Forms of Investment

Investment strategies are competitive tools

Operating within an increasingly dynamic global economy, companies recognize that everything they do must contribute to their competitiveness. Investment today is closely tied to strategic objectives which are designed to enhance competitiveness. Successful companies carefully determine their situation, their objectives, and what they need before they make or solicit investments.

Investors can contribute more than just financing to a company, they are also potential sources of business expertise, human resources, and new technologies. Moreover, investors can provide access to new markets. In return, investors want more than a good financial return, they are looking to enhance their own strategic positioning and competitiveness. That could mean investing in a company that can provide them with skills they do not have, economies of scale, access to new markets, or innovative technologies.

Ideally, you want to find an investor with strategic concerns that parallel your own, and strengths that complement your strengths. This will provide you with the skills and resources that you need but have not developed in-house.

Approaching potential investors without a clear sense of your own strategic concerns risks several types of failure. First, experienced investors look for evidence of clear and careful planning. Second, you may tie your company to someone who may have different expectations, and who may therefore obstruct or sidetrack the development of your business. If they have careful plans and you do not, you may find that the deal ends up serving their interests but not your own. Successful investment is based on mutually advantageous partnerships. This can only be the case when all partners have a clear idea of what is expected, what each is to contribute, and what the ultimate objectives are.

After successfully exporting its products to Canada, Hyundai decided to start manufacturing Sonatas here. It built a $300 million plant in Quebec. As a bonus, a $19 million components plant was also built.

Traditional Ways of Expanding Overseas

There are several traditional approaches to overseas investment that served corporations long before the globalization of the economy encouraged the development of new strategic tools.

A Step-By-Step Approach

Traditionally, companies invested abroad to access new markets and increase product sales. The process by which they did this tended to follow a predictable pattern. First, companies found a distributor. If the business grew, they set up a representative office to market the product. If demand continued to expand, the companies would establish a local manufacturing facility.

Take, for example, a Japanese manufacturer who develops a low-cost technology for making high-quality tapes that allows the company to sell the product at 25% less than the competition. Sales are going well in Japan and other markets. The decision is taken to expand into Canada and a Canadian company is selected as country-wide distributor. In this arrangement, the Canadian firm takes care of warehousing, promotion, distribution, and sales.