" evaluation before any decision or choice has been taken In order to find the right entry mode. (Root, 1994) believes that's why "is more difficult than pragmatic rule". But (Hollensen, 2012, pp.220) argued that strategy rule provide managers with better decisions because this kind of decisions guide managers to choose the right entry mode that will lead them to gain profit maximization, and availability of the company resources.

2.4 FACTORS INFLENCING THE MARKET ENTRY MODE

The firm's decision for entry mode become a complex process and the companies face some difficulties in measuring their strength and the need to analyze their direction over future planning (Root, 1994). (Ulrich et al, 2012) mentions that the entry mode decision typically involves some trade offs such as; a high control can increase the resources commitment and profitability but at the expense of increasing the risk, while a low control mode may decreases commitment and resources. According to Hollensen, (1998) the influencing factors can be categories as internal and external factors.

2.5 INTERNAL FACTORS

Company size and resources: according to (Hollensen et al, 2012) "size is an indicator of the firm resources availability". (Root, 1994) highlighted that the greater the firm resources the more ability it has over international expansion, usually some small companies have limited resources, which is why they are left with few options, and one of the reasons why this companies initiates their market through e.g. export entry mode that does not require high resources commitment and high degree of control, not like fully owned subsidiary that desire high level of control and resources commitment over international expansion. However according to (Koch, 2001) the influence of size on its freedom of choice in selecting market entry depends on the industry specific resources.

Management arrangement of control/international experience: according to (Koch, 2001) management "locus of control" over international business involvement is an important factor, and is normally underestimated because strong internal and external "loci of control" are likely to affect managers decision on the entry mode they will use, or another way it could be seen for managers to gain international experience. (Hollensen, 2012) argued that experience can be achieved by operating in a particular country or in international environment; the international management experience may help the firm in many ways by decreasing the level of cost and uncertainty, and in return raise the probability of the firm over a resources commitment in the foreign market.

Product: according to Hollensen, 2012) the physical product and services can be a significant factor influencing the entry mode. But (Root, 1994) believes that it depends on the type of product such as its value, and degree of differentiation. Further more (Root, 1994) explained that product with high degree of differentiation and competitive advantage can posses high transportation cost as well as high import duties and yet remain competitive in foreign market. While a product with low differentiation has to compete in a target market on a basis of price, which may only be possible through some form of local ownership such as equity investment or contract manufacture e.g. “expensive watches are normally not used for direct exporting” (Hollensen, 1998, p. 209). However (Hollensen, 1998, p. 211) the product differentiation provide a firm with number of advantages, such as to limit the competition through barriers of entry, and also by raising price to go beyond the cost of normal profit such firms benefit from monopolistic position.

However according to Koch, (2001) in his research he believes that “calculation method applied” should be one of the influencing factor, base on many alternatives that a firm can have such as risk and benefit, and also based on the calculation of the cost and the control. Even though he mentioned this method it can only be applicable to every entry mode as long as there are available data and the dynamic in the entry modes.

2.6 EXTERNAL FACTORS

Market size and growth: according to Wang, (2012) the size of the market and its growth can be one of the most important factor influencing the entry mode, and it has been considered as one of the significant drivers above financial metrics. The larger the country and its market the higher potential for growth, and the higher its for the management to commit its resources to create wholly-owned sales subsidiary. (Root, 1994) introduces a dimension in market size and growth, in which he points out the important of competitive structure, through which he describe how markets can be range from atomistic (high non dominant competitors), to oligopolistic (little number of competitors) or monopolistic with a single firm. The atomistic are likely to joint export entry than oligopolistic or monopolistic market that are likely to prefer investment entry that will enable them to compete against dominant firm.

Target country environment factors: the socio-cultural distance between home country and foreign country such as political, economic, and sociocultural character of the large country. According to (Root, 1994) Such factors can have a significant influence over entry mode decision, the sociocultural difference between home country and host country can cause internal uncertainty for the firm. (Pehrsson, 2009) argued that there are many environmental factors that can influence the mode of entry, such as government regulations and policies, which are considered to be important exogenous barrier and firm cannot control exogenous barrier. (Pehrsson, 2009) also added the government regulations and policies play an important role in influencing the entry in the target market, the import barriers like tariffs and other policies can cause an effect by the firm trying to penetrate foreign market through export entry mod, also restrictive foreign investment regulations can cause investor to shift away from investment toward other favorable mode. Another important environmental factor is geographic distance; the export entry mode will be great for countries that have low transportation cost because they gain the advantage to compete in the local goods in the target market.

Risk and uncertainty: according to (Hollensen, 1998, p. 210) in foreign markets are typically seen as riskier than domestic and he added that there are so many entries that the firms will commit it self to and they will turn out to be riskier, and that's why it is useful to conduct risky analysis.

2.7 DECISION MAKING CRITERIA

According to (Ulrich et al, 2012) " each foreign market entry mode represents continues international expansion involving different level of control, flexibility and risk.

Control: according (Osland et al, 2001) "is the ability and willingness of a firm to influence decisions, systems, and method in a foreign market". According to (Ahsan and Musteen, 2011) the level of control and resources commitment is low in non-equity modes such as exporting, Licensing and distribution agreements. They also added that the highest controls in these agreements are investment in WOS such as Greenfield or acquisition. According to (O'cass et al, 2012) a high control in foreign operations can promote the implementation of firm's international strategies, protect firm specific advantage, improve management operations and also bring greater return in profit. However high degree of control comes with a price to pay due to uncertainties such as exposure to political risk. However (Robles, 1994) believes that a firm choice depends on the careful assessment of control, commitment and risk.

Risk: the decision of risk in the entry mode is directly related to control, the higher the control the higher the risk, in contrast the lower the control the lower the risk. According to (Forlani et al, 2007) suggested that most managers would believe that the risk of loosing the considerable financial investment required high control entry mode like sole-ownership, this is the reason why if the company is risk averse they would prefer export mode because they contain low risk and low resources commitment, such entries like joint ventures the risk is shared and it comes with low resources commitment, but according to (Hollensen, 1998) the low risk entries are unlikely to promote the development.

2.8 CHALLENGIES OF ENTRING A FOREIGN MARKET

According to (Ahsan and Musteen, 2011) the host country environment factors have received a lot of attention, thus include cultural, legal, macroeconomic, market, political and policy, however they added that the most popular challenges are cultural and institutional uncertainty. According to (Morschett et al, 2010) argued that moving a company resources to another culturally environment is difficult, and it lead higher learning cost in host country. According (Karakaya and Stahl, 1989) government policy can be another challenge in unfamiliar environment because government can control the number of firms by demanding licensee or permits. However (Wang, 2012) argued that government regulations like tariffs and subsidies frequently influence firms market entry strategy.

2.9 GAP IN THE LETERARURE

The decision on “market entry modes” has strong implications over the firm’s performance (Hollensen et al, 2011). From the above literature review wide number of researchers had discussed about internationalization theories and their effect on market entry selection, including the process of market entry decision. But it appears in the whole literature did not reveal the outcomes of the decisions making on market entry mode and how can this decision influences the firm’s outcomes over their internationalization and survival in a foreign market. That’s why this study would be based on examining how the market entry decision influences the business ability to internationalize and survive in a foreign market.

2.10 CONCLUSION OF THE CHAPTER

From the above discussion, it appears that different entry modes exist for the firms to choose, ranging from export, to licensing, joint ventures and wholly-owned subsidiary, however it also depends on the firm size and capabilities e.g. a firm with limited knowledge and experience about the target market, the export entry mode appears to be suitable choice for the firm. The licensing and franchising may be an easy to penetrate the market with out sending large amounts of resources in the target market. The joint ventures, which represent the sharing of knowledge and control, at the end the investment choice, which require a lot of attention and resources from the mangers. All of these options of different types of entry mode may be good however the control yet appears to be center to all of them, the higher the control the higher the risk, and in contrast the lower the control the lower the risk. If the company is risk averse they can abash from such risky modes like mode and move toward less risky modes like export and licensing. However the managers need to pay significant attention on the decision-making process because effective decision upon entry mode may lead a firm to achieve successful outcomes.

3.0 CHAPTER THEREE: RESEARCH METHODOLOGY

The research methodology refers to the study of methods, is an access to the process of research including body of methods. The methods refer to the technique for collecting and analyzing data (Collis and Hussey, 2014).

The method of this research would be based on case study, according to the criteria and nature of the research, and the type of company selected. The case study would be base on Diageo PLC in African market. According to the (Marketline, 2013) Diageo PLC were one of the largest producer and distributer of world's brands premium of sprits, beer and premium. The company operates in Europe, North America, Asia specific, and Africa. But the case would focus only on African market because recently most of their expansion was in African market. The company business account for 27% of premium sprits of worldwide market share, and the company's brands were ranked in the number one or number two positions in the global alcoholic beverages market. Such brands include Scotch whiskey, Crown loyal, Smirnoff, Vodka and Gunnes. Over the years the company has expanded into various international markets, moreover the company has built significant brand strength in premium sprits helping to achieve a strong market position.

