Chapter 11
International Market Entry Strategies

Chapter Outline

Chapter Learning Objectives

What you should learn from Chapter 11

- To understand why companies seek foreign markets
- To be able to assess market opportunities abroad
- How to screen countries to evaluate their suitability for the company
- How to evaluate the benefits of strategic alliances
- To analyse those factors that will influence the mode of entry into a foreign market

Why Firms Go Abroad

Internationalisation of the firm – why and how firms go to foreign markets – has been the most important issue in international business and international marketing. As we argued earlier, growth of the firm is the main driver of internationalisation. Do firms go international through a gradual, incremental process? Is this 'stage of internationalisation model' valid for smaller as well as bigger firms? Can multinational companies, having earlier experience, leapfrog these stages or should they go step by step, first to closer markets and then to far-away markets? And how can companies analyse the suitability of a market for their product? These are some of the questions that interest all companies that are active or are planning to be active in cross-border markets.[1]

ESTABLISHMENT CHAIN MODEL stepwise internationalisation to foreign markets

PSYCHIC DISTANCE when a market is considered distant due to psychological barriers

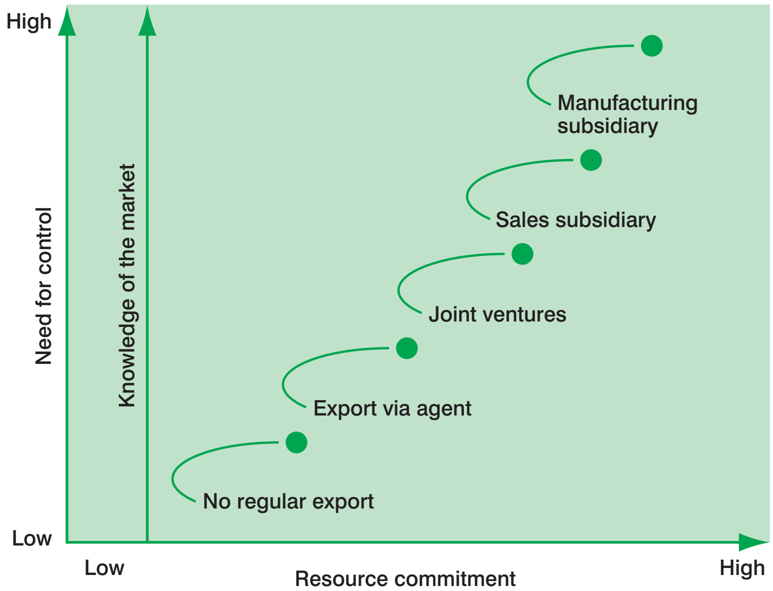
A number of studies have already addressed these questions. The **establishment chain model**, one of the earlier studies, presented gradual internationalisation, from no regular export to manufacturing subsidiaries. It states that companies gradually develop their operations abroad.[2] The firm first grows in the domestic market and then expands into close-by foreign markets. The obstacles to internationalisation include a lack of knowledge of foreign markets and resources. The **psychic distance**, that some markets are perceived far away and difficult due to different culture and environments, is considered another obstacle. Psychic distance is sometimes correlated with geographic distance but not always. For example, Britain and Australia are geographically far away but have very little psychic distance. France and Britain are, however, in an opposite situation. This psychic distance is not constant and changes due to communication and experience. The establishment chain model suggests five different stages of going abroad:

1. no regular export
2. export via representatives (e.g. agent)
3. joint ventures
4. sales subsidiary
5. production/manufacturing subsidiary.

This means the more experience a firm gets in a market, the more knowledge (of the market) it acquires and the more resources it is willing to commit. In stage 1 the firm has not committed any resources, while resource commitment increases with every stage. Whether a firm will proceed from stage 1 to 5 depends on the psychic distance and the size of the market as well as the need for control. With some industries/products it is crucial for the company to have control of its activities; for example, to ensure consistent positioning or brand image. This is illustrated by Exhibit 11.1.

The other main obstacle to going abroad is the psychic distance that a company can perceive in a particular market when it is thought to be psychologically far away. If this is the case, then the company would not like to commit a large amount of resources in that market. It would prefer to choose a successive involvement and follow an establishment

Exhibit 11.1 The establishment chain model



chain model (see Exhibit 11.1). In such a market it might even like to use a licensee as an entry strategy.

Becoming International

Once a company has decided to go international, it has to decide the way it will enter a foreign market, and the degree of marketing involvement and commitment it is prepared to make. These decisions should reflect considerable study and analysis of market potential and company capabilities, a process not always followed. Many companies appear to grow into international marketing through a series of phased developments. They gradually change strategy and tactics as they become more involved. Others enter international marketing after much research, with long-range plans fully developed.[3]

Phases of International Marketing Involvement

Regardless of the means employed to gain entry into a foreign market, a company may, from a marketing viewpoint, make no market investment – that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific share of the market. In general, a business can be placed in at least one of five distinct but overlapping phases of international marketing involvement, as outlined below.

No Direct Foreign Marketing In this phase, there is no active cultivation of customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies and other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer. An unsolicited order from a foreign buyer is often what piques the interest of a company to seek additional international sales.

Infrequent Foreign Marketing Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterised by their temporary nature; therefore, sales to foreign markets are made as goods are available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn. In this phase, there is little or no change in company organisation or product lines.

Regular Foreign Marketing At this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuing basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus for products currently being produced is to meet domestic market needs. Investments in marketing and management effort and in overseas manufacturing and/or assembly are generally begun in this phase. Further, some products may become more specialised to meet the needs of individual foreign markets, pricing and profit policies tend to become equal with domestic business, and the company begins to be dependent on foreign profits.

