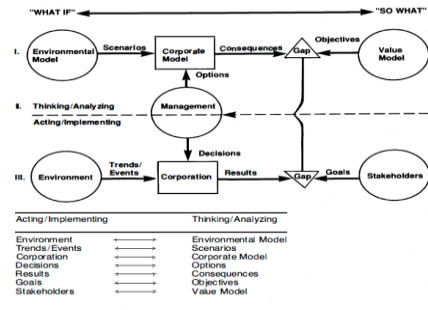


MARKET ENTRY MODES

THE CORPORATE PLANNING FRAMEWORK



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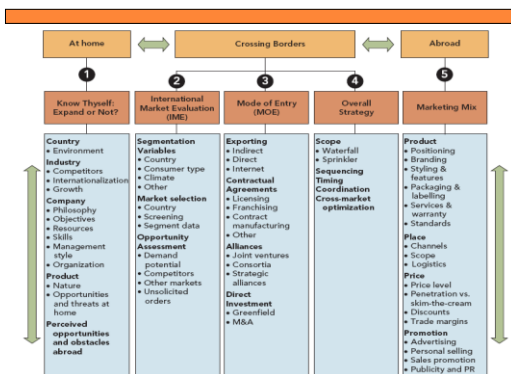
INTERNATIONAL MARKETING STRATEGY

- o **Standardization versus Customization**
 - Ethnocentric Strategy
 - Polycentric Strategy
 - Regiocentric Strategy
 - Geocentric Strategy
- o **Expansion Process and Strategic Decisions**
 - Expand or not
 - International market evaluation
 - Mode of entry
 - Overall strategy
 - Marketing mix

STANDARDIZATION VS. CUSTOMIZATION

- o **Ethnocentric Strategy**
 - Everywhere the same strategy as at home
- o **Polycentric Strategy**
 - Separate and distinct strategy for each foreign market
- o **Regiocentric Strategy**
 - Separate and distinct strategy for each region – group of similar countries
- o **Geocentric Strategy**
 - One strategy for all countries worldwide

STRATEGIC DECISIONS IN INTERNATIONAL EXPANSION



EXPANSION PROCESS AND STRATEGIC DECISIONS

- o **DECISION 1**
 - o **Expand or not**
 - completely new market or another market
 - choose a market then enter vs. just decide to invest outside
 - Are you export ready
 - Domestic factors**
 - Market saturation, slow population growth, product obsolescence, more beneficial tax structure, short lifecycle → electronic products, mature product in home market → innovative abroad
 - International Environmental Factors**
 - Perception → market (new and untapped demand, growing foreign economies), production (lower cost of labor, material), favorable trading blocks
 - To go or not to go**
 - opposite of domestic factors → do not go, no resources to invest, high tariff structure
 - risk averse cadre of managers who fear unknown
 - Political situations between countries France vs. Japan...

DECISION 2

Which Border

- Emerging markets pose a special problems
- inadequate marketing infrastructure, income levels, distribution, info.

Segmentation variables

- culture is determinant of consumer behavior → activities, interests, opinion – lifestyle e.g. tourism, hiking equipment...., climate, language, media habits...
- country-to-country → demographics, age, income...

International market selection

- Short-list countries → market size, growth, competitive activity, political stability, regulations on business, cultural variations such consumption habits, rates and preferences...
- Two approaches: **shift-share approach** → compares import data across countries; **trade-off model** → accounts for demand potential, barrier to entry and company's strategic orientation.