According to (Blumberg et al, 2011) research is classify according to its purpose, and base on that assumption the research should be exploratory, descriptive and analytical or predictive. The exploratory research is conducted when research problem issues are minor and area of investigation are new, therefore researcher need exploration to learn something about research management dilemma, in this situation the research variables may not be acknowledge and researcher is looking to develop ideas rather than to text hypothesis. The exploratory research provides a map and insight to which more accurate investigation can be conducted at later stage. The descriptive research tends to provide answers to “who” “what” “when” and “where” questions. The descriptive research exists to define and identify a certain phenomena, it’s used to describe and obtain information about particular problem or issues. (Collis and Hussey, 2014) argue that descriptive research go beyond exploratory in examining a problem. Analytical or explanatory research is another research method, but in this method the investigator goes beyond describing the characteristics to exploring and explaining why and how the phenomena is been studied. While the predictive research goes beyond the explanatory because it provides the researcher with explanation about a particular situation that is happening, the predictive goal was to be able to predict a certain situation that might reoccur and it provide solution to a particular problem in a study.

3.1 RESEARCH APPROACH

According to Bryman and Bell, (2011) there are two types of research strategy thus are qualitative and quantitative research, he argued that many researchers tries to differentiate between the two as quantitative method apply measurement and qualitative method does not. Its believe that the difference are more than measurement issues of quantification, the quantitative research involve collection of data that can be quantified and analyze using statistical method. According to Collis and Hussey, (2014) the quantitative research involved using deductive approach to text a theories and practices of natural scientific model and positivism in particular. While the qualitative research involved collecting and analyzing the data using interpretive method, qualitative encourage using the words rather than quantified data, it used inductive approach for the generation of theories and it deny the used of natural science model and positivism, however it favors individual interpretive social world.

3.2 RESEARCH PHILOSOPHY

The research is based on reasoning theory and observations (data or information), also the research is conducted under the umbrella of philosophies, and science in which they helps a lot in research design clarification and promote the choice of appropriate ones (Blumberg et al, 2011). According to Collis and Hussey, (2014) research philosophes come from research paradigm, the paradigm means, "a set of framework that lead how research should be conducted base on people and they're philosophies, and their assumption about the world and the nature of knowledge". Philosophy is a set of systems, and study of fundamental nature reality and existence. There are two types of research philosophes thus are positivism and interpretivism

The positivism is a philosophy originated from natural science and it its root come from the philosophy known as realism Collis and Hussey, (2014) the realism is like positivism, and sets the assumption that social science can rely on research and its dominant on natural science. Moreover it believes in the existence of a reality independent of human and their behavior. (Blumberg et al, 2011) mentioned that positivism contains some certain elements, some of the importance ones are " social world exist externally and it's viewed objectively, research is value free and researcher is independent taking role of an objective analyst". The positivism is widely used in social science and positivism believes that reality is independent of us and goal is discovery of theories base on research observation and experiment. According to (Bryman and bell, 2011) the positivism include both deductive and inductive research strategy with a view of providing explanatory theories to understand social phenomena, and since the social phenomena can be measured the positivism is associated with quantitative method of analysis based on statistical analysis.

Interpretivism (Collis and Hussey, 2014) argued that the interpretivism was originated as a result of criticism in positivism. Not like positivism the interpretivism believes that social world cannot be perceived by adopting research principles from the natural science, it come with the assumption that sociality is in our minds and its subjective and multiple. (Blumberg et al, 2011) mentioned some of the underlying principles of interpretivism thus are " social world is constructed and is given meaning subjectively by people, the researcher is part of what is observe and is driven by interests". The interpretivism involved inductive process with a way of providing interpretive phenomena within a context, additionally interpretivism believes that sociality is not objective but subjective because it determined by our perceptions, and also not like positivism the interpretivism are not derived from any statistical analysis or any means of quantitative data but instead findings are gain from qualitative data (Corbin and Strauss, 2008).

My philosophy for this research would focus more on positivism. Since according to positivism the researchers are independent of phenomena under study, and outcomes of the result are unbiased and value free, also the study lead to prediction, explanation and understanding. Most importantly through positivism research the investigator can studied the cause and effect and the outcomes are accurate and reliable through validity and reliability (Collis and Hussey, 2014).

3.3 CASE STUDY RESEARCH

The case study research has been traditionally been viewed as a strategy that can be used in many situation, to bestow to our knowledge of individuals, group, organization, social and related phenomena, and according to Yin, (2009) that's why it has been accepted as a research method, and its widely been used in the field of sociology, political science, anthropology, social work and business. The case study research method has been widely seen as a useful tool that offer an investigator the opportunity to obtain entire and significant characteristics of real life events, such as small group behavior, organization and managerial process, individual life cycle and performance international relation. (Rowley, 2002) believes that "case study are widely been used because they may offer insight that might not be achieved with other approaches", and case study may stands as method to perceived social phenomena (Yin, 2009).

Meredith (1998) mentioned in (Pedrosa et al, 2012) defined case study research method:

" As approach that normally uses mixture of different methods and tools for data collection, from number of entities by a direct observers in a single natural setting that consider temporal and contextual aspects of the contemporary phenomenon under study, but with out experimental controls or manipulations".

Again this case study for particular organization has been selected because of the criteria of the topic and company itself. Diageo PLC Africa is the largest alcohol beverage producer in Africa, with many brands and different mode of entry ranging from subsidiary, licensee and joint ventures based on market basic needs, market opportunity and resources.

Yin, (2009) in his book explained different types of case study research methodology thus are exploratory, descriptive and explanatory. He mentioned that the difference in these methods is not the hierarch but three important conditions thus are related to what type of research question has been asked, the level of control and investigator holds and amount of focus on occurring as opposed to historical events. The research question can be viewed as a factor that plays a vital role in determining which kind of study has been conducted e.g. “what” questions can be exploratory and this kind of questions can come with justifiable rationale for implementing case study, they can be exploratory survey, exploratory experiments. While for the “how and “why” questions are more likely to be explanatory because such questions dealt more with operational links rather than frequencies or incidents. However the case study research had received a lot of criticism according to (Rowley, 2002) most of this criticism are perceived to be lacking rigour and objectivity, and its one of the reason why its important to identify proper research question, research protocol and good design instruments. Even though research design can be the most difficult part of doing case study (Yin, 2009).

Bryman and Bell, (2007) argued that many researcher had try to associate case study research with qualitative research, he explain that such claim may not be true, even though it might be true that case study might favor qualitative research such as participant observation and unstructured interview. The case study represents a method through which several qualitative methods can be used in order to avoid too much dependent on one single approach, however its believe that case study goes beyond the type of only the qualitative research, it include both quantitative and qualitative research evidence (Creswell, 2007). The difference between case study and other method is that it investigator always want to clarify the unique features of the case. (Bryman and Bell, 2007) mentioned the appropriate criteria for conducting case study research, thus are measurement validity, eternal validity, external validity and reliability.

Based on the explanation above and different criteria associated with each case study method. This case study would be more explanatory method, and explanatory is likely to lead to the use of case study (Yin, 2009). However because of the nature of the case the data would be both combination of qualitative and quantitative data, as I have mentioned above the case study research can contain different method of data.

According to Radley and Chanberlain, (2011) a good case study research should contain various sources such as documents which are likely to be included in every case study they can be letters, email, correspondents, personal documents and administrative documents. Direct observation, which are likely to include the range from formal to casual data collection activities, the observation can stands as useful tool in finding the additional information of topic being studied. The archival records can be public files, service record, and organizational record and survey data. Interviews can be one of the most important sources of case study. The physical artifacts this include physical and cultural artifact or a technological device.

3.4 DATA COLLECTION

The data collection will consist of both primary and secondary data, but in this case, I will rely heavily on secondary data because of the nature of the topic and case including limited amount of time to arrange the assembly of primary data. Also most importantly the Diageo African management was situated in Africa which will be hard for to arrange the access of such data like interviews, since the research was conducted in University of East London premises.

But, nevertheless, this case study would include interviews as source of data collection, as (Yin, 2009) mentioned interviews can be reorganize as one of the important source of information, as interviews typically guided conversations rather than structure. However in this case the interviews that will be use has already been conducted, and it’s with the top-level management of the organization been studied. The questions been asked in the interviews are directly linked to the matter of investigation. Those interviews were available on such places like: Themaketer that conducted a video interview with the Diageo chief marketing officer Andy Fennell, available on Youtube.com. Also another key important interview conducted by

International business forum (BLF) on expert insight series with Diageo CEO, Paul Walsh, available on also Youtube.com. Additionally Financial times conducted similar interview with Diageo CEO, Paul Walsh, available on FT.com analysis.

Also another source of data collection in this case will be through documentation. As (Yin, 2009) mentioned every case study research is likely to include documentations, as they include many forms of data collection plans. Such documents will include African web cast releases by Diageo Africa, and were made by Nick Blazquez, President of Diageo Africa. Another important method of data collection that will be use in this case is direct observation as they contribute a lot to the data gathering and also some behaviors or environmental conditions would be available for observation, which they can, stands as another source of evidence. The remaining source of data collection will include articles and archival records.

3.5 RESEARCH ETHICS

Ethical issues in any kind of research are very significant and helpful in guiding the investigator to deliver honest and transparent research results. (Collis and Hussey, 2014) defined research ethics as moral principles that form the basis of a code of conduct, which represent and the manner in which the research is conducted and how the research findings are reported. They also mentioned some of the most important research guidelines that has been published by professional researchers, thus include: the need to ensure and avoid any harm toward participants, or the need for respect and dignity of research participants, even though this research would not include any participants. But, however there are key important guidelines that need to be apply in this case, thus include the need to avoid any form of plagiarism, the need for privacy of information to avoid any privacy invasion, and also the need to avoid misrepresentation of any kind of information to avoid false research findings and most importantly the honesty and transparency the case would be in a full shape of honesty and research findings would be truthful and reflection of reality.