International Marketing Companies in this phase are fully committed and involved in international marketing activities. Such companies seek markets throughout the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing but also the production of goods throughout the world. At this point a company becomes an international or multinational marketing firm dependent on foreign revenues.

Global Marketing At the global marketing level, companies treat the world, including their home market, as their market. This is one step further than the multinational or international company that views the world as a series of country markets (including their home market) with unique sets of market characteristics for which products and marketing strategies must be developed. A global company develops an overall strategy and image to reflect the existing commonalities of market needs among many countries to maximise returns through some global standardisation of its business activities – as for as it is culturally possible to achieve such efficiencies.

Changes in International Orientation

Experience shows that a significant change in the international orientation of a firm occurs when that company relies on foreign markets to absorb permanent production surpluses and comes to depend on foreign profits. Businesses usually move through the phases of international marketing involvement one at a time, but it is not unusual for a company to skip one or more phases. As a firm moves from one phase to another, the complexity and sophistication of international marketing activity tends to increase and the degree of internationalisation to which management is philosophically committed tends to change. Such commitment affects the specific international strategies and decisions of the firm.

International operations of businesses reflect the changing competitiveness brought about by the globalisation of markets, interdependence of the world's economies, and the growing number of competing firms from developed and developing countries vying for the world's markets. *Global companies* and *global marketing* are terms frequently used to describe the scope of operations and marketing management orientation of these companies. Global markets are evolving for some products but do not yet exist for most products. In many countries there are still consumers for many products, reflecting the differences in needs and wants, and there are different ways of satisfying these needs and wants based on cultural influences.

Market Entry Objectives

Company resources and psychic distance are not the only reasons why a company enters a particular market. A particular market can attract foreign companies and a particular mode of entry. In other words, how a particular market will be served, by domestic or foreign firms or a certain combination of the two, depends on company objectives and market characteristics.

Normally companies have three main objectives when entering a foreign market:[4]

1. market seeking
2. efficiency seeing
3. resource seeking.

A **market-seeking** strategy means that the company is looking for a considerable market for its products/offers. This can be due to a saturated market at home, or because the company believes that it has a strong product/brand that can penetrate into new markets. The firm thus wants to enter large or rapidly growing markets – for example, China and India.

Efficiency-seeking means that firms want to enter countries/markets where they can achieve efficiency in different ways, e.g. R&D and other infrastructural effects. Efficiencies can also be achieved due to the fact that a certain industry has gathered at a place, creating a beneficial infrastructure, such as Silicon Valley. Philips and other consumer electronic product companies invested in Singapore and Malaysia, for example.

Resource-seeking firms try to enter into countries to get access to raw materials or other crucial inputs that can provide cost reduction and lower operation costs; for example, investment by most oil companies in the Middle East or textiles and garment companies in India and Pakistan.

MARKET SEEKING
companies that venture into new countries/become international because they are looking for new markets, actively seeking customers worldwide

EFFICIENCY SEEKING
firms want to enter countries/markets where they can achieve efficiency in different ways

RESOURCE SEEKING
firms try to enter countries to get access to raw materials or other crucial inputs for cost reduction/lower operation costs

In some markets companies may achieve more than one of these strategies. They will, however, influence the location decisions of companies. Moreover, depending on the knowledge and the need for control, the companies will like to increase resource commitment and would or would not want to own their operations in a particular foreign market. Here, benefits/incentives provided by host governments also play a major role. Several governments provide tax benefits; for example, foreign companies are exempt from any tax for the first few years, free land or other benefits.

A number of studies have looked into the location decision-making process of firms. Most conclude that the selection for a market entry, particularly foreign direct investment, depends on factors such as the availability of infrastructure, language and supportive attitude of the home market (see the example in Exhibit 11.2).[5]

Depending upon the main objective of the company to enter a particular market, different factors become more or less important. For market entry, the marketer needs to carry out a competition analysis to establish whether it will be possible to achieve desired market share or not. For resource-seeking firms we have to look at suppliers of those resources and their existing relationships and network, and whether it will be possible for the company to penetrate into these networks or not. For efficiency-seeking firms the marketer has to look at efficiencies that can be achieved and sustained for a long period.

While making entry decisions, a company also has to see whether it is the first foreign company in the particular product group or not. To be the first in the market entails first-mover advantages: if the product is accepted by the market, it can gain a major share of the market. This was the case for Pepsi Cola, which entered Russia and India as the first mover. Coca-Cola entered these markets after few years and had to struggle harder to gain respectable market share. Moreover, the first mover gains valuable experience/knowledge of the market, enabling it to lessen uncertainties and gain cost advantage. However, the first mover can also face certain disadvantages, such as convincing and educating the market that the new product is useful. The first mover thus takes the initial costs and if the market reacts positively, other companies can come in and reap the benefits. For example, Royal Crown was the pioneer company to market diet colas, which were mainly sold to diabetics. When Coca-Cola and Pepsi Cola realised the market opportunity,

Exhibit 11.2 Important factors in country selection for Japanese entry into Europe

Aspect	UK	Germany	France	Netherlands
Labour availability	8	7	7	7
Wage level	9	6	8	6
Labour unions	8	8	8	8
Supporting industries	9	8	6	7
Support of Development Agency	10	7	4	7
Investment incentives	6	9	8	8
Language	10	7	4	8
Feelings against Japanese	8	7	3	7
Presence of other Japanese manufacturers	8	7	4	4
Total score	**76**	**66**	**52**	**62**

Sources: N. Hood and T. Truijens, 'European Location Decisions of Japanese Manufacturers,' *International Business Review*, 1993, 2(1), pp. 39–63; P.N. Ghauri, U. Elg and R.R. Sinkovics, 'Foreign Direct Investment – Location Attractiveness for Retailing Firms in the European Union,' in L. Oxelheim and P. Ghauri (eds), *European Union and the Race for Foreign Direct Investment in Europe* (Oxford: Elsevier, 2004), pp. 407–28.

they came with big advertising budgets and pushed Royal Crown out of the market. It took only one year for Coca-Cola to become the market leader.

