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# JOINT VENTURES AS A POSITIVE FACTOR OF DISTRIBUTION OF POLISH GOODS IN FOREIGN MARKETS

This lecture will treat exclusively about joint ventures (j-v.) undertaken by Polish enterprises in the capitalist markets in the sphere of distribution, after-sale service and production.

I am not going to deal with j-v. operating in such services like international airline system, steamship companies, banking and finance, neither those j-v. that are established in Poland. Furthermore I shall not talk about the various technical aspects of setting up a new venture abroad nor shall I analyze the organizational structure of j-v.

The above mentioned limitations are necessary to perform an analysis of the role played by j-v. in the process of distribution — and this is the subject of the conference in which we are taking part today.

The main idea of the lecture has been indicated in its title that goes: „Joint venture as a positive factor of distribution of Polish goods in foreign markets”.

The broader and more detailed approach to this subject will be proved by the following three points:

1. The unsophisticated motives of Polish enterprises to participate in j-v. in the foreign markets consist in:

a) more marketing-oriented attitude of Polish manufactures and exporters towards foreign markets in the last 8—10 years which requires among others: a direct approach to the consumer, elimination of unnecessary links of distribution, creation of appropriate conditions for aftersale service, sales promotion and so forth;

b) the willingness to accommodate some disadvantageous effects of incomparable method of internal structure of prices and costs adopted in the Polish economy and that of international level of costs evaluated in mutually comparable currency.

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2. J-v. play a positive role in the strategic and operational activity of Polish producers and exporters in foreign markets though the probability of operational manipulation of such channel of distribution as represented by j-v. seems to be more appreciated than the motives of strategic character.

3. J-v. have been gaining their significance in the practice of Polish foreign trade and they will be growing in number both in the developed countries and less developed ones.

**Ad. 1.** Now I wish to call your attention to unsophisticated motives of participation of Polish enterprises in the j-v. in the foreign markets as mentioned above.

While such undertakings of the capitalist enterprises to invest abroad in direct trade, industrial or service activity are a consequence of their principal aim which is the maximization of their profit — and such ventures abroad are reckoned as one of the ways to reach that aim — the motivation of profit has not got yet a decisive weight in the case of Polish enterprises. In Poland foreign trade organisations and those industrial ones that have got the authority to carry export of their production act within the framework of definite plans allocating their tasks and respective resources. As there is a relatively high internal interdependence between these two magnitudes — the enterprise realizing its task of foreign trade is in a constant search of the best solutions in its activity at home and abroad, selecting such combination of resources and means that guarantees accomplishment of the task.

Enterprise's own selling organisation in the foreign market is treated as a very effective tool of the operative activity. That view does not have a very long tradition and was developed at the end of the 60's and at the beginning of the 70's, that means already when the influence of capitalist transnational corporations on the world trade was widely noticed and when the significance of marketing was more and more duly appreciated both by the practitioners and theorists tackling the economic problems in Poland.

The cognizance of marketing strategy of western enterprises, adaptation of many elements of marketing to the practice of the market and evolution of the marketing theory for the use of Polish export enterprises (trade and industrial ones) have led to the revision of opinion and practice on the role of trade middlemen in foreign markets and on the purpose of analysis and choice between the channels of distribution. The eagerness to imitate those verified in the West methods of activity in the foreign markets through their own branches and subsidiaries as well as through joint ventures was and is still a very essential reason of undertaking the initiative of Polish enterprises to



invest directly in the foreign market. „Since others derive profit from controlling foreign markets through their own enterprises and joint-ventures than there must be something that might help us in our selling too” — this opinion could reflect the common view of those executives of Polish foreign trade who going through their round of duties analyze the behaviour of competition in other markets or who deliberate upon expansion of effective selling methods.