3.6 RESEARCH LIMITATIONS

This part of the research focused on discussing the limitations of the research. As research limitations can be helpful and important in providing understanding about factors affecting the investigator or hindering the researcher to deliver a successful results. The research limitations are the research focused more on secondary data, as a result of limited amount of time to arrange the primary data, this has limit the successful delivery of transparent research results because there are some questions that investigator wanted to touch but there are no data to support those questions. Also because the researcher is a student, there is limited amount of resources and finances to support the research.

4.0 CHAPTER FOUR: DATA ANALYSIS

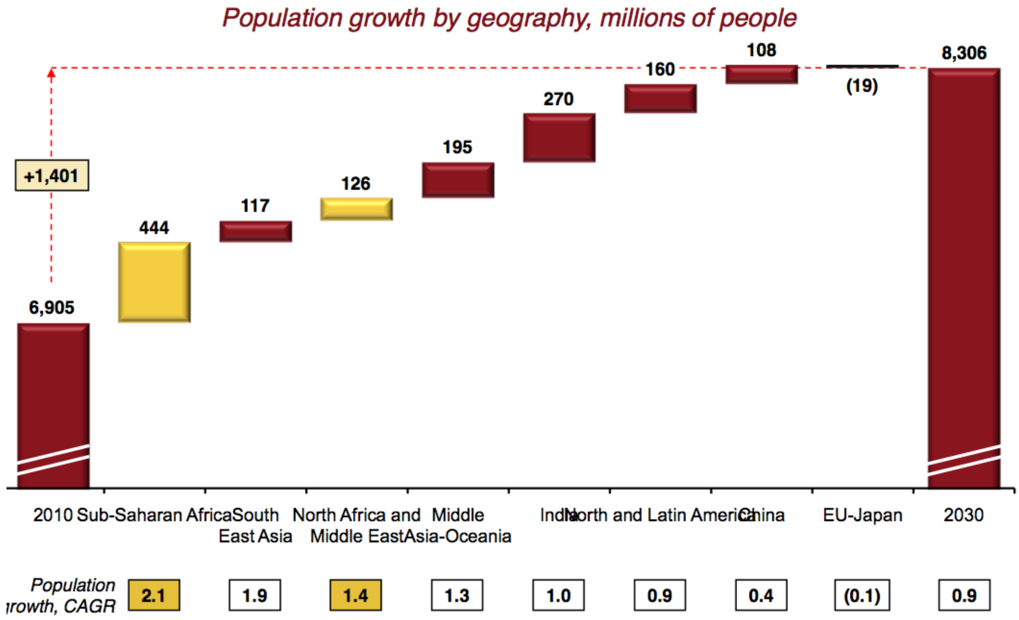
4.1 INTRODUCTION OF THE CHAPTER

This part of the research has been organised to analyse and evaluate the presence of Diageo in African market. First the analysis will talk about the beverage market share in Africa as whole, including the key players in terms of competition, geographic locations and customer needs. Followed by the analysis, different entry modes of Diageo in Africa will be discussed along with the exploration of those factors that influence their decision to choose a particular entry mode when entering a specific market. Also the analysis has focused on the outcome of the decisions taken by Diageo to select a particular entry mode that is based on its sales, profit and brand positioning. The last part of the chapter will focus on discussion and findings, which will be primarily based on Diageo's strengths and weaknesses in African market.

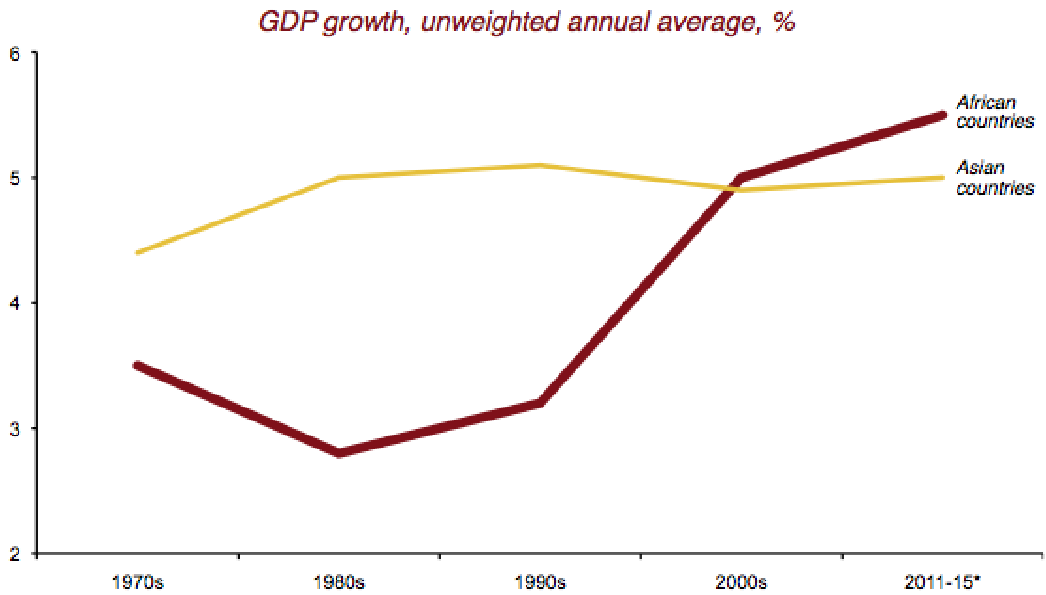
4.2 THE BEVERAGES MARKET SHARE IN AFRICA

Though as many of the African alcohol and beer consumption are unrecorded, However according to the (Global status report on alcohol 2004) mentioned in (Jernigan and Obot, 2006) that many of the sub-Saharan African countries such as Uganda, Nigeria, Swaziland and Brundi are among the 30 countries with the highest level of alcohol and beer consumption. Even though some of the North African countries are Muslims, and for the past years the African beer and alcohol market industries have been engaged with many biting disadvantages such as military conflicts, corruption and economic crises. According to Jernigan and Obot (2006) military conflicts have been growing for the past 30 years in Algeria, Angola, Brundi, Chad, Democratic Republic of Congo, Eriteria, Ethiopia, Nambia, Niger and Nigeria.

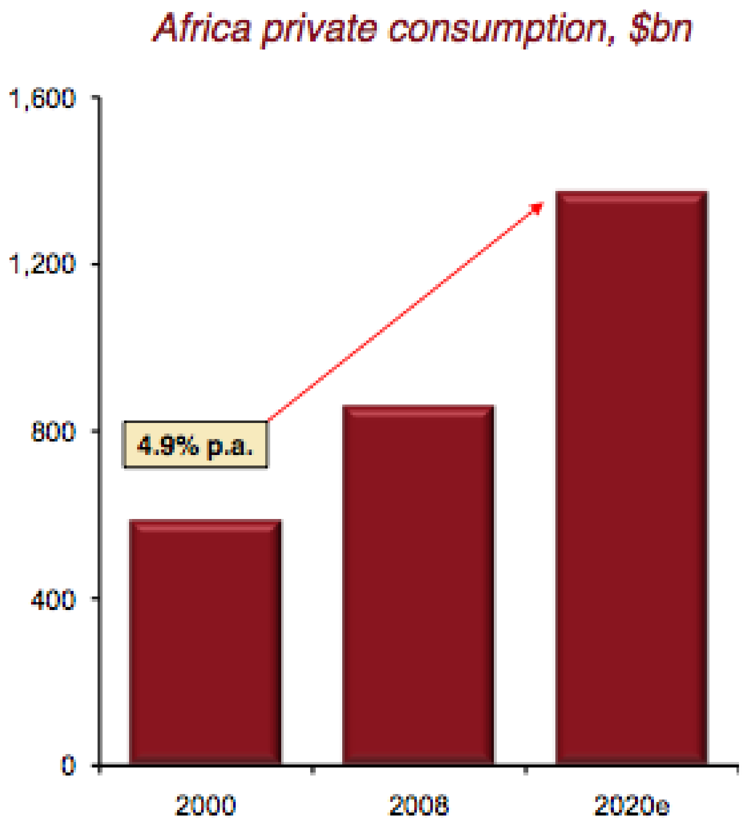
Despite all the growing conflicts and number of disadvantages on African beverage market, there are number of factors which appear to be boosting beverage industry in Africa. According to (Diageo African web-cast) Africa is one of the continents where population of young people is growing and ready for alcohol consumption, also where the GDP is growing which enhances the income of consumers and their confidence to purchase, see at the charts below. Also in addition according to Jernigan and Obot (2006) Africa appeared to have a population that is ready to jump over commercially produced beverages, therefore African market can be a safe heaven for producers demanding to expand their market to make up for the decline in other matured markets such as Europe and North America.



Source: Mckinsey strategy review 2010, @ Diageo Africa webcast 14 April 2011.



Source: the Economics, January 2011, @ Diageo Africa webcast 14 April 2011.



Source: Mckinsey strategy review 2010, @ Diageo Africa webcast 14 April 2014.