First-mover advantage is also important when a market first opens for foreign companies. When the Soviet Union broke up and China opened its market, a number of companies wanted to be first to enter these countries in order to gain market recognition and share. Many companies, such as Philips and IKEA, entered these markets knowing that they would not make any profits in the first few years.

GOING INTERNATIONAL 11.1

Lotte ambition: a South Korean retailer plans a bold move into China

South Korean department stores provide some of the best service in the world. With a smile and a bow, sales assistants scurry after customers, attending to their whims while calming their tearful children. Lotte, South Korea's biggest department-store chain, thinks its experience at home makes it ideally suited to serving the new rich in other fast-developing economies. In July it plans to open a huge department store in China, in the Wangfujing shopping district in Beijing. It has set an annual sales target for the store of $150 million. The wealthiest customers will be granted special parking spots and will be guided around the store by personal attendants. (Appealing to the very rich works well for Lotte at home: its richest 1 per cent of customers accounted for 17 per cent of its $5.8 billion in sales last year.)

It has asked consultants to analyse the Chinese market and help it choose a combination of foreign and local brands to appeal to Chinese shoppers. Lotte plans to sell South Korean cosmetics and clothes, banking on the appeal of Korean pop culture, which is popular throughout Asia. Lotte's Beijing staff have been sent to Seoul to learn about its procedures, marketing and service.

But Lotte's experience in Russia, where it opened its first foreign store last September, suggests that expanding abroad may prove harder than it thinks. It has had to spend a lot on advertising, has found it difficult to attract experienced staff for its Moscow store, and has cut its annual sales target from $140 million to $120 million. It hopes China will not prove such a tough nut to crack, since the cultural differences with South Korea will be less pronounced.

- Do you think Lotte will be more successful in China than in Russia? Why/ why not?

Source: The Economist, 16 June 2008.

Market Opportunity Assessment

The main purpose of market opportunity assessment is to answer questions such as: should we enter a particular country or not? Is there a potential in that market for the particular industry and for a new competitor? Is there market/sale potential for the particular product?

The first question helps the company to screen the market in relation to the company's objectives overall strategy, and the economic, cultural and legal environment of the country. The second question helps the company to assess whether the market is economically attractive or not. If it is a market where there is already fierce competition and overcapacity, it will be difficult to gain any market share from the existing competitors. The third question helps the company to make an advanced in-depth analysis of market opportunity for its particular product.[6]

Moreover, if the objective of the company is to seek efficiency when going into a particular market, it needs to do a different type of analysis. What type of efficiencies is it looking for, R&D or agglomeration? Most top companies in a particular sector gravitate to a certain market/area and create an efficient infrastructure for that particular industry, such as Silicon Valley in the US and Bangalore in India for software, and Singapore/ Malaysia for consumer electronics. If a company is moving to a market to achieve cost advantages, the analysis has to deal with the cost factors that are important for the particular product, such as cheap labour, cheap raw material, taxation rules, and so on.[7]

Market opportunity assessment and country selection for an entry also depend upon the proactive versus reactive approaches of the company. In a **proactive market selection**, a company is involved in a systematic approach. The marketer in this case proactively makes visits and does marketing research to assess the potential of a market. A number of companies with marketing research departments continuously collect information on different markets to detect a potential market at an early stage.

PROACTIVE MARKET SELECTION actively and systematically selecting a market

In a **reactive market selection**, the company is not actively collecting information or analysing any market to assess its potential. Companies following this approach, often wait for an unsolicited order, or an initiative taken by importers from a potential market. Often these companies wait for other companies (their competitors) to enter the market first. Such companies believe that the first movers will have to pave the way and handle initial problems, and then they can enter the market. This approach, however, is not always a wise choice as it is very difficult to snatch market share from existing foreign and domestic companies. Moreover, a company has to do its own assessment according to its objective, product and positioning.

REACTIVE MARKET SELECTION selecting a market at random or without a systematic analysis

Market/Country Selection

BOSTON CONSULTING GROUP (BCG) an international strategy and general management consulting firm, it uses specific models to tackle management problems

COMPETITIVE STRENGTH strength of a product/company as compared to competitors

There are several methods to analyse a country for investment decisions. The **Boston Consulting Group (BCG)** provides one such method. Basically, it is used to decide on the best mix of businesses or products in order to maximise the long-term profit and growth of the firm. It helps managers to analyse each and every business or product of the company and thus supports the designing of each business/product strategy. The main benefit is that it relates company products to the competition instead of analysing each product in isolation.

In international marketing, this model is used successfully to analyse each market/country (instead of business or product), which is then put into the context of competition and the company's own capabilities. It analyses two determining factors:

1. country attractiveness
2. competitive strength of the company.