Opportunity Assessment

- unsolicited orders, government requirements (ban products...)
- wrong positioning or pricing of products by importers

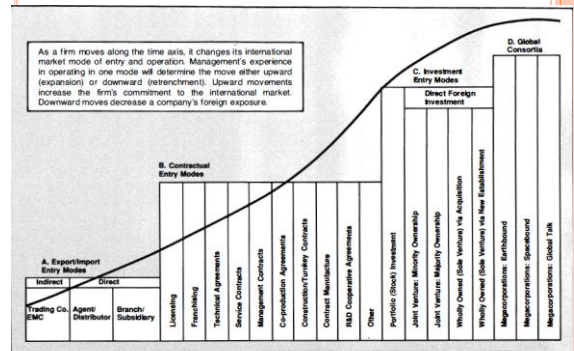
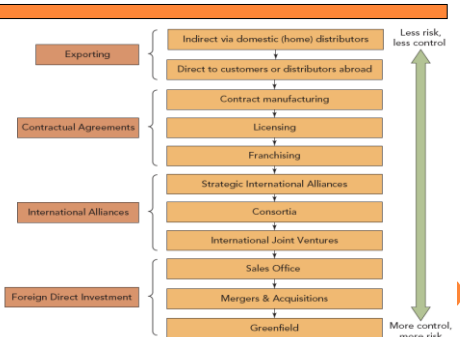
EXPANSION PROCESS AND STRATEGIC DECISIONS

DECISION 3

Mode of Entry

- market characteristics (potential sales, strategic importance, cultural differences, country restrictions)
- company capability
- company characteristics
- degree of near market knowledge

INTERNATIONAL MARKET ENTRY STRATEGIES



Foreign Market-Entry Strategies

When a company makes the commitment to go international, it must choose an entry strategy

The choice of entry strategy depends on:



- Market Size and Growth
- Risk
- Government Regulations
- Competitive Environment
- Local Infrastructure
- Company Objectives
- Need for Control
- Internal Resources, Assets and Capabilities
- Flexibility

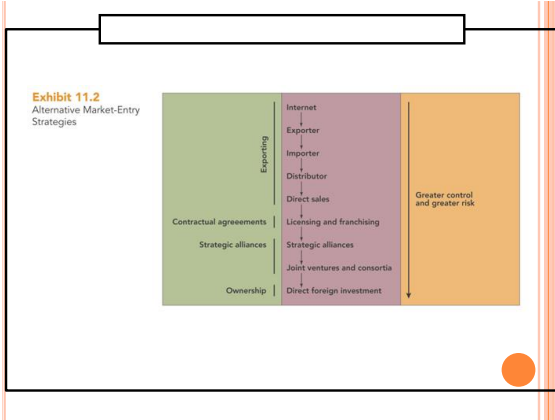
Alternative Market-Entry Strategies

• Import regulations may be imposed to protect health, conserve foreign exchange, serve as economic reprisals, protect home industry, or provide revenue in the form of tariffs


• A company has four different modes of foreign market entry from which to select:



- exporting
- contractual agreements
- strategic alliances, and
- direct foreign investment (FDI)



Exporting



- Exporting can be either direct or indirect
- In direct exporting the company sells to a customer in another country
- In contrast, indirect exporting usually means that the company sells to a buyer (importer or distributor) in the home country who in turn exports the product
- The Internet is becoming increasingly important as a foreign market entry method

EXPORTING AS AN ENTRY STRATEGY

- Indirect Exporting
 - Domestic Intermediary
- Direct Exporting
 - Independent Distributor Vs. Sales Subsidiary
 - The Company Owned Sales Office (Foreign Sales Subsidiary)



FOREIGN PRODUCTION AS AN ENTRY STRATEGY

- Licensing
- Reasons for Licensing
- Disadvantages of Licensing



LICENSING

- Licensor and the licensee
- Benefits:
 - Appealing to small companies that lack resources
 - Faster access to the market
 - Rapid penetration of the global markets
- Disadvantages:
 - Other entry mode choices may be affected
 - Licensee may not be committed
 - Lack of enthusiasm on the part of a licensee
 - Biggest danger is the risk of opportunism
 - Licensee may become a future competitor

LICENSING

- How to seek a good licensing agreement:
 - Seek patent or trademark protection
 - Thorough profitability analysis
 - Careful selection of prospective licensees
 - Contract parameter (technology package, use conditions, compensation, and provisions for the settlement of disputes)