According to the charts above taken from Diageo African website, it has been forecasted that the African consumption of alcohol and beer will continue to increase especially from 2008 to 2020 and also it revealed that there would be a significant increase in growth for the coming years, which can be even higher than Asian countries. According to the (Euromonitor International Analysis) Nigeria and South Africa has the highest market share of beer and alcohol in Africa, which is not surprising because they have the highest population and strongest economy in Africa. Furthermore, analysis made by (Key economic indicators) on January 1st (2013) South Africa has a population of 52.8 million with total GDP growth of $350.6 billion, while Nigeria with the population of 170.9 million which is the highest population in Africa with the total GDP growth of $293.7 billion.

According to the Lodestar marketing research (2003) South Africa has the largest economy with the highest market share of alcohol consumption in Africa and it is the only member of G20 among other African countries. The South African economy has a massive industrial output, which almost account for 40% and it has been seen as one of the sophisticated free market in Africa. The South African Beverage market has been in a strong position since 1990, through South African Breweries, which has dominated most of the Sub-Saharan African countries. The South African Breweries has become a major distributer to 400 million Sub-Saharan African people, additionally, it is discussed by Jernigan and Obot (2006), the distribution has given them enormous market advantage to export beer and soft drink to other countries like Tanzania and Zimbabwe, where most of the people have lower purchasing power and lower income. However, one of the first alliances of Diageo was in South Africa, in which they established strong alliances in 1964 by granting South African Breweries a Licensee to brew Guinness stout in South Africa. Nevertheless, according to (Euromonitor international) there has been an increase in popularity of stout in South Africa because of is similarity to traditional African dark beer, which has triggered a massive market.

On another hand Nigerian beverage industry is the most populous country in Africa (Euromonitor international), which accounted for 41% of global volume sales for Stout in 2007. According to the Jernigan and Obot, (2006) the Government statistics revealed that the production and consumption of beer and other beverages have been increased significantly in recent years, even though it was known that traditional drinks like burukutu and palm wine has dominated some of the rural and urban areas. However the first Guinness outside United Kingdom was established in Nigeria in 1962 and Diageo owns it. Their main competitors are Nigerian Brewing PLC, which has six brewing sites under, it include Star, Guilder, Heineken and Legend. In the recent time (NB) PLC and Guinness are the largest capitalised beverage companies in Nigeria.

In contrast, the other key African market of beer and alcohol include Cameron, Ethiopia and Kenya. According to the (Euromonitor international) most of other African countries positioned themselves in stout market and mainly stout brands targeted mass market through low price and large volume categories. Moreover Guinness brand which belong to the Diageo and is the leading stout brand in Africa with 51% volume share in 2006 (Euromonitor international).

4.3 DIAGEO BRAND OBJECTIVES

The brand objectives of Diageo are to continue having a business that is balanced with a strong presence in the world's largest and most profitable beverage alcohol market. Further more Diageo wants to achieve business that is large with continues presence in the new high growth markets of Africa, Latin America, Asia Pacific, Central and Eastern Europe, Russia and Turkey. Diageo is aiming to build its strong financial position by investing in different markets, and simultaneously investing in their portfolios of brands, through maintaining the strength of its brand and improving its position via world-class marketing and innovation. Diageo is taking proactive plans to ensure the sustainability of its product lifecycle, and protect its responsibility of leading the beverage alcohol industry (Diageo Annual Report, 2013).

4.4 DIAGEO STRATEGY

Diageo strategy is to bring high profitable growth and allow expansion in a maintainable method, to bring long-term value to its shareholders. Diageo has posses number of brands categories, it also own six of the world's top 20 sprits brand. Diageo owns world number one stout brand, which is Guinness and they sell their products in more 180 countries around the world (Diageo Annual Report, 2013).

4.5 DIAGEO BRAND PORTIFOLIO ACROSS AFRICA

Diageo is one of the alcohol companies with the largest portfolios of breweries in Africa. According to Diageo Annual Report (2013) there are 14 brew brands in Africa, which include stout, alcohol, beer and sprits. The strategic brands are as follow: Johnnie Walker, J&B, Smirnoff, Captain Morgan, Baileys, Guinness, Bell, Senator, Tusker and Pilsner.

Source: Diageo African webcast 14 April 2011.

According to the interview conducted by TM (themarketer) with Andy Fennell the Diageo Chief Marketing Officer, about the marketing portfolios (available on www.youtube.come). The Fennel replied as follow:

"Having a broad variety of brands give us a significant competitive advantage, it enables us to have products crossing all over the price range, consumer motivations and geographic locations. The way we evaluate marketing activity ultimately is weather we change consumer

behavior, do they buy our products instead of someone else's when they are thinking of alcoholic drink".

Having different variety of brands, offered Diageo with competitive advantage in African beverage industry, by serving a broader market base on geographic locations and demographics driven by their brand portfolios, which delivered strong performance.

4.6 DIAGEO MARKET ENTRY MODE IN AFRICA

African market has offered Diageo with many opportunities. According to Bernstein Research (2013) the African region, is one of the top markets for Diageo, bringing top digit growth since 2007 and this has been continuously year after year. Diageo has established different types of entry mode on African market; this was due to the different market environment, opportunities, demographics and consumer needs. As Nick Blazquez, President of Diageo Africa, mentioned (Diageo African Webcast, 2011) that:

"Africa is a region that is underpinned by favorable demographics, which are leading to widespread economic growth and grater number of consumers. Urbanization and increase in disposal income are driving grate aspirations for our branded product and we are well placed to benefit from that".

Additionally Andy Fennell, Diageo chief marketing officer, when speaking to the TM (themarketer) added that:

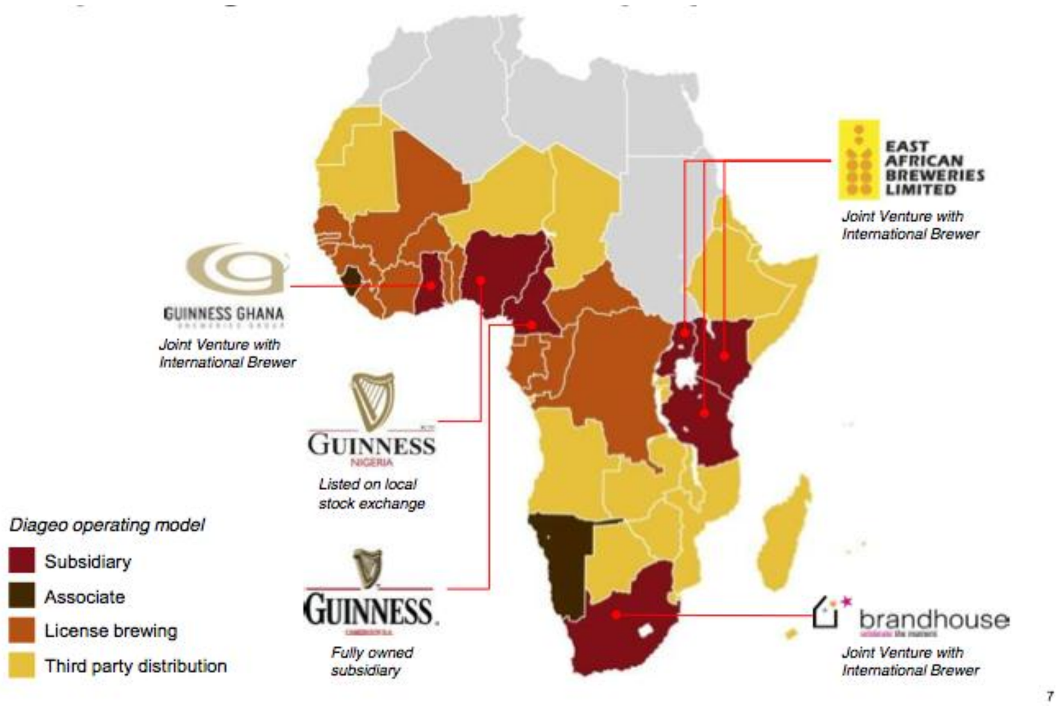
"*Demographics give us base level of understanding of what market office is, e.g. in western Europe there is a stable population gating older, while in Africa we have a younger people becoming wealthier, that give us different opportunities. So demographics help us in understanding base level".*

Diageo PLC was in Africa for a long time, establishing a successful business with range of different entry modes, which include acquisition, subsidiary, joint ventures and licensee. Moreover, providing range of brand categories with an affordable price, which has given them the advantage in domestic markets. The selection of a particular entry mode by Diageo varies as per the market importance.

