

Lifan Co. Going International:

International Marketing Strategy Analysis

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## **Executive Summary**

This report was commissioned to compare and contrast a group of countries that could fulfill the role of host country for Lifan Co. internationalization operations and to provide solutions to any barriers that could reduce the effectiveness of these operations. Given that Lifan Co. has the intention of its main product being an affordable car; the research draws attention to three countries in the Eastern European cluster which are Ukraine, Turkey, and Romania. Each of these countries provided strong qualifications as a host country in different terms such as political stability, economic development, and easy access to market. Even though a company based of China has a different background than Eastern European countries, research reveals that this region holds the optimal solution for Lifan Co. operations. This research suggest that Lifan Co. should expand to Turkey as they hold many qualifications such as moderate GDP per capita, easy market access, political stability, and economic growth. In this report it is further explained why Turkey is the optimal candidate.

## **Introduction**

The purpose of this report was to find the best candidate for Lifan Co. Internationalization Operations. Our first task was to narrow down the search scope to a specific geographical region. After detailed comparison we decided that Eastern Europe was the best option, and from this region we chose Turkey as the first country. In the decision criteria we took into consideration that Lifan Co. had the intention of entering the automobile market with its Lifan 520 car model. The report includes what we forecasted to be the Lifan 520's main competitor, the Renault Symbol. Despite the weight of our competitor, our main focus relies on different analysis that included the BERI Index and the Hoffstede Dimensions analysis tools. Through these two main tools we were able to identify Turkey as the most attractive country for Lifan Co. expansion operations. Turkey's attractiveness mainly comes from its benefits outnumbering its barriers and the potential Lifan Co has to exploit its competitive advantage. After identifying the issues we might face in Turkey, we suggested possible alternatives and solutions for these situations. As Lifan Co.'s first operations in Eastern Europe we have to be careful with these recommendations and include cultural issues in the process. Only after careful study of these two countries we were able to propose all of the alternatives that are suggested in this report.

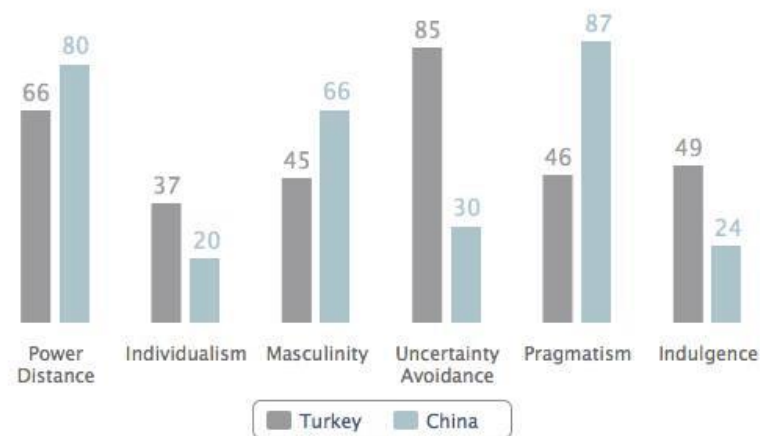
### **2.1 How to overcome cultural differences**

Lifan Industry CO. is a Chinese company, and as such, it has its own cultural feature that differences it from other companies around the world. The marketing plan propose to expand Lifan's market to Turkey, however these two countries present different backgrounds that need

to be addressed in order to internationalize with no major cultural clashes. The Geert Hofstede’s 6-D model tool provided the team with enough resources to analyze the difference between both countries. This analysis is going to focus on the least similar two dimensions: Uncertainty avoidance and Pragmatism. Plus a special mention on the language barrier.

The major difference between China and Turkey lies in Uncertainty Avoidance. Turkey has a high score on this dimension, meaning that people from this country relies heavily on rituals (Hofstede, 2014). High religious societies, the Turkish are driven by many rituals and religious expressions in their daily life. The Chinese, on the other side, have a quite low score in this dimension. This means that Lifan will have to pay special attention to the management style at the moment of making a

direct investment, and focus on the importance those religious affairs have on the lifestyle of Turkish people. As well, advertisement and



communication strategies must also accommodate to the strong religious orientation of Turkey.

The second dimension that presents notorious differences between China and Turkey is Pragmatism. Turkey’s 46 score in pragmatism settles it in the middle scale (Hofstede, 2014), but still may present some problems such as cultural dominant preferences that might make Turkey a country difficult to penetrate. Fortunately, China has a high degree on pragmatism meaning that they have a good predisposition to change. Lifan’s culture is one of adaptation, which presents

a great advantage when sending expatriates to work in foreign firms. This way Lifan's workforce can become a strong asset and a trustworthy source when sending them to work in Turkey.

Turkish people love the way they do things. They love their culture and history. They are appreciated when things are done by their way. In Turkey, Turkish language is spoken all over the nation. They are really appreciated when foreigners speak their own language. There will be a language barrier to enter the market and to start the operation. Turkish people are appreciated when businesses are communicated in their own language. Having that factor, we would recommend Lifan Group, in order to overcome this language barrier, to use Turkish language as their common communication language. So, the businesses and negotiations would go faster and more successful.