Along that surface observation there have been carried out for years quite numerous and constantly deepening theoretical analyses of large western corporations and of the methods of operation of multinationals — independently of thorough studies of all aspects of marketing. These two currents: practical observations and theoretical generalization soon brought about very positive legislation providing facilities for industrial and trade enterprises in establishing their affiliated companies abroad. As the aim of this activity there are mentioned first of all — advantages arising from the elimination of middlemen, lowering the cost of expansion and promotion, a closer approach to the end user by manufacturers, minimization of difficulties created by legal restrictions, a possibility of carrying a more effective after-sale service, possession of warehouses, savings on labour, raw materials or processing in case of production, etc. All these motives belong to the bag of incentives of the trade policy of Polish foreign trade organisations acting in the framework of general rules dominating in the socialist foreign trade: equality of treatment, mutual benefits and noninterference in the internal affairs of the host country.

But there is one more motive, not less important than that mentioned above. And now some comments on it. Although the methods of calculating the full costs of exported goods are in Poland more and more perfect — it is still very difficult to state if and to what extent the incurred costs and their price expressed in foreign currency reflect the real inputs and anticipated margin of profit.

Moreover, there are situations where the contact of the manufacturer with his final client is very often excessively extended by middlemen. This fact makes even more difficult the confrontation of manufacturer's own costs and prices with the comparable products of competition in order to ascertain if and to what extent his own product and price comply with the expectations of the end user. In order to eliminate the effects of failure in the accounting system and to reduce the costs of agency as they debit the export income account there is a clearly noticed endeavour of a deep entry into the foreign market, closer relations with the consumer — through the intermediation of own affiliated companies and j-v. It affords a comparison of exporter's

product (quality, appearance, service, price) with competitor's products of the same kind. This confrontation might be called „pure, clean” as it bypasses intermediate factors of distribution, almost brought down to the same comparative features and measurable in the same currency. At the same time a deep entry into a foreign market allows the exporter to carry active sales promotion campaign with the immediate control of its effectiveness as well as permits him to negotiate directly the final prices. The shifting of the final stage of negotiations to the foreign affiliate permits him to obtain prices more comparable with the average level of similar goods than in case when prices would be negotiated at the initial stage of the distribution channel i.e. at the manufacturer's stage.

In this way the exporter realizes sales at „optimum” price level. At the same time the whole system of costs and profitability of foreign trade gets a realistic criterion of its rightfulness and secures a steady flow of information to adjust the methods of calculation whatever the case might be.

It seems to me that the main interest of many executives of export industry and foreign trade organizations in establishing their own subsidiaries and j-v. in the foreign markets derives from such approach to the problem of the role played by the mentioned subsidiaries in the selling process. I have to admit that I have never met such wording in the Polish respective literature.

I would admit that these two motives hold the first and decisive place in Polish practice of direct investment in the foreign markets.

No doubt some other motives which have compelled transnational corporations to initiate operations of permanent facilities abroad are familiar to the Polish practice too. We should mention dissatisfaction with the international middlemen and inefficiency of local agents and market institutions as well as the invitation of foreign governments or companies. This reason occurs more frequently in trade relations with less developed countries. Taking into consideration the fact that Polish foreign-based affiliates operate mainly in trade and distribution there is no room for such reasons applied by multinationals like lower costs obtained through employment of local labour, availability of special raw materials, lower taxes and tax privileges, transportation economies and others.

To finish with this part of my lecture I would like to say a few words about the choice of ownership policy towards a foreign affiliate. So far the practice of Polish organizations investing directly in the distribution and production facilities abroad shows the tendency to possess



their 100 per cent own branch or subsidiary though the adaptation to the local requirements in establishing j-v. is equally welcomed.

Legislation of many countries which require participation of local businessmen in j-v. is against the interest of many corporations. Many of them would rather go out their way to avoid such ventures. But this is not so much the case of Polish enterprises due to a different type of j-v. Moreover j-v. are particularly noticed just in the case of a foreign government invitation or when a Polish company wants to join its selling forces with the influential local partner.

Reservations of multinational corporations against j-v. like: reduced managerial flexibility, controversy between the interests of local partners and the head office of the corporation over the volume of profit and its division policy of reinvestment, size of sale and pricing policy of interaffiliate business and others do not have significant impact in the Polish practice. Let us not forget that the main sphere of business in the Polish affiliates abroad is trade and this does not create so many problems as in the case of production.

