

Entry Strategies

Report on a turnkey project for Apple's iPod in Nigeria

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Executive Summary

In terms of a foreign market entry strategy and the mode of entry there are six different methods a company can use; exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host-country firm, or setting up a wholly owned subsidiary in the host country. Each method of entry has their advantages and disadvantages, and companies need to weigh the reasons carefully. Globalitek presents this report for Apple, to analyze the possibility of a turnkey project for Apple in Nigeria. In particular the report will review a turnkey project in a developing country such as Nigeria.

Companies that typically utilize a turnkey project strategy are industrial companies that want to export their whole system to another country. These companies determine that the best mode of entry is establishing their plants in the host country, rather than exporting from another country. There are substantial risks with a turnkey project for a company including giving companies secrets to competitors, and risking takeover of their plant by the foreign country. There are also benefits to the companies with the main one being tremendous economic gains.

As a high-tech company Apple needs to ensure their loss of intellectual property for the iPod is not at risk. Their entry strategy in other markets has been through exporting to Apple owned retail stores. GlobaliTek's report on a turnkey project in Nigeria will review the advantages and disadvantages of a turnkey project approach, primarily focusing on developing countries

A turnkey project is a method for a foreign company to export its process and technology to other countries by building a plant in that country. The company hires a contractor in the desired country that they want to create an operation. In terms of technical scope the turnkey contractor is responsible for the design, construction and installation of a new plant and in some cases the maintenance of the plant as well. It is called a turnkey project because at the completion of the contract, the foreign company gives the “key” to the project and it is ready for operation. (Hill, 2005).

Turnkey projects are most typical in companies that specialize in expensive, complex production technologies, such as the “chemical, pharmaceutical, petroleum refining, and metal refining industries” (Hill, 2005, p. 488). There are advantages for these types of companies, but there are also risks.

Advantages of turnkey projects

The main advantage of a turnkey project is the ability for a company to earn great economic profits, particularly in countries where foreign direct investment (FDI) is limited. It is an advantage for oil-rich countries such as Nigeria, to build their own petroleum refining industries, and therefore do not want competitors to enter the market so they restrict FDI in their oil and refining structures (Hill, 2005). However, a turnkey project is advantageous to a government like Nigeria who does not have the expertise in oil refining. By having an experienced oil company such as Exxon create a turnkey oil refinery in Nigeria, would bring economic benefits to the Exxon and Nigeria. For Exxon a turnkey project is also advantageous because Nigeria does not allow for much FDI. Exxon can seek the economic gains without the political complications. For Exxon the

turnkey project is also less risky, in a developing country such as Nigeria. The political complications can come into effect in an unstable government, due to the risk of nationalization or an economic collapse. The next section looks at these types of disadvantages that turnkey projects can produce.

Disadvantages

Experts state that there are “three main drawbacks” with a turnkey strategy (Hill, 2005, p. 488). First a company that enters into a turnkey project does not have any long-term interest in the country. This becomes a disadvantage if the country proves to be “a major market for the output of the process exported” (Hill, 2005, p. 488). In an oil rich country such as Nigeria, this is a particular disadvantage due to the dependence that the world is on oil, and the mercy these non-oil producing countries are to the countries political environment. The situation in Iraq, where the U.S. went to war to protect the American oil companies interest in oil, is an extreme example of what could happen with a turnkey project. A method that an oil company could use instead of going to the extreme is to take a minority interest in the enterprise, rather than just building the oil refinery.

A second disadvantage in a turnkey project, is the oil refinery in Nigeria, now becomes a competitor to Exxon’s other oil refineries in Texas in the world oil market (Hill, 2005) A third disadvantage is if the company needs to use some of their proprietary information to create their turnkey project they are giving their secrets away to the foreign company. In the case of Apple and the iPod, this is the main reason why a turnkey project would not work. The proprietary nature of the iPod, is a reason why Apple should not build a turnkey project in Nigeria, to produce iPods.