## **2.2 Likely problems and how to overcome those:**

Economists have been having their words on how Turkish Lira has been floating so dramatically since 2010. As a currency, Turkish Lira has been in inflation for several years now. In December 31<sup>st</sup> of 2009, direct quote of \$1 was 1.5016 TRY according to the UK's exchange rate market, but as of April 21<sup>st</sup>, \$1 is 2.1340 TRY (Exchangerates.org). In terms of currency exchange, there is no problem to convert Turkish Liras to US Dollars or Chinese Renminbis (or Yuan). It might be a problem when we convert our revenues of Turkish Liras into, say, US Dollar, because of the inflation of domestic currency. The existing inflation in a country is so critical to set prices and make sales. If a company mistakenly foresees the economic factors like this, it causes to end up with so bad results in terms of revenue etc. Therefore, we have two ways to deal with this problem. First one is to hire someone who has abundant knowledge in Turkish domestic market and economy. Particularly, he/she can be an analyst or specialist of economic inflation. Second option could be making our sales based on US Dollars, since the currency is

pretty stable comparing to Turkish Liras. So that, the Lifan Group will not face inflation problems in Turkey.

There are two major political parties in Turkey. They are called Republican People's Party (CHP) and Justice and Development Party (AKP). Justice and Development Party has been in charge of the government for a decade. For example, Recep Tayyip Erdogan is the Prime Minister of Turkey, he has been in his office for twelve years and Abdullah Gul is the president, he has also been in charge of his office for last two terms. The fact that Justice and Development Party has been winning the elections for a long time, the opposition party, Republican People's Party, has started so many movements to end the AKP's governance. Having this political issue in the nation, we see a probability of political instability in Turkey. Because political risk is so important for international companies, we need to solve this problem for our own sake of wellness. Therefore, we decided to cooperate with political risk insurance companies such as Aon, AIG etc. Then, Lifan Group will not need to face harsh turnover from the country.

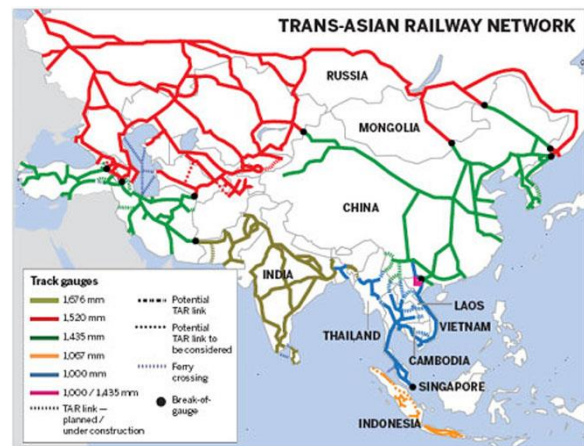
### **2.3 Steps to take for planned internationalization**

Due to the high competition in Turkey, and including the fact that Lifan never entered in a European market; we suggest the most usual way of internationalization. First, Lifan should export its car in Turkey, because it is the less expensive way with zero risk, and it is a good way to test the market. Lifan needs to have a good advertising strategy; for example, the company should use as its advantage the low price of the car with good features. Then, we recommend having as target in majority low income, especially students and women for whom having an expensive car is not a priority. To reach their target, we recommend to have advertisements in malls, soccer games, and to plan some days where potential customers can try the car. After

being well known, the second step will be to have a joint venture. This way of internationalization will help Lifan to expand its brand. In fact, the company will benefit to have the knowledge of the other company about the Turkish market. Finally, if Lifan is well established enough, the possibility for the company will be to open a factory in Turkey. This direct investment will allow Lifan to expand its market in other European countries more easily thanks to the trade agreements between the European Union and Turkey.

### **2.4 Turkey as an initial country market:**

Turkey is located between Europe and Asia; it is a bridge country between these two continents. Because Turkey is surrounded by Mediterranean Sea and Black Sea, Turkey also has access to continent of Africa by sea. As an initial entry market, Turkey has almost no barriers logistically. There are so many ways of delivering. Turkey and China have connected through a railroad of Trans-Asian Railways, which would be the cheapest way of importing the cars to Turkey initially (Silk Road Railways 2013). Also, they both countries have access to seas, so they also ship through the seas. Indeed, they can use both ways as shown in the map. So logistically, Turkey will not face difficulties in terms of importing and exporting the products and assets.



Turkey and European Union has been good-partners in businesses. In 1996, Turkey and EU declared that the two parties became Customs Union in terms of economic integration. So, there will be no tariffs to export to European Union member countries for the further market

expansion from Turkish domestic market in the future. Furthermore, there is well-established transportation routes and direct delivering mechanism to most of the EU countries. As a country, Turkey has highly developed roadways; the country ranked 17<sup>th</sup> in the world, having paved roads of 350 thousand km in the country (World Fact Book 2011). So it is also a good incentive for the locals' driving culture.

