the importance of the US market and the limited international experiences of its management team, *Pearl River* hired an American with long experience in the piano industry, to head the subsidiary. Within two years, the greenfield subsidiary succeeded in getting *Pearl River* pianos into about one-third of the specialized US retail dealers. Within ten years, the *Pearl River* brand became the leader at the low end of the upright piano market in North America.

Efforts to penetrate the high-end market, however, were still frustrated. The *Pearl River* brand suffered from all the usual trappings associated with Chinese brands. 'We are very cognisant that our pricing provides a strong incentive to buy', Rich noted in a media interview, 'but $6000 is still a lot of money'. In an audacious move to overcome buyers' reservation about purchasing a high-end Chinese product, *Pearl River* made a second strategic FDI in 2000 by acquiring the brand *Ritmüller*. Founded in 1795, *Ritmüller* had manufactured pianos in Göttingen, Germany, for over 100 years, although the factory had closed during the recession of the late 1920s.

By reviving the 'inactive brand', *Pearl River* aimed to position itself in the European piano-making tradition and to move up-market. A new office in Munich focused on design, research and development. A newly-designed product line signalled commitment to a classic heritage and standard of excellence. Moreover, *Pearl River* commissioned international master piano designer Lothar Thomma to integrate German craftsmanship with the latest manufacturing technology.

In 2016, *Pearl River* stepped up its efforts to become a global player by taking over the largest German piano maker, *Schimmel*. This brand and its production sites in Germany and Poland enabled *Pearl River* to reach customers at home and abroad who considered 'made in China' not good enough for their piano. While the *Ritmüller* brand was successfully positioned in a higher market segment in China, it did not suffice for *Pearl River* to break into the premium segment.

By acquiring 90% of *Schimmel*, *Pearl River* could not only access a recognized premium brand 'made in Germany' but also state-of-the art production facilities. *Schimmel* continued to operate high autonomously under local management and with close involvement of the descendants of the founder.

Sources: (1) W. Ding, 2009, The return of the king, *Beijing Review*, May 21; (2) Pearl River Piano Group, 2009, www.pearlriverpiano.com; (3) D. Behrendt, 2009, Tradition gibt den Ton an, *Hannoversche Allgemeine Zeitung*, March 4; (4) Stadtarchiv Göttingen, no date, *Stationen der Stadtgeschichte*, www.stadtarchiv.goettingen.de.; (5) K.E. Meyer, 2015, Creating value by awaking a sleeping brand, *Forbes blog*, November 9; (6) *China Daily*, 2016, Pearl River Piano now calling the tunes at Schimmel, May 19; (7) Klaus Meyer, personal interviews.

How do companies such as *Pearl River Piano* enter foreign markets? Why did they start their ambitious international growth in the Hong Kong and later the USA, before entering Europe? Why did *Pearl River Piano* establish a greenfield operation in the USA, but acquire a business in Germany? What are the advantages of building your own brand, and when is a combination with an acquired brand appropriate? These are some of the key questions in this chapter.

Recall from Chapter 6 that MNEs engage in foreign FDI by operating subsidiaries abroad. Chapter 6 has already introduced key theoretical ideas as to why FDI and MNEs exist. This chapter approaches FDI from the perspective of a specific firm considering the establishment of a **foreign subsidiary**. Preparing such an investment, MNEs need to design an **entry strategy** that specifies their objectives and how they intend to achieve these objectives.

foreign subsidiary
An operation abroad set up by foreign direct investment.

entry strategy
A plan that specifies the objectives of an entry and how to achieve them.

We here consider foreign entries by mature firms with sufficient resources to establish their own subsidiaries. This complements Chapter 11, which focuses on smaller firms and non-equity modes. We start with a review of the objectives that motivate firms to establish subsidiaries abroad. Foreign entry requires several strategic decisions, including location, timing, entry mode, marketing, human resources and logistics. Most textbooks focus on the entry mode decision: exports, contracts, joint ventures or wholly owned subsidiaries? However, this choice of entry mode actually