Here the BCG portfolio analysis has been modified to include the above two factors: instead of products and relative market shares, we use country attractiveness and company strength to achieve market share in the new market. In spite of the limitations of using standardised models for different problems, this analysis can provide useful information when selecting a country/market in a marketing entry context.[8]

The factors that would influence the attractiveness of the country might include the market size, the market growth, competitive conditions and uncontrollable elements (e.g. the cultural, legal and political environments) (see Exhibit 11.3).

Assessing **competitive strength** means looking at whether the company has the resources and potential to achieve its goals in the particular market or not. For instance, is it possible to gain some market share? Do we have the marketing ability and resources? Is there a fit between the product and its positioning, and the market? There has to be some weighting of these factors to find the match between the market and the company. Exhibit 11.4 presents a nine-cell matrix depicting relative market investment opportunities for different types of match.[9]

The matrix reveals that, depending on the careful use of this analysis, a company may have several choices when making an entry decision.

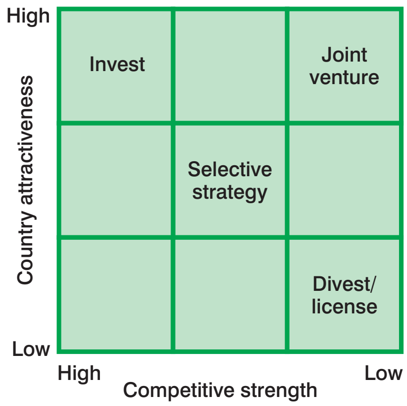
Invest: This represents a country that is very attractive due to the size of the market and the growth. Moreover, this is a market where the company can attain the competitive strength to achieve its objectives. The analysis thus suggests that this country is suitable for entry and major investment.

Divest/license: This represents a market where the company should not invest. Moreover, if the company is already there, it should divest and get out. This is a market where the company will have problems or need to make heavy investments to gain some market

Exhibit 11.3 Dimensions of country attractiveness and competitive strength

Country attractiveness	Competitive strength of the company
• Market size (total and segments)	• Market share
• Market growth (total and segments)	• Marketing ability and capacity
• Competitive conditions	• Product and positioning fit
• Market uncontrollables (cultural, legal and political environments)	• Quality of distribution services

Exhibit 11.4 Market portfolio analysis: country attractiveness/competitive strength



share. It is therefore suggested that if the company wants to enter this market, it is better to do it through 'licensing', the mode of entry that is least demanding of resources.

Joint venture: This refers to a market that is quite attractive but difficult. It demands huge investments/resources to gain considerable/acceptable market share. It is therefore suggested that if you cannot dominate the market (have major market share), then it is better not to enter or to enter through a joint venture, i.e. share the costs and local difficulties with a local partner.

Selective strategy: This is a category of markets where there is fierce competition and it is therefore difficult to maintain a stable market share. However, if the company has other strengths, such as product/positioning fit with the market or a powerful brand, it can decide to invest. As is clear from Exhibit 11.4, the market is moderately attractive.

It is clear that the use of BCG portfolio analysis, as applied above for entry strategies, is useful as it provides some useful insights into company/country match and compatibility. Together with other models/methods given in this chapter, this can be a useful tool in international-entry-strategy decision making. Although each company might give different ratings or weights to each of the factors in country attractiveness and competitive strength, it can provide useful analysis for each entry decision. Its major strength is that a company can compare different markets, thus revealing which one is most suitable, and it helps the company to look at its capabilities in the context of international competition in each market.

Strategic International Alliances

Strategic international alliances (SIAs) are sought as a way to shore up weaknesses and increase competitive strengths. Opportunities for rapid expansion into new markets, access to new technology, more efficient production and marketing costs, and additional sources of capital are all motives for engaging in strategic international alliances.

An 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. A strategic international alliance implies (1) that there is a common objective, (2) that one partner's weakness is offset by the other's strength, (3) that reaching the objective alone would be too costly, take too much time or be too risky and (4) that together their respective strengths make possible what otherwise would be unattainable. In short, an SIA is a synergistic relationship established to achieve a common goal where both parties benefit.

Opportunities abound the world over but, to benefit, firms must be current in new technology, have the ability to keep abreast of technological change, have distribution systems to capitalise on global demand, have cost-effective manufacturing and have capital to build new systems as necessary. Other reasons to enter into strategic alliances are to:[8]

1 acquire needed current market bases
2 acquire needed technological bases
3 utilise excess manufacturing capacity
4 reduce new market risk and entry costs
5 accelerate product introductions demanded by rapid technological changes and shorter product life cycles
6 achieve economies of scale in production, research and development or marketing
7 overcome cultural and trade barriers
8 extend the existing scope of operations.

The scope of what a company needs to do and what it can do is at a point where even the largest firms engage in alliances to maintain their competitiveness. Exhibit 11.5 shows the different alliances in the airline industry and in the European television broadcast market.

STRATEGIC ALLIANCE when two companies cooperate for a certain purpose

A company enters a **strategic alliance** to acquire the skills necessary to achieve its objectives more effectively, and at a lower cost or with less risk than if it acted alone.[9] For example, a company strong in research and development skills and weak in the ability or capital to successfully market a product will seek an alliance to offset its weakness – one partner to provide marketing skills and capital and the other to provide technology and a product. The majority of alliances today are designed to exploit markets and/or technology.[9]

Of course, not all SIAs are successful; some fail and others are dissolved after reaching their goals. Failures can be attributed to a variety of reasons, but all revolve around lack of perceived benefits to one or more of the partners. Benefits may never have been realised in some cases, and different goals and management styles have caused dissatisfaction in other alliances. Such was the case with an alliance between Rubbermaid and the Dutch chemical company DSM; the two differed on management and strategic issues.