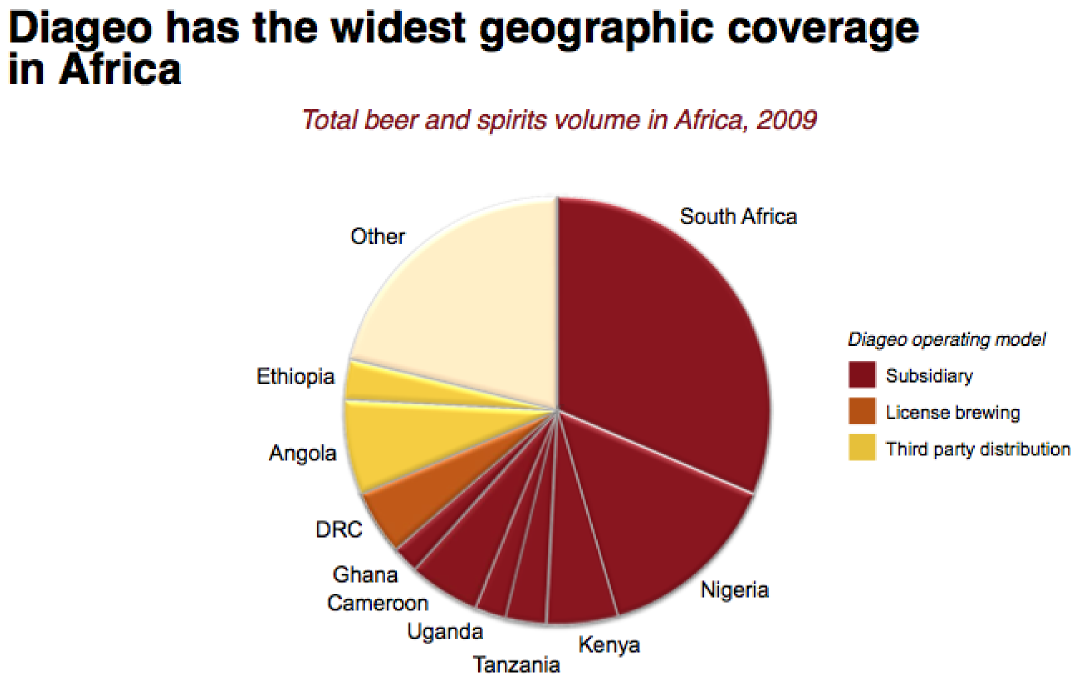
As stated by Nick Blazquez, President of Diageo Africa, (Diageo African Webcast, 2011)

" *In some markets that are strategically important to us, Diageo plan to have a market presence with direct access to distributions channels, while elsewhere we look to partner with local insight, knowledge and distribution to build our brands quickly".*

DIAGEO AFRICAN MARKET



Source: Diageo African Webcast, 2011.



Source: Market interviews, Euromonitor @ Diageo African webcast 14 April 2011.

From the above charts revealed by Diageo African Webcast (2013) it shows that Diageo has penetrated a wide market in Africa with different types of entry mode. However it shows that the most favorable modes for Diageo are either to establish a subsidiary or penetrate through licensee because from the above analysis it shows that Diageo owns more subsidiaries, and then followed by licensee and other entry modes.

According to the Diageo Annual Report (2013), Diageo is the largest geographic coverage Beverage Company in Africa. It covers from Nigeria to East Africa, which includes Kenya, Uganda, Brundi, Tanzania, South Susan, and Rwanda; whereas the Regional market includes Ethiopia, Ghana, Cameroon, Democratic republic of Congo, Mozambique, Angola and South Africa. In 20 other African countries third parties have the license to produce sprits and beer for Diageo.

Also the company owns different manufacturing facilities, which include the glass manufacturing, blending and others.
Additionally, Nigeria is one of the largest market shares for Diageo because of the strong market of Guinness Nigeria PLC, which Diageo owns 54.3% of the company, and other sprits brand are distributed by wholly own subsidiary (Diageo Annual Report, 2013). The Guinness Nigeria was established in Lagos during 1962 and it was the first ever Guinness Subsidiary established outside United Kingdom, since then it has been producing locally with Harp and Malta as principal's brands (Jernigan and Obot, 2006). Guinness account for over 50% of the volume sales in the region and Nigeria alone is the third and second most profitable market for the brand worldwide (Euromonitor international). The Guinness Nigeria PLC offers range of different beverage categories specifically targeting local market. The categories of brands own by Guinness Nigeria according to the Guinness Nigeria unaudited interim financial statement (2013) include Guinness extra Smoth, Harp Lager, Dubic Lager, Satzebbrau Pilsner Lager, Harp Line Lager, Gordon's Spark, Smirnoff Ice, SNAPP Orijin, Orijin Biters, Master Choice premium Sprits, Malta Guinness, Malta Guinness Low Sugar, Top Malta and Alvarn.
Likewise, South African market is one of the important markets for Diageo and the company has penetrated the market through different entry modes, which includes joint venture and wholly owned subsidiary. According to the Bernstein Research (2013) South Africa account for most of the region for sprits and RTD. Additionally according to the (Euromonitor international) there is a strong popularity of stout in South Africa, which in fact has presented Diageo with strong market opportunities. According to the Diageo Annual Report (2013) in South Africa, Diageo owns several businesses of beer and sprits, which include Sedibeng Breweries and it owns 25% of that company; also Diageo owns 42.5% share of DHN drinks (PTY). Correspondingly, Diageo form a joint venture in 2004 with Heineken international and (NBL) Nambia Breweries LTD in which they combined

beer and cider ready to drink (RTD) business in South Africa, both Heineken and Diageo owned 42.5% while Nambia Breweries owns 15.5%. Additionally, Diageo has a partnership in South African Brand House, which is a cost sharing joint venture between DSA Diageo South Africa and DHN.

In other countries, like East African Breweries (EABL), which was the leading premium drinks in whole East Africa, which produced and distributed beer and sprits, and Diageo owns 50.3% of the EABL. According to the Diageo Annual Report (2013), EABL owns 100% of Kenya's Breweries, 98% of Uganda breweries limited and 51% of Serengeti Breweries limited in Tanzania.

The wholly owned subsidiaries of Diageo in regional market include a subsidiary in Ethiopia, which Diageo owns 100% of Meta Abo Brewery; while the other subsidiaries include Cameroon and Ghana.

Diageo has a licensee arrangement with Castel Group to brew and distribute Guinness in the Democratic republic of Congo, Gambia, Gabon, Ivory cost, Togo, Benin, Burkina Faso, Chad, Mali, and Guinea. Also Diageo sells sprits through distributors, in other African countries.

COUNTRY	MODE OF ENTRY	PARTNERS	STRATEGIC BRANDS
Nigeria	Subsidiary	Guinness Nigeria PLC.	Malta Guinness, Malta Low Sugar, Harp Larger and master choice premium.

South Africa	Subsidiary and Joint venture	Sedibeng Breweries, Brand house, DHN drinks and NBL.	J&B, Bell, Johney Walker, Smirnoff, Amstar and Guinness.
(East Africa) Kenya, Uganda and Tanzania	Joint venture	(EABL) East African Breweries Limited.	Senator and Guinness.
Democratic Republic of Congo, Mali, Gambia, Chad, Togo, Ivory Cost, Benin, Burkina Faso and Guinea.	Licensee	Castell Group	Guinness

4.7 DIAGEO ACQUISITIONS

Acquisition for Diageo has been one of their important modes to penetrate the foreign market, and for the past years Diageo has acquire many beverage companies around Africa; most of them has been established locally because the company wants to gain easy access to local market and distribution channels. However it's known that Diageo is famous for several numbers of acquisitions around the world that in fact has provided them with a lot of opportunities and advantages e.g. Paul Walsh CEO of Diageo made an interview with (FT) Financial Times about Diageo acquisitions, available on (www.youtube.com) he mentioned that:

" Clearly we look at some of the deals that we have close out, usually we are buying distributions and locals brands, and in so doing particularly emerging market, given us a jump-start on our ability to put our international sprits brands through those systems and expect more of that".

Some of the recent acquisitions made by Diageo, especially the one recently made in Ethiopia, when Diageo acquired Meta Abo brewery with cost of $225 million; the acquisition has enhanced the presence of Diageo in East Africa and it provides with opportunities to expand geographically in African beer operations. Another important acquisition was the one in South Africa; in which Diageo acquire United National Breweries, and it gives Diageo 50% of the equity interest, the acquiring company specialized in offering Sorghum beer business. On top of that, the acquisition of Kenya breweries in Kenya, this gave Diageo 20% of the equity. Lastly, recent acquisition was in Tanzania of Serengeti Lager, which gives Diageo 51% of the Equity stake.

DIAGEO RECENT ACQUISITIONS

Country of acquisition	Company acquired	Date of acquisition	Cost in millions	Strategic brands acquired
South Africa	United National Breweries.	27 June 2013	$23	Chibuku, Leopard special and Ijuba Sorghum beer product.
Ethiopia	Meta	9 January 2012	$153	Meta beer.
Kenya	Kenya Breweries	25 November 2011	$134	Tusker and other beer product.
Tanzania	Serengeti	22 October 2010	$60	Serengeti lager.

4.8 FACTORS INFLUENCING DIAGEO DECISIONS TO CHOOSE A PARTICULAR ENTRY MODE ON DIFFERENT AFRICAN COUNTRIES

Diageo has a wide geographic coverage on African market with different entry mode strategy, e.g. in some countries they penetrate through acquisition by acquiring a local firm or direct investment to established a subsidiary. While in other markets they enter through partnership, such as joint ventures and by means of export or licensee. Certainly there are number of factors influencing Diageo decisions to enter Nigerian and South African markets by establishing subsidiaries. Furthermore Diageo have penetrated via licensee agreements while entering to other African countries through licensee or joint ventures.

The factors influencing Diageo decision on a particular African country include; market growth, opportunities and need for consumer demand of their product. Also the government regulations and political certainty can be among the influencing factors.

In the Nigerian market, Diageo has established a strong subsidiary and one of the most important reasons for this fact is that Diageo wants to control the Nigerian local market. As Nick Blazquez, President of Diageo mentioned (Diageo African Webcast, 2011) that:

"Important is the fact that our business are run locally, creating great relationship with customers and authorities and serving local communities and consumers. From this great platform, we have the ability to significantly contributes to Diageo's growth and share gains".