FRANCHISING

- Franchisor and the franchisee
- Master franchising
- **Benefits:**
 - Overseas expansion with a minimum investment
 - Franchisees' profits tied to their efforts
 - Availability of local franchisees' knowledge
- **Disadvantages:**
 - Revenues may not be adequate
 - Availability of a master franchisee
 - Limited franchising opportunities overseas
 - Lack of control over the franchisees' operations
 - Problem in performance standards
 - Cultural problems
 - Physical proximity

Contractual Agreements

Contractual agreements are long-term, non-equity associations between a company and another in a foreign market

- Contractual agreements generally involve the transfer of technology, processes, trademarks, or human skills
- Contractual forms of market entry include:
 - (1) **Licensing:** A means of establishing a foothold in foreign markets without large capital outlays is licensing of patent rights, trademark rights, and the rights to use technological
 - (2) **Franchising:** In licensing the franchisor provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management

Strategic International Alliances

- Strategic alliances have grown in importance over the last few decades as a competitive strategy in global marketing management
- A **strategic international alliance (SIA)** is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective
- SIAs are sought as a way to shore up weaknesses and increase competitive strengths
- SIAs offer opportunities for rapid expansion into new markets, access to new technology, more efficient production and marketing costs
- An example of SIAs in the airlines industry is that of the Oneworld alliance partners made up of American Airlines, Cathay Pacific, British Airways, Canadian Airlines, Aer Lingus, and Qantas



The steps outlined in Exhibit 11.3 below can lead to successful and high performance strategic alliances

Exhibit 11.3 Building Strategic Alliances

Primary Relationship Activity	Typical Actions, Interactions, Activities	Key Relationship Skill
Dating	Senior executives leveraging personal networks Wondering how to respond to inquiries Wondering how to seek out possibilities	Good radar; good relationship self-awareness
Imaging	Seeing the reality in possibilities Creating a shared vision from being together	Creating intimacy
Initiating	Involving trusted senior managers Bringing key executives into action	Trust building
Interfacing	Creating trust through face-to-face time Facilitating the creating of personal relationships at many levels	Partnering
Committing	Traveling to partner facilities and engaging in technical conversations Blending social and business time Demonstrating that managers are fully committed to the alliance and each other Managing the conflict inherent in making hard choices	Commitment
Fine-tuning	Accepting the reality of the alliance and its relationships Relying on mature and established relationships Facilitating interaction and relationships with future successors	Growing with another

Source: Adapted from Robert E. Spillman, Lynn A. Isabella, with Thomas C. Mackney, *Alliance Competence* (New York: Wiley, 2005), p. 81. Copyright © 2005, John Wiley & Sons, Inc. This material is hereby permitted of John Wiley & Sons, Inc.

International Joint Ventures

- **International joint ventures (IJVs)** have been increasingly used since 1970s
- IJVs are used as a means of lessening political and economic risks by the amount of the partner's contribution to the venture
- JVs provide a less risky way to enter markets that pose legal and cultural barriers than would be the case in an acquisition of an existing company
- A joint venture is different from strategic alliances or collaborative relationships in that a joint venture is a partnership of two or more participating companies that have joined forces to create a separate legal entity
- Joint ventures are different from minority holdings by an MNC in a local firm.

International Joint Ventures (contd.)

• Four factors are associated with joint ventures:



1. JVs are established, separate, legal entities;
2. they acknowledge intent by the partners to share in the management of the JV;
3. they are partnerships between legally incorporated entities such as companies, chartered organizations, or governments, and not between individuals;
4. equity positions are held by each of the partners

JOINT VENTURES

- Cooperative joint venture
- Equity joint venture
- **Benefits:**
 - Higher rate of return and more control over the operations
 - Creation of synergy
 - Sharing of resources
 - Access to distribution network
 - Contact with local suppliers and government officials

JOINT VENTURES

- **Disadvantages:**
 - Lack of control
 - Lack of trust
 - Conflicts arising over matters such as strategies, resource allocation, transfer pricing, ownership of critical assets like technologies and brand names
- **Drivers Behind Successful International Joint Ventures :**
 - Pick the right partner
 - Establish clear objectives from the beginning
 - Bridge cultural gaps
 - Gain top managerial commitment and respect
 - Use incremental approach

Consortia

• Consortia are similar to joint ventures and could be classified as such except for two unique characteristics:



- (1) They typically involve a large number of participants, and
- (2) They frequently operate in a country or market in which none of the participants is currently active

• Consortia are developed to pool financial and managerial resources and to lessen risks.