Turkish government has been implementing so many new incentives in order to support Foreign Direct Investments into the country (InvestmentGuideTurkey). The government, for example, reduced the former 33% of corporate income tax to only 20%. So, if Lifan Group builds its manufacturing plant in the future, the company will be appreciated by the low-tax incentives.

### **2.5 Strategies for long-term success in Turkey**

One of the most important strategies that Lifan has to use to succeed in long-term is to listen, understand, and satisfy its customers. In fact, customers contributed to expand a good or bad image of any brand, so Lifan has to satisfy its customers to keep them buying Lifan's cars, and for having them to broadcast a good brand of Lifan (word-of-mouth strategy.) The company needs so to have a good marketing department, with people who speak at least English, and few of them Turkish. Moreover, the market in Turkey is different than the one in Asia, so the marketing department is really important for Lifan to communicate and understand well the market in Turkey. We recommend to Lifan to use a pragmatic rule as market-entry mode in Europe, because the culture is more or less similar in European countries, so it will cost less to use this strategy, and it will be easily for the marketing department to develop strategies than to use a strategy rules. Finally, Lifan should build a plant in Turkey to have facility to access to other countries in Europe. In fact, even if Turkey is not part of the European Union, both have



trade agreements to lower the cost of exportation from Turkey to countries from European Union; and in the long-term Lifan should plan to have a factory in one of the European Union countries to have access to free trade between countries that are part of the union.

## **2.6 Assets of Lifan Group that will help succeed**

Our team analyzed the Lifan Group Company and identified assets that will benefit the future markets, particularly in Turkey and in Europe. Lifan Group is growing company and it makes steps towards globalization. Lifan Group is already a known brand in some Europeans countries. According to the Lifan website, recently Lifan received an e-mark certification from European Union that allows selling its automobiles, motorcycles and engines. Moreover, Lifan has already launched sales in 18 European countries that mean that Lifan has a channel of distribution and have relationships with suppliers and intermediaries in those 18 European countries. Moreover, Lifan Group is working not only European countries, but also achieved and developed a good distribution network in over 15 countries in Asia. According to Lifan Motors' website, their well-managed distribution network is a key asset for their business. Their Asian distribution network includes countries such as Russia, Iran, Iraq, etc. Iran and Iraq is neighbor countries for Turkey, so it will not be a problem to achieve a good distribution channel.

Beginning in 2006, Lifan Motors entered the global car market with the introduction of its first sedan, the Lifan 520. Lifan Motors does not afraid to develop a new ways to make money and open new markets. One of the company's strategies is to act fast. Nowadays Lifan achieved a good brand recognition in developing countries. According to the recent statistics, there are nearly 10,000 company-owned sales centers worldwide. Moreover, Lifan Motors acquired some knock-down kit plants in Iran, Ethiopian, Azerbaijan, Uruguay, Iraq, and Myanmar. Azerbaijan

and Iran are neighbor countries for Turkey. Accordingly, to reduce cost of transportation and import taxes paid to Turkey, Lifan can import knock-down kits from neighbor to Turkey and assemble cars there. This will reduce price for import and create new jobs to assemble semi-finished cars in Turkey. Moreover, this will save time and money and reduce reliance on outside partners throughout the manufacturing process.

Lifan Group has a lot of assets all over the world, and it achieved a decent level of economies of scale. However, the main production is located the Auto Garden in Chongqing new Northern Zone. Lifan Motors factory in Chongqing produces around 200,000 engines and 150,000 cars annually.

Another asset that can help to achieve good sales in Turkey is a modern R&D facility in China. According to the Lifan website, world-class experts in automotive technology and design are working there. This means that Lifan Group can change and develop design for Turkey if needed to generate more sales. Moreover, this R&D facility constantly research global markets and improve design of their products.

### **3.0 Conclusion and recommendations**

In order to complete a successful internationalization process, the information gathered and analyzed in the present report must be taken into account by Lifan CO. Major attention must be placed in the cultural characteristics of Turkey. Avoiding to clash with Turkish values and customs, especially in the religious area, is of main importance. Main attention on the marketing strategy and the culture awareness are recommended. Special focus on the Implementing the Turkish language as the business language between China and Turkey is also a factor highly recommended by this marketing team. In regards of the economic and political issues, the help of

external experts on the economy and insurance fields is required to overcome inflation and political risk matters.

The pragmatic rule market-entry mode is suggested in order to lower the costs. The team recommends Lifan CO. to follow a progressive internationalization strategy divided in stages to lower the risk of the entrepreneurship. The ultimate end it to build a facility in the target country, allowing Lifan CO. to be directly involved in all the manufacturing and sales process.

The Geographic location of Turkey provides great connection advantages between Eastern Europe and Asia. It also benefits the first stages of exporting as well as the final stages of direct investment. The transportation facilities mentioned will lower the transportation costs, allowing Lifan CO. to become a highly competitive firm. After having a solid base in Turkey, LifanCO will have the potential to expand to further markets of the region and increase its distribution network channels.