According to the Euromonitor international, Nigerian market is helping to drive the global sales growth and there is a strong demand of beer locally especially among young people, which boosts the demand in consumers for beer and wine, as it is also stated by Jernigan and Obot (2006) "commercial beer has been the favorite drink of all Nigerians in all parts of the country". Another important factor that influenced Diageo to establish a subsidiary in Nigeria was Government regulations, which banned the import of any beer from foreign countries. As mentioned in Euromonitor international "that all beer in Nigeria is produced domestically, as there is existing ban on beer importation by federal government", on top of that the recent economic indicators revealed, Nigeria might have the strongest economy in Africa, passing South Africa, which has the largest economy before. Establishing a subsidiary has helped Diageo to export Guinness in other neighboring countries in West Africa, which are close to Nigeria, like Niger and Cameroon; as all neighboring countries are members of ECOWAS, which allowed a free trade movement between West African countries. All the above factors have contributed in influencing Diageo to enter Nigerian market by establishing a subsidiary.

Likewise in South Africa, Diageo has entered South African market through subsidiary and joint ventures. Even though, South Africa had suffered an Economic melt down at the time of Apartheid Era, due to the amount of sanctions exert by foreign countries, which has resulted in slowing down the South African Beverage industry (Jernigan and Obot, 2006). However despite all the previous melt down, South Africa is one of the key and large beverages market in Africa. According to the (Euromonitor international) there is strong popularity of stout in South Africa especially locally and the reason is because of traditional African dark beer, which has resulted in increasing the market demand for Diageo products. Another factor is that establishing subsidiary in South Africa has helped Diageo to enter sub-Saharan African countries by establishing export market from South Africa to other neighboring countries.

The other African countries such as Democratic Republic on Congo, Chad, Gambia and others, where Diageo have established other entry modes like licensee which contain low risk. It is because for the past decades these countries have suffered from effect on economic developments, as their growth rate is nearly zero. On top of that there are growing numbers of military conflicts, which has continued to this day. The political instability and bad economic development is among the factors that contributed in discouraging Diageo to make a large investment in those countries (Jernigan and Obot, 2006).

4.9 DIAGEO SURVIVAL IN AFRICA IN TERMS OF NET SALES AND BRAND POSITION

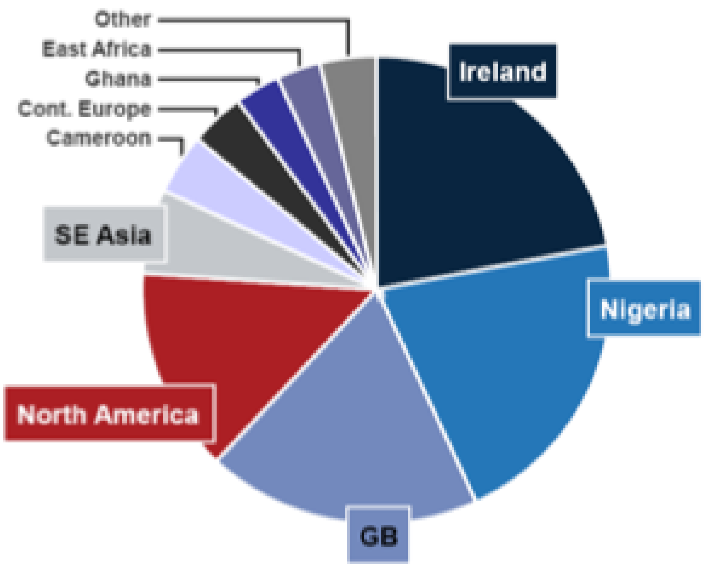
This part of the analysis has been established to explore the survival of Diageo's entry into African markets, in terms of their net sales, profit and brand positioning.

Despite the intense competition of international Beverage companies in African market, such as Heineken, Guilder and Star breweries; Diageo has managed to penetrate the African countries and build a strong competitive advantage, which has led them to achieve a significant amount of growth. However according to Diageo Annual Report (2013) for the recent years, Diageo has suffered net sales decline in different African Countries due to the effects on low government spending and economic development. Nevertheless according to the (Euromonitor international) Diageo have managed to create a strong market share in Africa, especially Nigeria where Guinness market is strong and in South Africa because of the RTD. Also with the recent acquisition in Ethiopia, which is one of the reason why Diageo account for most of the regional African Stout.

According to the (Euromonitor international), Guinness is the leading stout in African market, and Guinness is expected to maintain that position in the future. Furthermore, mentioned by Madichie (2011), Guinness is responsible for almost the quarter branded beer sales, in most of the sub Saharan African countries such as Nigeria, Ivory Cost, Cameroon, Kenya and South Africa. These countries are among the five out of ten largest markets volume in the world and the Guinness account for 40% of the worldwide profit in 2004.

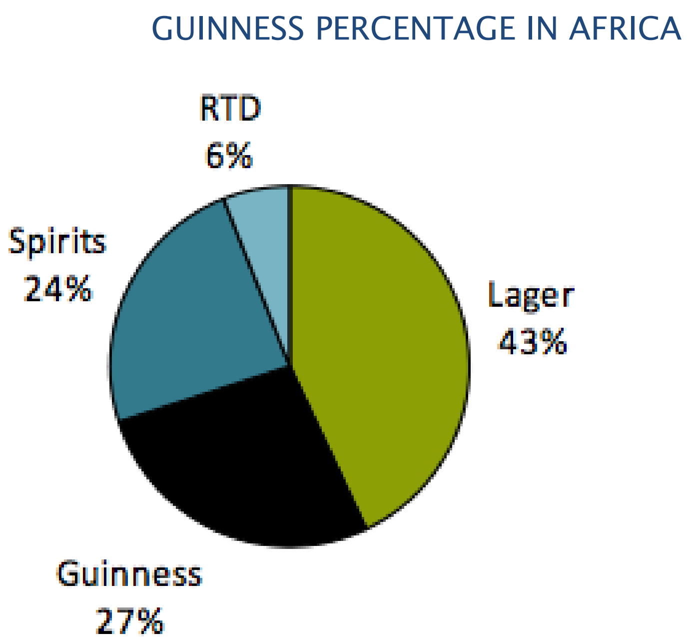
According to the Bernstein Research (2013), Diageo has posses a powerful market share in terms of beer, which most of it coming from Guinness and other local brand.

GUINNESS NETSALE BY MARKET



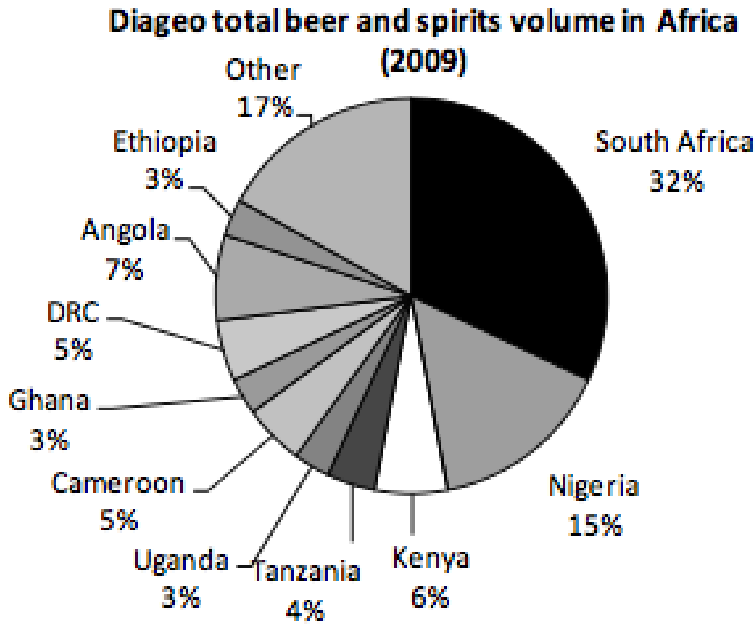
Source: Bernstein Research, 2013.

According to the above chart, revealed by Bernstein Research (2013), Nigeria is responsible for almost the half of the Guinness overseas sales, which give them the highest market share for the Guinness in Africa. One of the reasons for the successful achievement of Guinness in Nigeria was that Diageo has managed to build a powerful brand image locally. Additionally, according to the Jernigan and Obot (2006), Diageo has managed to associate Guinness with strength and sexual power, therefore, it is not surprising among all lovers of drinks, Guinness is called 'Black Power' or other names related to that. Furthermore Guinness has launched brand extension in Nigeria targeting the non-alcoholic sector that includes young and Muslim users, as it was known that Nigeria has the most Muslim population in Africa. Therefore, it led Guinness to launch Malta Guinness low sugar in order to attract more potential consumers.



Source: Bernstein Research, 2013

According to the Bernstein Research, (2013) beer accounts for almost 70% of the regional net sales, and Guinness alone is responsible for the 26%, which comes mostly from East African breweries, such as Nigeria and South Africa.