Exhibit 11.5 The biggest airline alliances

Alliance	Aircraft Fleet	Turnover (€ billion) ($)	GDP Passenger (million)	Kilometre* (million)	Close relationships with:
Oneworld American Airlines British Airways Cathay Pacific (Hong Kong) Qantas (Australia) Canadian Airlines Finnair Iberia Japan Airlines Lan Malev Royal Jordanian	2226	64 (71)	159.4	390	Aerolineas (Arg.); Avianca (Col.); Taca, Tam (Brazil); US Airways

Exhibit 11.5 (The biggest airline alliances, continued)

Alliance	Aircraft Fleet	Turnover (€ billion) ($)	GDP Passenger (million)	Kilometre* (million)	Close relationships with:
Star Alliance USAirways (US) Lufthansa (Germany) SAS (Sweden) Air Canada Austrian Air China Asiana Airlines All Nippon Airways Air New Zealand BMI Egypt Air LOT Polish Airlines Shanghai Airlines South African Airways Spanair Swiss Singapore Airlines TAP Portugal Thai Airways Turkish Airlines Varig (Brazil)	3325	58.7 (65)	188.5	335	Air New Zealand; Ansett (Australia)
Sky Team Northwest KLM Air France Alitalia Aeroflot China Southern Continental Korean Air Delta CSA – Czech Airlines Aero Mexico	2496	31 (34.4)	134.0	253	Kenya Airways (35 per cent); Japan Air System, Nippon Cargo Japan); Malaysian Airline System (*16 mn passengers*); America West; Aces (Col.); Eurowings (Ger.); (Southern China Airlines); AirEurope; Copa Airlines

*A 'passenger/kilometre' is 1 kilometre flown with one passenger. The figures give the total amount of passenger/kilometres flown by the alliance.

Sources: based on 'Vier Allianties Beheersen Helft van Luchtvaart', *De Volkskrant*, 22 September, p. 16; and 'Clubable Class Books Slots for Take-off', *The European*, 28 September–4 October 1998, pp. 18–19. www.skyteam.com; www.oneworld.com, www.staralliance.com, 2009.

Rubbermaid wanted to invest in new products and expansion to combat sluggish demand as the result of a European recession, while DSM baulked at any new investments.[10] In other cases, an alliance may have outlived its usefulness even though it had been successful.[11]

GOING INTERNATIONAL 11.2

Entering the luxury car market: from Toyota Crown to Lexus

1958 Toyota launches its first luxury sedan, named Crown in the US. But it was a flop and was soon withdrawn.

1983 In a secret board meeting Toyota decided to create a top luxury car, code name 'F1'.

1985 Toyota sends a number of its designers to California to understand American luxury car customers and to develop the car.

1988 Lexus brand and logo made public, which was challenged for trademark infringement by computer company Lexis.

1989 First Lexus sedan introduced, priced at $10 000 – below

1990 Lexus select 121 special dealers for the car. J.D. Power ranks Lexus number one in quality survey.

1991 Lexus sells 71 206 cars, becoming America's top-selling luxury imported car.

1995 US Government threatens to impose 100 per cent duty on Japanese import brand. Customers complain of uninspiring models. Mercedes takes over as number one luxury import.

1996 Lexus launches LX450 SUV and passes Range Rover in sales within two months of introduction.

1998 RX300 launched and became a big success, boosting total sales by 60 per cent.

2001 Lexus ranked number one by J.D. Power on customer satisfaction for the 10th time in 11 years.

2002 Lexus slides to number three in J.D. Power ranking, overtaken by Nissan's Infinity and Honda's Saturn. BMW close to becoming number one luxury import.

2003 Toyota starts selling Lexus brand in Japan.

The above chronology presents the planned market entry by Toyota into the US luxury car market segment. Now Toyota is about to announce yet another super-luxury car. At present it is nicknamed 'Mount Everest' and would have a V10 engine (derived from its V12 Formula One race car) and, with a price tag of €150 000 ($183 510), it will compete with the Aston Martin DB7 (€141 800/$173 478) and the Mercedes-Benz SL55 (€113 250/$138 550).

Toyota is, however, facing a big problem; with the price as high as Mount Everest, it is planning to introduce the car as a Lexus model. The average buyer of Lexus is, however, 52 years old (which is four years older than an average Mercedes-Benz buyer and nine years older than a BMW buyer).

Existing Lexus models go for between €30 000/$36 702 (IS300) and €60 000/$73 404 (SC430). It is wondered whether the sporty 'Mount Everest' Lexus would attract the wealthy younger buyer. Normal impressions in the US are that 'Grandpa drives a Lexus' and 'It look likes a grown-up's car'.

One idea at Toyota is to introduce it as 1960s popular sport model Toyota 2000GT. Others say, 'We are creating something beyond the ordinary, not another Toyota!'

- Can you help Toyota in deciding which is the most suitable market (segment) to enter with this new model? How should it be named and positioned? Consult the Toyota/Lexus website and analyse its strategies.

Source: Business Week, Special Report, 'Lexus's Big Test: Can it Keep its Cachet?', 24 March 2004, pp. 48–51.

Market Entry Strategies

When a company makes the commitment to go international, it must choose an entry strategy. This decision should reflect an analysis of market potential, company capabilities, and the degree of marketing involvement and commitment management is prepared to make. A company's approach to foreign marketing can require minimal investment and be limited to infrequent exporting with little thought given to market development. Or a company can make large investments of capital and management effort to capture and maintain a permanent, specific share of world markets. Both approaches can be profitable.