But there do exist other sources of conflicts in the Polish trading affiliates abroad. They arise not so much as a result of conflict of interests between foreign and Polish partners but as a consequence of a different commercial attitude adopted by Polish enterprises doing business in foreign markets through the Polish affiliate.

As it is known there are two distinct owners of Polish j-v. abroad. One is the firm called Company of International Trade DAL specialized in establishing and managing Polish ventures abroad through direct investment. DAL controls at the moment a great part of foreign-based Polish affiliates. The others belong to different trade organizations like Metalexport dealing mainly in machine-tools and industrial tools, Textilimpex that is specialised in export and import of textiles etc. But no matter to whom the affiliates belong — they do business also for other Polish trade organizations on a pure agency basis or as buyers on their own account. Sometimes they represent in a foreign market many Polish exporters and handle dozens of different groups of products. Then it might happen that some companies could aspire in their selling drive to use the affiliate beyond its capacity of finance, manpower, warehousing or transport facilities. The most probable way of solving the problem is a contribution of such a company in the costs involved with the additional service rendered by the affiliate. It means that also in such cases the interest of local partner in j-v. is not exposed to the loss.

**Ad. 2.** I would like to draw your attention now to the second point of my lecture i.e. to consider and examine the spheres of activity performed by Polish producers and exporters through j-v. to show the most positive aspects of such organization.

a) It seems to me — though it might be my personal opinion — that one of the more positive qualities of j-v. in the contemporary Polish foreign trade is the elimination of consequences proceeding from the deficiency of marketing practices of manufacturing enterprises and trading companies. Thanks to the j-v. based directly in foreign markets the producing and trading organizations can simply continue their industrial and trading activity without use of dynamic marketing strategy. A joint-venture in a foreign market becomes in this way a sort of a shock absorber lessening the effects of confrontation of Polish exports with expectations of clients and with goods of other suppliers. A positive role, in this type of j-v. as a channel of distribution is expressed by a possibility of j-v. to perform some of the following services on behalf of the Polish supplier: packing, sorting and classification, removing the damages occurring during transportation, ensuring after-sale service, initiating many additional operations based on the knowledge of local conditions and which were overlooked by exporter etc.

b) J-v. provide facilities for direct contact with the end user and in this possibility lies the most positive feature of exporter's own trading channel abroad. A direct contact enables:

- analysis of selling prospects of the goods already produced by Polish enterprises;
- determination of consumer's preferences and tastes of the market in order to shape the product for future sales;
- better price adjustment due to better knowledge of market situation, selling contacts etc.;
- more profitable prices due to personal negotiating abilities (this factor is very mobilizing for Polish staff of j-v.);
- elimination of unnecessary middlemen and cost economies;
- immediate response to the remarks of clients about the quality, standard of service etc.

c) J-v. give a chance to increase the value of sales because they:

- combine the knowledge of market with trade and financial facilities obtained generally from the Polish exporter on better terms than other independent buyers;
- combine the possibilities of delivery with the selling organization, where the local partner might have a bigger selling opportunity than he could have an opportunity to buy outside the j-v.;



— can organize bigger and better equipped warehouses, what might be very essential in the case of some seasonal goods while they have to be produced out of season too but without enough warehousing facilities in Poland.

d) J-v. initiate and participate in selection of customers, facilitate the access of the exporter's products to the higher class of consumers, back this process with help and advise, including finance, organization and staff of the affiliate.

e) There are some good-will aspects of j-v. that deserve to be mentioned. J-v. often accept employees of the represented Polish firm to train them and let them improve their qualifications at the foreign market level. J-v. take part in the market research carried out by the head company or by those Polish exporters that do business through j-v. They also furnish their Polish partners with market reports, books and other publications that might deepen the exporter's knowledge of the market. It is also of some importance for the Polish partner in the j-v. that according to the Polish legislation, some part of the repatriated profit can be used to buy modern equipment to speed up the organizational progress at the offices of Polish foreign trade organizations and in the exporting factories. A significant share of modern office equipment in some head offices of j-v. in Poland is attributable to such a source of funds.

f) Since the maximization of profit is not a basic goal for Polish enterprises, direct investment abroad is also freed from this goal. Thus there is possible:

