Market Entry

Strategies
International Business
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Entering Foreign Markets

Large and Small business differ in entry strategies.
Big Business: tends to follow formal decision rules
with market analysis, risk analysis, and profit potential
estimates.
Small Business: ??????????????

Management’s Role

• Commitment is crucial to carrying out the decision to
go Global
  • Businesses must be aware of opportunities, and
  • Culturally sensitive
• Foreign Market Penetration requires
  • Market Development Sensitivity
  • Research Innovation
• Involvement at the highest level of Management is
  Imperative.

Developing Global Commitment

• Awareness of International Business
  Opportunities
• Awareness of the Risks of International
  Operations:
  ✓ Especially Startup Costs
• A long range time horizon helps
• Ability to be flexible.

Why Small Business should Export

• The World GDP is many times larger than even the
  largest domestic markets
• Economic growth rates are higher in many overseas
  markets than in major industrialized markets.
• Expanding into International markets can be a great
  competitive move in the domestic market.
• What is this saying?

Why Small Business don’t Export

• Lack of awareness of opportunities.
  – Don’t know where to get market information.
  – Don’t know the rules
  – Don’t know how to contact foreign businesses.
  – Fear of the unknown
    • Cultural differences
    • Currencies
    • Languages
    • Business Customs
• Lack of awareness of potential gains
• Ethnocentrism
Steps in Entering Foreign Markets

1. Evaluate your firm: determine your competitive advantage.
2. Evaluate potential markets for entry
3. Determine the best product or line to enter the market with.
4. Estimate the resources required.
5. Determine the constraints on the firm.
6. Choose the vehicle (method for market entry).

Two Major Forms of Market Entry with limited investment in foreign markets:

- Indirect Exporting
- Direct Exporting

The various forms of market entry strategy are organized

- As usual,
- Based on increasing Risk to the firm

Entry: Indirect exporting 1

- Sell to a domestic, or foreign company, in your own market for their export.
- Export management Companies contract with domestic firms to run the whole export operation in a foreign market, for a fee.
- Benefits: Very low risk
- Drawbacks:
  - Limited profit potential
  - Company gains no market information, or experience in new markets.

Trading companies 2

- Vary large trading companies have existed since the Mercantile trade period of European development of its colonies.
- Today the most famous are the many large trading companies of Japan: Sogo Shosha
  - The world’s FIVE Largest trading companies were Japanese in 2001.
- They scour the world’s markets looking for products to place in other markets …at a profit

Entry: Exporting - Direct

- Advantages:
  - Very low cost of market entry
  - Economies to scale in current locations
- Disadvantages:
  - Plants may not be located in low cost locations
  - High transport costs for finished goods
  - Tariffs tend to be highest on finished goods
  - Loss of control as markets are distant from production
Collaborative Agreements, or Strategic Alliances

- Involve Shared Risk
- Shared Profits
- Specialization
- Location Specific Competencies - assets
- Learning from others

Entry: Licensing 1

- The domestic firm enters into a licensing contract with a foreign firm allowing to use certain intellectual property for the payment of a royalty and/or (%) on sales.
- The property may vary from the name of the firm, to use of patents, designs, etc.

Entry: Licensing 2

Continued

- Advantage:
  - low cost of entry into a new markets
  - Spreads business risk
  - Can capitalize on partner's key success factors

- Disadvantages:
  - very little control
  - May create a competitor.

Entry: Franchising

- The selling/buying of the right to do business in a prescribed fashion, where most operations of the business are standardized. This is usually seen as a specialized form of Licensing.
  - Generally involves services organizations.
    - Long commitments
    - Strict Guidelines
  - Advantages:
    - Allows rapid expansion
    - Low Cost
  - Disadvantages:
    - Loss of profit potential
    - Loss of Control

Entry: Joint Venture

- Ownership of a foreign operation, or production facility with foreign partners.
- Sometimes is a required condition of market entry by the local host government.
  - Advantage:
    - Shares risk
    - Can provide needed resources
    - Capitalize on strengths of partners
  - Disadvantages:
    - Limits profit potential
    - Dilutes Management

Wholly Owned Foreign Operation

- This form of market entry has the Greatest Financial Risk, and
- The Greatest Potential Return
**Strategy**

- Develops from a sound knowledge of the external environment.
- Make the Plan fit the Circumstances,
- Not the opposite!
- Good strategy can work with mediocre tactics, but not the opposite.

**International business Strategy**

- Strategy is the game plan, or map, which guides a business in its operations.
- A firm without a clear strategy is like a journey without a destination, you keep going and going, but who knows if you ever get where you wanted to go.