Ways of Entering in to the foreign markets

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Introduction

Entering an overseas mkt. is a strategic decision

Features of strategic decisions:

- It is a decision taken by top Mgt.
- It is a long term decision. It has implications for the long term prosperity of a company
- It has organization- wide implications. Has multi-functional consequences- need for separate export dept, recruitment, training etc.
- It involves the allocation of a large amount of resources

Reasons for Entering Overseas Market

Key Criterion = Long term profit potential

- Home market saturated
- Product at maturity/decline stage of PLC
- Market diversification to reduce risk
- Wider Market- large scale production and can reap economies of scale.

- Availability of low cost labour or materials
- Incentives given by host economies
- Behaviour of oligopolistic firms.

Factors to Consider in Entry Decision

- The entry decision involves foll. issues
  - which market to enter-mkt. attractiveness
  - when to enter (timing)
  - on what scale to enter
  - how (mode of entry)

Choosing the Market

In principle, every country is a potential market But, need for Co. to focus its marketing effort as Co. resources are limited.
Geographic/Physical proximity? Cultural/psychic proximity?
It makes sense to operate in fewer markets, with deeper commitment & penetration in each
Kenichi Ohmae (Triad Power, 1985): recommends that firms operate in Triad markets (USA, W. Europe & Far East)
Kotler: Above is short term thinking. There is a high % of unmet needs in LDCs (food, clothing, electrical & electronic products)
Prahalad: There is wealth at the bottom of the pyramid. Firms must develop new business models to cater to the poor.
(e.g. milk powder, biscuits, shampoo, washing powder etc.)

Constructing a Country Selection Matrix

1. List criteria for selecting the country-

   Market size, GNP per capita, growth forecasts, competition, infrastructure,

   On ease of entry, variables are tariffs, govt. regulations, channel arrangements, order requirements, service requirements

2. Assign weights to the perceived importance of each variable, depending on nature of product & firm's circumstances (Do this carefully)

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3. List all countries & /or markets that seemingly offer profit potential, based on published sources & other evidence
4. Categorize countries into 3 groups- probables, possibles & ‘no hopes’. (last category is dropped)
5. Intensify research on ‘probable entry’ category. Also collect info. on ‘possibles’ to see whether some could be upgraded to ‘probables’. Drop rest

Country Selection (Alternative Procedure)

- Do a country attractiveness survey
- Then, do an ease of entry survey

Country Attractiveness Survey

- GNP per capita & growth forecasts
- Competition – intensity of rivalry
- Past experience
- Customer base (market size)
- Image of country's products
- Any other factors e.g. infrastructure

Ease of Entry

- Tariffs
- Non-tariff barriers
- Channel arrangements
- Service requirements
- Order requirements (design, size etc.)
- Any other factors

There must be a match between market attractiveness & Co. capability

Timing of Entry

A ‘first mover’ faces advantages & disadvantages

Advantages

- Can pre-empt rivals. Entry of new rivals will increase supply & depress prices
- Can build sales volume & gain cost advantage
- Can serve neighbouring markets
- Can build brand loyalty & make switching costs high to customer
- Can reduce price to deter new entrants

Continued

Disadvantages

- High pioneering costs for first mover- to develop distribution channels, educate customers etc.

  later entrants can come in as “free riders”

- Greater risk of failure which later entrants can avoid
- First mover might be investing in technology that is becoming obsolete
- First mover might be developing wrong capabilities as it is focusing on a customer set (early adopters) that may not be typical of the mass market.

Scale of Entry

Entry – Large scale or small scale?