Direct Foreign Investment

• A fourth means of foreign market development and entry is **direct foreign investment**

- Companies may manufacture locally to capitalize on low-cost labor, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials, or as a means of gaining market entry
- Firms may either invest in or buy local companies or establish new operations facilities

EXHIBIT 9-12 ADVANTAGES AND DISADVANTAGES OF DIFFERENT MODES OF ENTRY

Entry Mode	Advantages	Disadvantages
Indirect exporting	<ul style="list-style-type: none"> • Low commitment (in terms of resources) • Low risk 	<ul style="list-style-type: none"> • Lack of control • Lack of contact with foreign market • No learning experience • Potential opportunity cost
Direct exporting	<ul style="list-style-type: none"> • More control (compared to indirect exporting) • More sales push 	<ul style="list-style-type: none"> • Need to build up export organization • More demanding on resources
Licensing	<ul style="list-style-type: none"> • Little or no investment • Rapid way to gain entry • Means to bridge import barriers • Low risk 	<ul style="list-style-type: none"> • Lack of control • Potential opportunity cost • Need for quality control • Risk of creating competitor • Limits market development
Franchising	<ul style="list-style-type: none"> • Little or no investment • Rapid way to gain entry • Managerial motivation 	<ul style="list-style-type: none"> • Need for quality control • Lack of control • Risk of creating competitor
Contract manufacturing	<ul style="list-style-type: none"> • Little or no investment • Overcome import barriers • Cost savings 	<ul style="list-style-type: none"> • Need for quality control • Risk of bad press (e.g., child labor) • Diversion to gray and/or black markets
Joint venture	<ul style="list-style-type: none"> • Risk sharing • Less demanding on resources (compared to wholly-owned) • Potential of synergies (e.g., access to local distribution network) 	<ul style="list-style-type: none"> • Risk of conflicts with partner(s) • Lack of control • Risk of creating competitor
Acquisition	<ul style="list-style-type: none"> • Full control • Access to local assets (e.g., plants, distribution network, brand assets) • Less competition 	<ul style="list-style-type: none"> • Costly • High risk • Need to integrate differing national/corporate cultures • Cultural clashes
Greenfield	<ul style="list-style-type: none"> • Full control • Latest technologies • No risk of cultural conflicts 	<ul style="list-style-type: none"> • Costly • Time consuming • High political and financial risks

EXPANSION PROCESS AND STRATEGIC DECISIONS

o Decision 4

Overall strategy

Waterfall Strategy

- a firm pours all of its available resources into one or a selected few markets

Sprinkler Strategy

- a firm spreads its resources in order to gain even small footholds across as many markets as possible

Sequencing

- able to integrate and optimize international operations
- between countries vs. within a trading block

EXPANSION PROCESS AND STRATEGIC DECISIONS

o Decision 5

Marketing Mix (coffee)

- per capita consumption of coffee
- how coffee is used- bean, ground, powdered?
- which coffee is preferred- dark roasted, blonde coffee
- when do you take it- lunch vs. breakfast
- do people drink it with milk, cream or without
- merging markets pose a special problems
- is it a traditional drink?
- potential for retaliation by young people
- color, aroma, flavor...
- Nestle already has 200 types of instant coffee

Organizing for Global Competition

- An international marketing plan should optimize the resources committed to company objectives by using one of the following three alternative organizational structures:

- (1) global product divisions responsible for product sales throughout the world;
- (2) geographical divisions responsible for all products and functions within a given geographical area; or
- (3) a matrix organization consisting of either of these arrangements with centralized sales and marketing run by a centralized functional staff, or a combination of area operations and global product management

FIGURE 1: MARKET ENTRY STRATEGIES