— flexible manipulation of price and other selling conditions as the need arises in the market and on the supplying side;

— furnishing the affiliate with bigger selling potential, including higher stock of goods to a much higher value than justified by the relation to the registered capital;

— employment of more salesmen in order to get a better experience of the market, deeper penetration of the market, elimination of unsuitable clients etc.;

— reliable service of a client and provision of maintenance service according to the need and not only in relation to the volume of sales.

g) In the process of establishing their own affiliates abroad it was possible for the Polish exporting organizations to eliminate from the distribution system some unfavourable effects that were inherited from the post war period. During that time, as a result of lack of experience and due to different selection criteria of middlemen and representatives abroad, the contacts of Polish exporters with foreign markets were incidental and inadequate to the future requirements. Not all middle-

men and other business partners of that time were able to adapt to the changes of selling methods in their own markets and to adjust their organizations to the increasing supply potential of Polish exporters. It was a logical consequence then to establish affiliates abroad. What is worth mentioning is that many of these earlier representatives became later partners in j-v., bringing in their good-will, knowledge of local economic conditions, business policies, and customs.

h) By temporary employment of Polish staff at different levels of management in j-v. it is possible to transmit to the country the acquired experience and managerial know-how. This is quite an important factor in case of affiliates established in the highly developed industrial countries. Another factor related to this sphere is a possibility to diffuse the gained experience and expand new methods of distribution. To illustrate this I can mention the following example. One Polish exporter that used to work through the affiliate of agency type got such a good knowledge of the market and gathered a sufficient pool of experts in the subject to establish a j-v. The said j-v. undertakes various operations with the imported goods like slicing, sorting, packing, etc. to deliver them directly to the network of retail shops. This venture seems to be very profitable due to elimination of other middlemen and thanks to changes effected with the goods within the distribution channel.

i) J-v. facilitate contacts with the authorities particularly in those countries where the purchases for public and state institutions are made in form of tenders. In this case a Polish partner in j-v. being a state enterprise motivated by other goals than the private company, gives in a way some assurance that the proposed transaction does not imply excessive costs or illegal commissions.

j) J-v. allow omission or accommodation of some spheres of conflicts that might arise when partners work together but are ruled by different legal systems. The said spheres are following:

- nationalization;
- employment of local citizens;
- consumer protection (anti-trust and anti-dumping legislation);
- unfair trade practices like unreasonable transfer prices;
- tax legislation;
- fees and other payments made out to the head office.

In the case of industrial j-v. a Polish participant gains the same advantages that are usually known in the practice of western corporations. They are — among others:

- minimization of difficulties created by the governmental restrictions of trade;
- advantages of customs protection;



- economy of scale in production;
- access to local sources of capital;
- higher return of the invested capital due to lower costs of raw materials, labour, taxes etc.

There are no such advantages that happen in the case of transnational corporations and which are backed by the volume of operations dominating many countries, integration of affiliates of financial management on a global scale. But what seems to be very positive for the future activity of Polish enterprises in foreign markets is a chance of training in the existing j-v. some number of Polish executives. By working for some time in a different economic, social and legal environment they may provide a professional cadre for the expansion of industrial j-v. abroad.

As it could be observed from this review of advantages a majority of them represent practical and operational ones. The strategic advantages are, to a much lower degree, taken into account by these enterprises that possess enough financial resources and commercial reasons to invest abroad. At this moment I would like to mention that researches carried out in the West to disclose the reasons of corporations investment abroad have shown very low degree of strategic planning among other more operational motives (for example: Endel J. Kolde, Awni AL-ANI and others).

There is another similarity as well: many advantages of Polish participants in j-v. are the same as met in the practice of western corporations. But there exist also some useful aspects of j-v. that are very typical for the Polish practice only.

It is worthwhile to mention that the analysed advantages represent a very concrete financial aspect and, therefore, they are highly appreciated by Polish enterprises using their own affiliates and j-v. in foreign markets. But there are also some advantages of no financial value — or at least of no such value at the given moment. I think that this phenomenon is a specific Polish one.