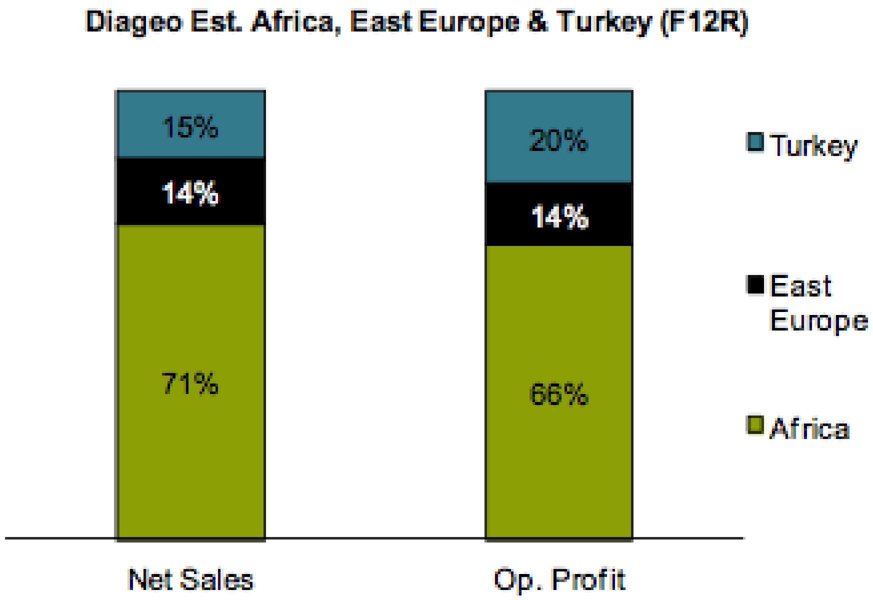
Source: Bernstein Research, 2013

According to the chart above, South African market is responsible for most of the regions sprits and RTD, the region represents 32% of Diageo market share in Africa because of the Brand House that posses a powerful brand image among South African Breweries. South Africa alone accounts for 61% of Diageo's sprit operations in Africa. Followed by Nigeria, which account for 15% of the total market, therefore, Nigeria and South Africa are the largest individual markets for Diageo as they are responsible for more than half of the region total volume of beer and sprits. The other markets include East African Breweries, which accounts for 17% of the regions total beer and sprits. However, Angola account for 7% of the total volume of beer and sprits, while the countries with the lowest portion of total volume of beer and sprits include Kenya, Tanzania, DRC Cameroon, Ghana and Ethiopia.

DIAGEO PROFIT AND NET SALES

According to the Madichie (2011), for the past years Diageo has earned a lot of profit especially from Africa:

"In 2004 alone, the parent company-Diageo- earned a net income of £135 million from beer sales in Africa compered with £85 million in Ireland and £45 million in Britain".



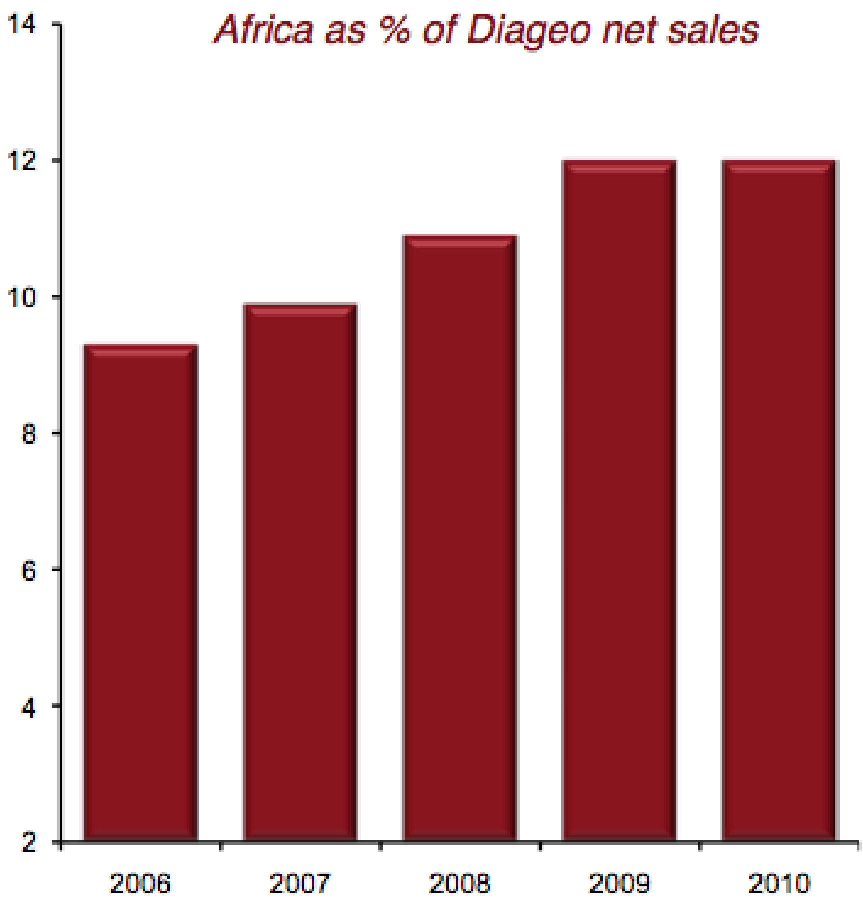
Source: Bernstein Research, 2013

As revealed by Diageo Africa Webcast (2011), most of these profits come from beers, and the analysis shows that the African net sales of beer has increased from 29% in 2006 to 41% in 2010; one of the reason for this achievement is mentioned by Madichie (2011), that Diageo has invested $400 million in the next five years to 2009 so as to increase production in Nigeria where local grains are used, such as Maize and Sorghums instead of barely.

Furthermore mentioned by Nick Blazquez, President of Diageo Africa (Diageo African Webcast, 2011):

"In terms of long-term growth, it's clear from the data we've been enjoying the healthy double-digit growth for the past few years. And I fully expect that good solid digit—solid double digit to continue. And we're planning to achieve that, both for our investment in capacity and in our investment in terms in A&P".

The reasons behind this growth, as mentioned before are because of the African GDP projections, also premium brands of alcohol consumption links almost closely with GDP growth. As long as GDP continue to rise across Africa, Diageo will continue to benefit from that (Diageo Africa Webcast, 2011).



Source: Diageo Africa Webcast, 14 April 2011

However, according to the Diageo Annual Report (2013) in 2012 and 2013 due to the economic and political situations in different parts of Africa, which in turns has affected the total beer volume in certain markets, therefore, it has resulted in declining the beer market in most of the African Countries.

In Nigeria alone 2013, the consumer confidence was affected due to the low Government spending which resulted in decline of beer market specifically. According to Diageo Annual Report (2013), the total volume decreases by 1% while the net sales increased by 5% duet to the sprits business, the beer business fall by 4% because of Harp and Guinness. However the Malta Guinness has brought 15% net sales because of the extension, which led to the introduction of Malta Guinness low sugar. Additionally in terms of sprits business the net sales has increased due to the Johney Walker that brought up to 63% and Baileys increased by 30% due to the market promotion and distribution.

The beer business for Diageo in most of the East African countries is still profitable because in 2013 alone, the region has brought 10% increase in net sale and most of its growth came from Guinness that delivered 19% net sales, due to the increase in promotion and advertising campaigns. Moreover, Tusker brand delivered 13% of net sales because of the favorable price mix, and in terms of Senator brand, the net sales has increased by 9% due to the strong Growth in Kenya and Extension in Tanzania, additionally Johney Walker has also brought 24% of net sales in sprit business (Diageo Annual Report, 2013).

South Africa is one of the strong markets for Diageo because in 2013 alone, it has delivered a powerful net sales and business growth, which went up to 17%. Whereas, most of the growth comes from Scotch because of its largest contributions and promotional campaigns, additionally the Johney Walker brought 31% net sales, followed by Vodka and Smirnoff that brought 19% of net sales.

4.10 DISCUSSION AND FINDINGS

This part of the analysis will focus on comparing the different entry modes of Diageo in African Market and also include the discussion of different entry modes in terms of success and profitability for Diageo. From the above analysis it's clear that Diageo has penetrated the African market with different types of entry mode based on the environment, market growth, risk and government regulations. It was analysed that the main strategic entry modes for Diageo are acquisitions, joint ventures, licensee and subsidiaries. However, some of these modes are more likely to be successful for Diageo in most of the African countries. Therefore, the main objective of this part is to discuss the factors that influenced Diageo's entry modes.

1-Subsidiaries: as mentioned before, the major subsidiaries established by Diageo are in Nigeria and South Africa and since the establishment it was discovered that each of these subsidiaries has delivered a lot of growth for Diageo. As it's said by Bernstein Research (2013) Nigeria and South Africa are the two large markets for Diageo. Additionally as mentioned in (Euromonitor international) most of these countries growth come from Guinness brand, which made Guinness the market leader in terms of beer and stout. According to the analysis the main factors that influenced Diageo to establish a subsidiary in Nigeria are as follow:

1- Nigerian beverage market is one of the big and key regional markets with a lot of growth; on top of that Nigerian GDP is one of the large in the entire continent.
2- Nigerian population of alcohol consumers is growing, especially among young people with a strong demand of beer and alcohol.
3- The government regulations banned the importation of any international beer, which resulted to produce all beers domestically.
4- Establishing a subsidiary in Nigeria will allow Diageo to export its product to other neighboring West African Countries, which are close to Nigeria where movement of free trade is allowed.