Large- scale entry confers benefits

But heavy strategic commitment

It can also restrict a firm’s flexibility

Mode of Entry

1 Exporting- Indirect; Direct

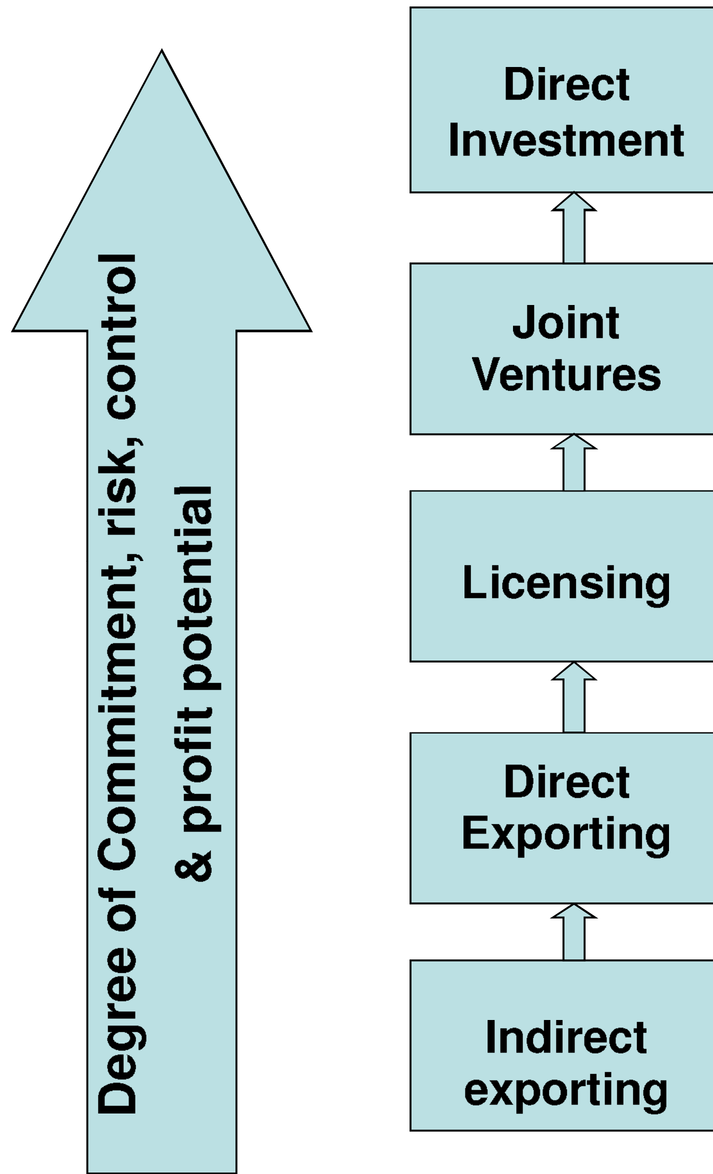
2 Licensing ; Franchising

3 Joint venture

4 Fully- owned subsidiary

Degree of involvement, risk, degree of control & profit increases as we move from 1 to 4

Five Modes of Entry into Foreign Markets



Source: (Kotler & Keller , Marketing Management: 2009: 607)

Benefits & Costs of Each Entry Mode

Exporting

Indirect exports via intermediaries based in domestic economy (e.g. export houses, export agents, export merchants)

Sale is a purely local one. Low involvement

Advantages – low involvement, low risk

Disadvantage – insignificant returns

Direct export to overseas agents/distributors or its own overseas sales office. Higher returns

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Agent does not take title to goods.
He is paid a commission on sales
His loyalty is questionable- may not divulge any info. to the Co. which will go against his interest

Distributor- takes title to goods.
He would seek exclusivity of supply & exclusive rights to sales territories for the capital invested by him

Licensing

It confers only a right to licensee to use a company-specific & patent- protected process in manufacturing

(e.g. Pure Beverages as bottler of coca-cola in Sri Lanka)

US company has control over trade mark, recipe (syrup or concentrate), & advertising

Advantages

- Licensor gets an annual royalty
- It carries low development costs

Disadvantages

- The arrangement can be for a specific time period.
- It may be difficult for licensor to protect the technology, which is the basis of his competitive advantage. At end of contract, Co. might find that it has created a competitor

Franchising

It is a contract in which franchisor confers franchisee the right to use co: name & logo (McDonalds, KFC). It also provides him a "package" including not only trade marks & know how but also local exclusivity, management & financial assistance & joint advertising.

Management fees must be paid

Franchisee bears the costs & risks of the business. He invests in & pays a fee to the franchisor

Disadvantage = how to ensure quality control of distant franchisees

Joint Ventures

JV(Coca-cola & Nestle) to develop Ready-to-drink tea & coffee for world market; Whirlpool (53% stake in Philip's white goods business) to enter EU market

Advantages

- costs &risks of entering a new mkt. are shared
- gain local knowledge& experience
- access to low cost, skilled labour & materials

Disadvantages

- risk of losing control over operation
- risk of losing control over technology
- partner firm might not give of his best
- transfer pricing as goods pass between partners
- room for disagreements

Fully- owned subsidiaries

Advantages

- Retain tight control over technological knowhow
- Access to low cost labour, govt. incentives
- If market is large, can reap scalar economies
- Develop closer relationships with customers, suppliers, distributors & govt.
- Best for implementing a global strategy

Disadvantages

- Bear all costs & risks of opening a foreign market
- Exposure to risks such as devalued currencies

Strategic Alliances & Making SAs Work

SAs are cooperative agreements between actual or potential competitors

SAs range from joint ventures (in which JV partners have equity shares) to short-term contractual agreements where 2 companies cooperate on a specific task (e.g. to develop a new product

SAs fashionable since 1980s, but degree of success has been limited.

Advantages of SAs

- Facilitates entry into foreign markets

  e.g. Motorola's entry to Japan's cellular phone market (1987) Motorola licensed its micro processor technology to Toshiba & Toshiba licensed its memory chip technology to Motorola.
- Helps firms to share fixed costs (& associated risks) e.g. Motorola & Toshiba; Boeing & Jap co's to make the 767 aircraft
- Share complementary skills/core competencies Thomson of France (Mktg network in EU) with JVC (production skills) to make VCRs
- Helps SA partners to set technological stds

  for the industry & it can be a source of competitive advantage

  Tech. Stds – important in hi-tech industries
- guarantee compatibility
- permit mass production & scalar economies
- Less confusion in customer's mind
- Low risks associated with supplying complementary products

Disadvantages of SAs

A firm risks giving away technological know-how & Mkt. access to the partner in return for very little (High failure rate of SAs)

SAs – How to Ensure Success

1. Careful selection of partner

Need to collect a lot of information about the partner before entering into a SA.

(via. published sources, investment bankers, ex-employees & direct meetings with management)

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2 Structuring of SA

Reduce risk of giving away too much to other party by

- agreeing to swap valuable technologies & skills
- seeking credible commitments
- walling off critical technology – e.g. Boeing "walled off" research, design & marketing functions regarded crucial to its competitive advantage & allowed Jap co's: to share in production technology
- establishing contractual safeguards in writing

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3 Managing the SA

- Build trust through formal & informal meetings & continuous communication
- Take steps to learn from SA partner. Japanese companies show a high commitment to learn compared to US firms.