**Ad. 3.** I am turning now to the last point of my lecture treating about the future tendencies for j-v. in the Polish foreign trade. In spite of a very positive contribution of j-v. and other affiliates for Polish foreign trade there is no doubt that this phenomenon is still very insignificant and does not play a very important role for the whole economy as yet. It is enough to compare the number of Polish affiliates operating abroad in the commerce and production — about 60 of them — with the number of them controlled by western corporations. For example the US corporations have established more than 12,000 affiliates abroad, the British ones about 8,000, German corporations about

4,000, French ones about 2,500. Totally transnational corporations of 17 industrialized Western economies control about 35,000 foreign-based affiliates. It is enough then to compare the relation played by the Polish production and trade in the total world volume of production and commerce with those figures of Polish affiliates in relation to the world number of them to see how big is the disproportion. Moreover — about 85 per cent of Polish affiliates deal mainly in the agency trade and not all of them buy and distribute goods on their own account. The industrial activity (assembly and production) for the local market is still without practical significance.

So, it means that the use of this form of activity abroad does not correspond still to the share achieved by Poland in the world economy and trade. Therefore, we can expect more substantial growth of Polish branches, subsidiaries and j-v. abroad than until now.

The four trends should be expected.

a) Trading and distributing affiliates will increase in number both in the developed countries and in the Third World countries. There will be more efforts to better penetrate the market and not just to replace the existing network of commissioned agents. The newly established affiliates will be buyers on their own account, to a higher extent, than in the case of present practice. They will have bigger buying capacity, as well as more possibilities to organize packing, sorting, grading, slicing etc. organizing and co-ordinating after-sale service.

b) There should be launched j-v. exploiting mineral resources and processing agricultural produce. This activity should be concentrated mainly in the less developed countries. This tendency will be met with the approbation of these countries as they wish to secure a bigger share for their economies in the world trade in manufactured goods. This tendency reflects as well the basic policy of Polish economic relations with those countries. A positive aspect of this type of direct investment in the less developed countries should be a possibility of repayment in the form of deliveries of goods received in the established j-v. This corresponds with interest of Poland as well, since our economy is dependent on the importation of many minerals, agricultural products and other consumer goods. An additional positive factor might be a possibility of supplying the investment goods, implements and know-how by the Polish partner.

c) There is a positive prospect too for development of assembly and production affiliates in the Third World countries, specially since the industrial and technological level of Polish economy seems to be complementary enough for the developmental necessities of the Third World. In this case it would be also advantageous for the Polish partner in the



j-v. to supply investment goods for the new enterprise, and continue deliveries of spare parts and implements for the local production.

d) Finally there are some possibilities of establishing production affiliates in the industrialized countries to produce for the local market or for the markets of the integrated area. Such affiliates should exploit mainly these lines of business — and so far there are not many — where Poland has achieved a highly specialized and internationally recognized quality.

Conditions for more significant development of Polish affiliates abroad are multiple and complex: economic and financial, organizational and human, even political ones. As a result of a possible twist of these conditions the increase of number and spheres of activity of Polish affiliates abroad might not reach the level required by the interest of the Polish economic cooperation with the West — though the positive results of existing j-v. and other forms of ownership abroad recommend further development of that form of distribution in the foreign trade.

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#### JOINT VENTURE JAKO CZYNNIK UŁATWIAJĄCY DYSTRYBUCJĘ POLSKICH TOWARÓW NA OBCYCH RYNKACH ZBYTU

Bardziej marketingowe podejście do rynków zagranicznych ze strony polskich producentów i eksporterów doprowadziło w ciągu ostatnich 8—10 lat do rozwoju j-v z udziałem polskiego kapitału. W przeprowadzonej analizie autor zwraca uwagę na szereg pozytywnych aspektów korzystania z j-v zarówno w operatywnej pracy polskich przedsiębiorstw eksportujących jak i w programowaniu długookresowej strategii eksportowej. W związku z tym należy zakładać znaczniejszy niż dotychczas rozwój tej formy działania na rynkach obcych. Poza liczną już formą spółek agencyjnych i dystrybucyjnych winien nastąpić rozwój afiliacji dla eksploatacji surowców mineralnych oraz dla przerobu płodów rolnictwa i hodowli.