There is a variety of foreign market entry strategies from which to choose. Each has particular advantages and shortcomings, depending on company strengths and weaknesses, the degree of commitment the company is willing or able to make and market characteristics, as depicted by Exhibit 11.6.

Exporting

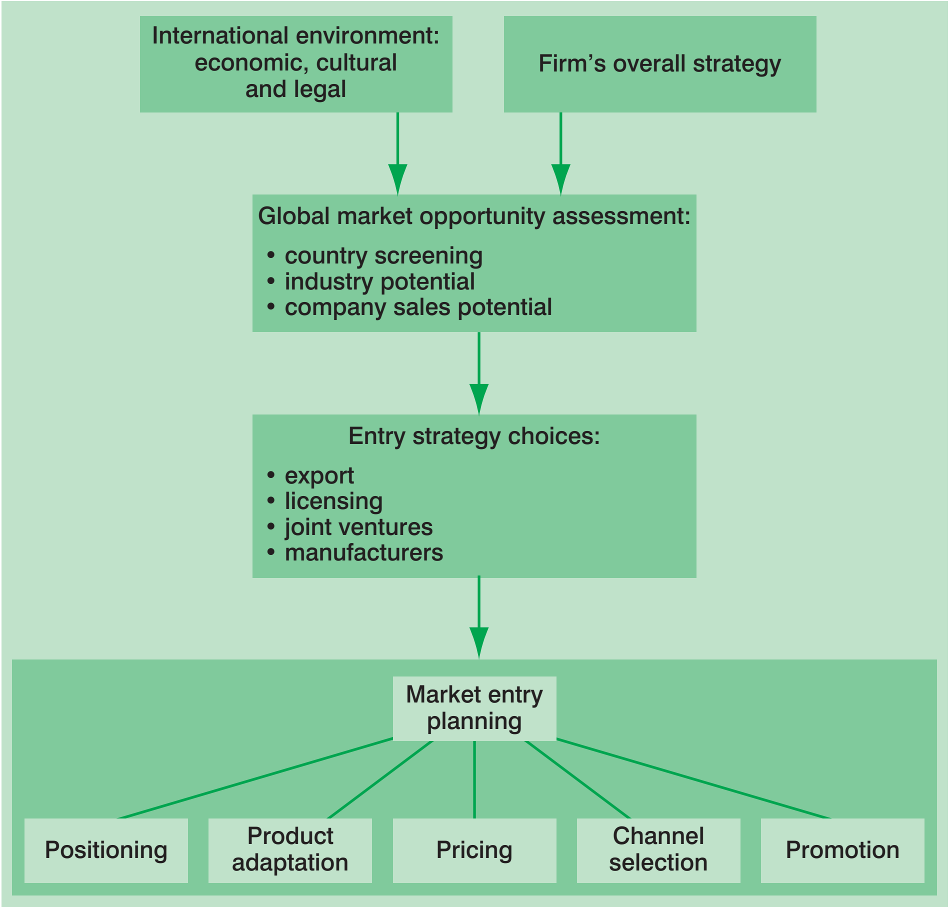
A company might decide to enter the international arena by exporting from the home country. This means of foreign market development is the easiest and most common approach employed by companies taking their first international step because the risks of financial loss can be minimised. Exporting is a common approach for the mature international company as well. Several companies engage in exporting as their major market entry method. Generally, early motives are to skim the cream from the market or gain business to absorb overheads. Even though such motives might appear opportunistic, exporting is a sound and permanent form of operating in international marketing. The mechanics of exporting and the different middlemen available to facilitate the exporting process are discussed in detail in the next chapters.

Piggybacking **Piggybacking** occurs when a company (supplier) sells its product abroad using another company's (carrier) distribution facilities. This is quite common in industrial products, but all types of product are sold using this method. Normally, piggybacking is used when the companies involved have complementary but non-competitive products.

There has to be some benefit for the exporting (carrier) company. Some companies, such as General Electric or big retailers such as Wal-Mart or Tesco, use this as a way of broadening the product lines that they can offer to their foreign customers. These companies believe that offering a broader range of products will help them in boosting the sales of their own products. Some companies use this to share transportation costs and some

PIGGYBACKING
when a company sells its products abroad using another company's distribution facilities

Exhibit 11.6 Factors influencing market entry



companies do it purely for the profits, as they can make profit on other companies' (suppliers) products. This is done either through adding on their margins or by getting commission from the suppliers. Some governments or regional development agencies also encourage their companies to use this method to support weaker or smaller companies. This can also be used as a first step towards a company's own international activities to test the market. This is particularly advantageous for smaller firms, as they often lack the necessary resources. Once they realise the market potential, they can start their own exporting.

LICENSING a means of establishing a foothold in foreign markets without large capital outlays

PATENT RIGHTS only the owner of these rights is authorised/can use the particular product technology

Licensing

A means of establishing a foothold in foreign markets without large capital outlays is **licensing**. **Patent rights**, trademark rights and the rights to use technological processes are granted in foreign licensing. It is a favourite strategy for small and medium-sized companies although by no means limited to such companies. Not many confine their foreign operations to licensing alone; it is generally viewed as a supplement to exporting or manufacturing, rather than the only means of entry into foreign markets. The advantages of licensing are most apparent when capital is scarce, when import restrictions forbid other means of entry, when a country is sensitive to foreign ownership, or when it is necessary to protect patents and trademarks against cancellation for non-use. Although this may be the least profitable way of entering a market, the risks and headaches are less than for direct investments; it is a legitimate means of capitalising on intellectual property in a foreign market.