Turnkey project in a developing country

The disadvantages state above can be escalated when a turnkey project is performed in developing countries, and makes them susceptible to problems related to culture, insufficient infrastructure, less skill local labor and local construction partners. Most experts recommended a planning and scheduling system that is based on performance and good project management to plan for and work out any obstacles. In a study performed by the Research Institute for Project-Based Industry (PBI) an independent research organization that focus on international project-based business and project management (Alsakini, 2004). The result of the study is that the main obstacles in a turnkey project are for schedule deviations that are caused primarily by the local client and local officials. These deviations are due their cultural background, the plant contractor and the location foreign subcontractors, suppliers and local government.

Based on the study, GlobaliTek recommendations Apple review the following in order to have the potential a successful turnkey project in a developing country:

1. Regulatory permits and approvals - large turnkey projects can be severely delayed due to late processing by government regulators. It is recommended that defining the permit task and “breaking them down into basic activities” (Alsakini,2004, p. 80) into a regulation management plan, which becomes part of the contractors project plan. A regulation management plan does in the advance project planning. This gives the contractor the ability to predict, proactive and react to any regulatory process effectively.
2. Change orders – Changes in projects are inevitable due to a client or owner who makes a change to achieve a better outcome of their investment, or the turnkey

contractor may decide to make some changes in design. Changes to orders may increase the turnkey projects cost and or prolong or shorten the projects schedule. Understanding a client's organization structure, investment and financial experience, authority structure, and key contacts are essential for the project manager to have completed prior to the project beginning.

In overseas projects uncertainty and complexity "arising from the nature of clients compounded because a contractor's project team may not be familiar enough with the cultural and historical background of a client. A project manager should maintain current information on their client's requirements during the design phase which can reduce the likelihood for change orders in the execution phase.

3. International project environment - Many implementation problems "lie in general of projects and are beyond the control of the project managers (Alsakini, 2004, p. 81) Influencing the project in an international environment is an added pressure on the project manger. In order to assess the problems appropriately and work to pre-solve them. The project team needs to:

- Scan the project environment
- Identify the actors and factors influencing the project
- Define the degrees of dependency between the project and the uncontrolled elements in its environment
- Estimate the nature of uncertainty and the probability of something going wrong.

- Analyze the degrees of power a project team has to exercise over actors and factors
- Develop contingency plans to deal with potential problems and to create linkages to increase team's power and influence (Alsakini, 2004, p. 81)

If the methods above are followed by a company the ability for a successful turnkey projects are increased. However, for a company such as Apple building a plant to produce iPods in Nigeria, is not one GlobaliTek would recommend.

Traditionally in Nigeria FDI has been low, primarily focused on the oil and gas companies, due to the natural resources in Nigeria (Euromoney, 2005). As such turnkey projects were a method for manufacturing firms to enter the market. In the 1990s many foreign multinationals left Nigeria rather than surrender to the Nigeria government. As a high-tech company Apple cannot afford to loose their intellectual property rights to any potential nationalization attempt. In recent years, Nigeria's government has stabilized and more foreign national companies have entered the untapped demand due to the size of Nigeria's population. GlobaliTek believes that Apple should meet this untapped demand, but not through a turnkey operation.

Recommendation

Apple is currently the "most successful digital music player ever" (Gandel, 2004, p. 90) , but competitors such as Sony, Samsung and Microsoft are developing strategies to take market share from Apple. The iPod cannot stay the number one music player forever, without some long term strategic planning. GlobaliTek has recommended in previous reports that Apple, expand their market share through globalization to new developing countries such as Nigeria and Russia. Since Apple currently does not have a

presence in Nigeria, they would need an entry strategy. Based on the analysis in this report as an entry strategy GlobaliTek does not recommend a turnkey project.

The Nigerian government has a history of privatizing several key industries, including banking, mining, oil production, hotel and tourism, and telecommunication sectors. While some of these privatizations have been successful, most have not. If Apple were to have a plant in Nigeria that was privatized by the government they would lose their intellectual property rights to the iPod.

There are additional reports that GlobaliTek has put together, to review alternate entry strategies for Apple into Nigeria, including licensing agreements and joint ventures. Based on the analysis in this report including a review of a turnkey project in a developing country, GlobaliTek recommends that the alternative strategies be reviewed by Apple, rather than a turnkey project. As a global marketing technology company GlobaliTek believes these reports meet their mission to assist Apple to reach its goal of developing a global entry to market strategy that will increase the company's overall market share and profitability.

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