2- Joint ventures: it was analysed that most of the major Diageo's joint ventures was in South Africa with Brand House and Kenya with East African Breweries. However, from the analyses it was found that the main factors which influenced Diageo to enter partnership with these companies is that; both Brand House and East African Breweries had a strong market share in their respective countries before Diageo's entry e.g. Brand House in South Africa for many years they have been exporting their product to more than 400 million Sub-Saharan African countries, while East African Breweries had the leading premium drink in East Africa. Therefore Diageo's partnership with these companies has provided them with easy access and penetration into these countries.

3- Licensee: the analysis revealed that the major licensee agreement for Diageo was with Castell Group to brew and distribute Guinness in the Democratic republic of Congo, Gambia, Gabon, Ivory Cost, Togo, Benin, Burkina Faso, Chad, Mali and Guinea. The main important factor that has influenced Diageo to enter these countries with licensee agreement was that, Diageo had a little market experience in that region because of the growing military conflicts, which affected the market development. Therefore entry through licensee in those countries will reduce a lot of political and country risk for Diageo.

4- Acquisition: it was analysed that the recent Diageo's acquisition was in South Africa, Kenya and Ethiopia. For example in Ethiopia where Diageo has acquired Meta Abo and the main influencing factor to acquire the company in this region was that Diageo wants to increase their presence in East Africa as Ethiopian market, offers rare opportunities for international breweries. Therefore the acquisition in Ethiopia will increase Diageo's strong hold in East Africa and will certainly improve its growth.

When the results are compared for Diageo with its brand objectives, in order to see if Diageo had survive its entry into African market which can be seen in Diageo Annual Report (2013) that their main objectives was to expand and have high presence in new growth markets. Therefore, it is clear that Diageo has managed to achieve a great expansion and powerful growth into many African countries. Similarly, for Diageo it appears that subsidiary is more favorable and successful entry mode because of the good response in Nigeria and South Africa. Despite the recent report that proves Nigerian market was very challenging for Diageo. According to the Madichie, (2011) Nigeria is responsible for about half Guinness oversees sales. The factors that influence Diageo's success especially in Nigeria are as follow:

1- Diageo has established strong market awareness and campaigns in Nigeria and it's the reason why Diageo has associated

Guinness with Strength and Sexual virility, all the drinking lovers of Guinness in Nigeria call it 'Black Power'.

2- In addition, due to sponsorship, Diageo understands that water is one of their main important ingredients in almost each of their product and the UN has revealed that most of the African Countries has a limited supply of water. Therefore it led Diageo to launch Diageo's Blueprint water framework in 2010 to increase the water efficiency. Lagos Nigeria is among the places where Diageo has improved the water efficiency.
3- Diageo has made a lot of brand innovations and extensions in Nigeria, where in recent years the company has targeted a lot of Muslims who do not consume alcohol. Therefore, it led Diageo to introduce Malta Guinness, which is a non-alcoholic beer.

The other entry modes such as acquisition, licensee and joint ventures are also successful but not as strong as subsidiaries. The joint ventures of Diageo in East African countries are still profitable because of their brands growth of Tusker and Senator. Additionally, the innovations in that region led to the introduction of small sized bottles targeting low-income consumers. Moreover, acquisitions made by Diageo are also successful, especially the one in Ethiopia, as it contributed to Diageo's recent net sales as the marketing investment was more inclined towards Malta Guinness and Johnnie Walker (Diageo Annual report, 2013).

4.11 CHALLENGES OF DIAGEO IN AFRICAN MARKET

1- Many African countries were affected due to the change in economical and political conditions in which Diageo operates its businesses and many of these countries have suffered from government changes led by military coup, which resulted in destabilising consumer confidence to spend.
2- Price variability has led consumer preferences to change and resulted in affecting net sales of Diageo in many African countries.

3- Climate change in Africa caused the scarcity of water supply, as water is the most important ingredient for Diageo.
4- Impact of government regulations caused changes in the distribution, tax, importation, advertising and consumption.
5- Diageo has to deal with a lot of corruption, since most of the African countries are reported to be very corrupt.
6- Changes in the financial market can cause exchange rates to fluctuate; it can result in affecting Diageo's financing.

4.12 CONCLUTION OF THE CHAPTER

This chapter has analysed Diageo's entry into African market, including the different types of modes they have used to penetrate the market, such as licensee, subsidiaries, joint ventures and acquisitions. It has also found that government regulations, political factors, consumer demand, market growth, demographics and country risk are among the factors that have influenced Diageo's entry on a particular market; which had a direct impact on their decisions. Diageo's survival has been analysed based on their recent net sales, profit and brand positioning.

5.0 CHAPTER FIVE: RECOMMENDATIONS

This chapter has been organised to provide recommendations for Diageo, based on the findings discovered on their entry into the African market. Therefore, the recommendations will be on Diageo's management practices for future acknowledgments.

1- According to the analysis it has been discovered that one of the main challenging markets for Diageo was in Nigeria, due to the increasing low government spending, it has impacted consumer spending very badly. On top of that, according to Diageo Annual Report (2013), the price premium for their respective brands is still high in Nigeria, which in turn has caused Diageo market's beer volume to continue declining and the Nigerian market was one of the strongholds for Diageo. Since most of the Nigerian consumers of Diageo has been impacted, it is clear that they can not afford Diageo's price anymore, which in turn can lead them to move towards another preferable and affordable price.

Therefore, the suggestion was that Diageo should improve their efficiency to offer lower prices and produce large quantity in order to achieve economies of scale. Economy of scales is defined "as the marginal improvement in efficiency that firm experiences as it incrementally increases a size" (Makadok, 1999). Based on that, it is believed that economies of scale allow the firm to achieve barriers to entry, which led them to earn above the normal profits.

Alternatively, Diageo can introduce small bottles beer in Nigeria, with lower price than the original one as they have tried this strategy in Kenyan market where they achieved great results.

2- Diageo is facing challenges on most of their acquisitions because most of the brands acquired are poorly performing brands and they also faced integration problems. As Jeremy Cunnington senior analyst on alcohol and drinks in (Euromonitor International) mentioned:

"*Major acquisitions for Diageo have been a bit like London buses nothing come along for a long time and then three one after the other*"

.

As stated by Ashkenas et al (1998), acquisitions for an organisation are often referred as painful and stressful producing experiences because they contain job losses and restructured a responsibility, that's why managers just want to get them over with. However, they also added that the most important way to improve acquisitions is through perfect integration and it is the reason why it's important for the managers to learn how to manage the integration of acquisitions as replicable process. Additionally according to the Brock (2005), national culture is one of the factors that affect integration and it raises acquisition costs. The effect is due to the cultural distance between the parent company and the firm acquired, which can cause 'cultural clash' among employees when operation practices. Therefore, I believe these are the kind of challenges for Diageo's acquisitions, since most of the challenges in the integration have to do with differences between their cultures and firm acquired.

Moreover, some of the steps listed by Ashkenas et al (1998), in which organizations are going for acquisitions, which can be used to achieve successful integration, Diageo can use it into its benefit for future acquisitions. The steps are as followed:

1- Pre-acquisition: through which a firm can start with cultural assessment, cultural barriers, strength and weakness of the business for the success of the integration.
2- Foundation building: it represents the second step by which a firm can adopt strategy formulation, acquisition integration workout and sufficient resources to assign accountability.
3- Rapid integration: it represents the implementation and curse assessment and adjustment.
4- Assimilation: represents the last step, which a firm can make a long term plan and evaluator, adjustment and capitalization on success.

Through these steps Diageo can improve its acquisitions performance to achieve better practices.

6.0 CHAPTER SIX: CONCLUSION

This chapter has been organized to present the final conclusion of the research. The summary of the research will be highlighted, including the findings discovered based on the analysis. The main question in this research is to examine the market entry decision and how it can influence the business ability to internationalize and survive in foreign market, which was base on the case study selected for Diageo entry into African market. The researcher has analyzed that Diageo PLC was one of the top global seller of beverage drinks and they have managed to establish their brands in almost 180 countries, in different continent such as Africa, Asia, Latin America and Europe.

However, from the discussion it has been discovered that one of the main objectives of Diageo PLC is to keep expanding their business, especially where new growth is emerging, as Africa was one of those market. From the above literature it has been learnt that entry into foreign market was one of the vital decisions that a firm has to make because it influence the firm entire strategy on the market. Additionally it was learnt that entry into foreign market can be challenging, but it can open the door for new market opportunities, raise operationally efficiency and profit.

From the above discussion, it has been concluded that despite all the African market challenges, Diageo has penetrated the African market with different types of entry mode that include licensee, subsidiary, joint ventures and acquisition. Diageo has selected these entry modes based on environmental factors of each country they have penetrated.

The objectives of the research have also been achieved because the researcher has succeeded in finding the factors that has influence Diageo decision to select a particular entry mode. Even though it has been discuss in the literature that entry decision is a complex process and companies are likely to faces some difficulties in taking the decisions, its also been discuss that the entry decisions are base on resources, control, risk and flexibility. Therefore it has been analyzed that factors influenced Diageo into African market Include the market growth in a particular country, high demand for Diageo brands, Availability of resources and demographics. While on the other hand, the challenges discovered include government regulations, political instability, economic development, culture and resources.

The second objective has also been achieved, which was to investigate the entry survival of Diageo into African market. Therefore from the basis of above discussion, the researcher has concluded that Diageo entry into African market have been successful and they have survived, which was due to different factors analysed such as Diageo brand position, profit and net sales.

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