Licensing takes several forms. Licences may be granted for production processes, for the use of a trade name or for the distribution of imported products. Licences may be closely controlled or be autonomous, and they permit expansion without great capital or personnel commitment if licensees have the requisite capabilities. Not all licensing experiences are successful because of the burden of finding, supervising and inspiring licensees.[12]

GOING INTERNATIONAL 11.3

Vuitton is bagging new markets

© P. Ghauri

Flip through *Vogue*, *Vanity Fair* or *Elle* and you'll find pages and pages of half-naked models, legs splayed, dangling handbags from Vuitton and rivals Gucci, Prada and Hermès. In the glam department Vuitton is great but not alone. You have to peek behind the glittery façade to see what makes Vuitton unique – what makes it, in fact, the most profitable luxury brand on the planet. There's the relentless focus on quality. (That robot makes sure Vuitton rarely has to make good on its lifetime repair guarantee.) There's the rigidly controlled distribution network. (No Vuitton bag is ever marked down, ever.) Above all, there's the efficiency of a finely tuned machine, fuelled by ever-increasing productivity in design and manufacturing – and, as Vuitton grows ever bigger, the ability to step up advertising and global expansion without denting the bottom line.

The Vuitton machine is running mighty smoothly right now. With $3.8 billion in annual sales, it's about twice the size of runners-up Prada and Gucci Group's Gucci division. Vuitton has maintained double-digit sales growth and the industry's fattest operating margins as rivals have staggered through a global downturn the past two years. That power was underscored anew, when parent LVMH Moët Hennessy Louis Vuitton reported a 30 per cent earnings increase for 2003, fuelled by a record high 45 per cent operating margin at Vuitton. The average margin in the luxury accessories business is 25 per cent.

Does Vuitton – which started as a maker of steamer trunks during the reign of Napoleon III – have its best days ahead of it? It still needs to wean itself from Japanese customers, who account for an estimated 55 per cent of sales. Vuitton must build sales in the US while tapping into rising affluence in China and India. It also needs to fight increasingly sophisticated global counterfeiting rings. Most of all, because Vuitton markets itself as an arbiter of style, it needs to keep convincing customers that they're members of an exclusive club. Vuitton has some serious strengths. One is the loyalty of its clients, shoppers who think one Vuitton bag in the closet just looks too lonely.

Another threat would be the departure of key personnel. For Vuitton, the biggest challenge may be to keep this powerful machine under control. The company opened 18 stores last year, about twice the rate of store openings a decade ago. Arnault promises that Vuitton will never lose its discipline or its focus on quality. 'That's what differentiates Louis Vuitton,' he says. The message seems to be getting across. Just ask Ariella Cohen, a 24-year-old Manhattan legal assistant who already owns a Vuitton messenger bag and several Vuitton accessories, and now covets high-heeled Vuitton sandals – even though she'll have to put her name on a waiting list. 'Louis Vuitton never goes out of style,' she says as she leaves its Fifth Avenue store.

- Would the Louis Vuitton machine ever run out of steam?

Source: Business Week, 'Money Machine,' 22 March 2004.

Franchising

Franchising is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems and management services, and the franchisee provides market knowledge, capital and personal involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with a reasonable degree of control. The franchiser can follow through on marketing of the products to the point of final sale. It is an important form of vertical market integration. Potentially, the franchise system provides an effective blending of skill centralisation and operational decentralisation, and has become an increasingly important form of international marketing. In some cases, franchising is having a profound effect on traditional businesses. In England, for example, it is estimated that annual franchised sales of fast foods is nearly €1.8 billion ($2 billion), which accounts for 30 per cent of all foods eaten outside the home.

By the 1990s more than 30 000 franchises of US firms were located in countries throughout the world. Franchises include soft drinks, motels, retailing, fast foods, car rentals, automotive services, recreational services and a variety of business services from print shops to sign shops. Franchising is the fastest-growing market entry strategy. It is often among the first types of foreign retail business to open in the emerging market economies of Eastern Europe, the former republics of Russia and China. McDonald's is in Moscow (its first store seats 700 inside and has 27 cash registers), and Kentucky Fried Chicken is in China (the Beijing KFC store has the highest sales volume of any KFC store in the world).

There are three types of franchise agreement used by franchising firms – master franchise, joint venture and licensing – any one of which can have a country's government as one partner. The master franchise is the most inclusive agreement and the method used in more than half of the international franchises. The master franchise gives the franchisee the rights to a specific area (many are for an entire country) with the authority to sell or establish subfranchises. The McDonald's franchise in Moscow is a master agreement owned by a Canadian firm and its partner, the Moscow City Council Department of Food Services.

Joint Ventures

Joint ventures (JVs), one of the more important types of collaborative relationship, have accelerated sharply during the past 20 years. Besides serving as a means of lessening political and economic risks by the amount of the partner's contribution to the venture, joint ventures provide a less risky way to enter markets that pose legal and cultural barriers than would be the case in the acquisition of an existing company.

Local partners can often lead the way through legal mazes and provide the outsider with help in understanding cultural nuances. A joint venture can be attractive to an international marketer:

1. when it enables a company to utilise the specialised skills of a local partner
2. when it allows the marketer to gain access to a partner's local distribution system

3 when a company seeks to enter a market where wholly owned activities are prohibited
4 when it provides access to markets protected by tariffs or quotas, and
5 when the firm lacks the capital or personnel capabilities to expand its international activities.

