The distributor does a good job and the tapes sell well. This may encourage the Japanese company to a little more. The next move is to set up a representative office in Canada with a manager, possibly a Canadian. The office gradually takes over the marketing and promotional role leaving distribution to the original partner.
If all goes well, the Japanese tape maker may decide to manufacture the tapes in Canada. At that point, the company may look for a partner with an appropriate facility; it may buy one outright, or if no suitable plant is available, it may build a completely new factory. At that point, the firm may also create its own distribution network in Canada.

Bazz Inc, Canada's largest producer of portable halogen and incandescent lamps entered into a joint venture with Jea Shen Indsutries Co. Ltd. of Taiwan.

The new firm, to be called Bazz Taiwan, will produce portable and fixture halogen lamps for export to the United States and Europe. In Canada, Bazz sells 80% of its product domestically, and 20% to U.S. Jea Shen exported 90% to Western Europe, North America, and Japan. Before the joint venture, Jea Shen supplied lighting products to Bazz for one year, during which time they established a good working relationship that encouraged them to develop closer forms of co-operation. Bazz will contribute its design concepts while Jea Shen will execute them taking advantage of Taiwan's lower labour costs.

This cautious, step-by-step approach still makes a lot of sense and it remains characteristic of much foreign direct investment. Canadian companies looking for overseas partners may offer to distribute their products as a first step in developing a partnership.

Acquiring a Company

Acquisitions are often viewed as a quick way of expanding into foreign markets. They are most often successful, however, only after firms have established a significant presence in the market and after they have developed a good working relationship with the company they intend to acquire. Acquisitions can make good sense for both firms involved, but it takes time and money to get them right.

Not all acquisitions involve securing outright control over a company. Some investors prefer to rely on highly motivated and experienced partners to manage the company while they take a minority position. If, however, the investor wants to change the strategic direction of a company in a fundamental way, then he will be looking for at least 51% of the shares.

Asian business people are not casual investors. They do far more homework than most North American companies and they are sensitive to the kind of cultural differences that may undermine an acquisition. That is why Asians do not hesitate to use local resources such as market research firms, lawyers, and accountants to give them a sense of the market and advise them in managing their acquisitions.

Licensing Rights

From the investor's point view, licensing is the easiest way of gaining access to a new market. Licensing can involve rights to manufacture, distribute, or market a product. The details are covered in a contract which specifies the fees (normally a percentage of sales), time period, and other conditions. These rights may or may not be limited geographically. Japanese companies in the pharmaceutical business have made excellent use of product licensing to achieve sales overseas without a significant investment in either money or management time.