In China, a country considered to be among the riskiest in Asia, there have been 49 400 joint ventures established in the first 15 years since they began allowing JVs. Among the many reasons JVs are so popular is that they offer a way of getting around high Chinese tariffs, allowing a company to gain a competitive price advantage over imports. By manufacturing locally with a Chinese partner rather than importing, China's high tariffs (the tariff on motor vehicles is 200 per cent, 150 per cent on cosmetics and the average on miscellaneous products is 75 per cent) are bypassed and additional savings are achieved by using low-cost Chinese labour.[13]

A joint venture is differentiated from other types of strategic alliance or collaborative relationship 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 should also be differentiated from minority holdings by an MNC in a local firm. 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 organisations or governments, and not between individuals
4 equity positions are held by each of the partners.

Nearly all companies active in world trade participate in at least one joint venture somewhere; many number their joint ventures in the dozens. A recent Conference Board study indicated that more than 50 per cent of *Fortune* 500 companies were engaged in one or more international joint ventures. In Japan alone, Royal Dutch Shell has more than 30 joint ventures; IBM has more than 35.

Consortia

The consortium and syndicate are similar to the joint venture and could be classified as such except for two unique characteristics: (1) they typically involve a large number of participants; (2) they frequently operate in a country or market in which none of the participants is currently active. Consortia are developed for pooling financial and managerial resources and to lessen risks. Often, huge construction projects are built under a consortium arrangement in which major contractors with different specialities form a separate company specifically to negotiate for and produce one job. One firm usually acts as the lead firm or the newly formed corporation may exist quite independently of its originators.

Manufacturing

Another means of foreign market development and entry is manufacturing, also called a wholly owned subsidiary within a foreign country. A company may manufacture locally to capitalise on low-cost labour, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials, and/or as a means of gaining market entry. Seeking lower labour costs offshore is no longer an unusual strategy. A hallmark of global companies today is the establishment of manufacturing operations throughout the

GOING INTERNATIONAL 11.4

Renault enters India with a joint venture

Renault, the French auto-maker, is partnering with Mahindra and Mahindra, the Indian tractor and SUV maker, to launch its 'Logan'. It has developed the Logan especially for emerging markets. The four-door saloon car is already sold in Romania and is a low-cost car suitable for emerging market purchasing power.

Logan will enter India's mid-market and will compete head to head with Tata, Ford and Hyundai. The mid-market segment represents 20 per cent of the total auto market, which reached 1 million cars in 2004.

Renault's partnership with Mahindra and Mahindra will force the latter to dispose of its small stake in the Indian Ford subsidiary. Renault, together with Nissan (now 44 per cent owned by Renault), is focusing on growing auto markets in emerging countries.

Source: K. Merchant, 'Renault/Mahindra to Launch Logan in India', *Financial Times*, 23 November 2004, p. 28.

world. This is a trend that will increase as barriers to free trade are eliminated and companies can locate manufacturing wherever it is most cost effective.

There are three types of manufacturing investment by firms in foreign countries: (1) market seeking; (2) resource seeking; (3) efficiency seeking. Investments in China, for example, are often of the first kind, where companies are attracted by the size of the market. Investment in India, especially by a number of fashion garment producers such as Mexx and Marc O'Polo, are of the second type, while investments in Malaysia and Singapore by electronics manufacturers such as Intel and Motorola are of the third type.

Countertrade

Countertrade deals are now on the increase and represent a significant proportion of world trade. Countertrade ties the export and other foreign sales to an undertaking from the seller to purchase products from the buyer or a third party in the buyer's country. There are several reasons behind the demand for countertrade, such as promotion of local exports, saving scarce foreign exchange, balancing trade flows and/or ensuring guaranteed supplies. The terms and conditions for countertrade are not standardised and may be different from market to market. Other terms used for countertrade include counter-purchase, buyback, compensation and offset, and barter. In the 1960s, Eastern European countries started demanding countertrade to achieve a balance in foreign trade. Nowadays, however, it is common practice in developing as well as in developed markets, and there are a number of companies that specialise in advising on countertrade and a number of trading houses that act as clearing houses for countertrade products.[14]

GOING INTERNATIONAL 11.5

So much for the scare stories on offshoring. New evidence shows that the gains outweigh the losses

Economists at Nottingham University's Globalisation and Economic Policy Centre *delved* into the accounts of over 66 000 firms in order to trace the effects of offshoring. Big companies with overseas affiliates are the most assiduous offshorers. Accordingly, the study paid particular attention to 2850 British multinationals with foreign subsidiaries.

The economists looked at the decade following the mid-1990s, a period in which offshoring increased by 35 per cent in manufacturing and 48 per cent in services. Even after this impressive growth, it still accounted for less than 5 per cent of GDP in 2004. And despite the popular association of offshoring with Indian call centres, only 4.5 per cent; of the service-sector multinationals and 8 per cent; of the manufacturers had subsidiaries in India or China. Most international outsourcing is carried out in other developed economies, especially those within the European Union.

One of the main worries about offshoring is its effect on employment. Some domestic jobs have certainly been discarded as a result: in 2005 offshoring accounted for 3.5 per cent of job losses. But companies have also been able to produce more because offshoring has made them more competitive, and the resulting job gains have more than made up for the losses. The authors reckon the surge in offshoring since the mid-1990s has created 100 000 extra jobs.

Another worry about offshoring, and globalisation more generally, is that it bears down on wages in developed economies. The report finds no such impact in manufacturing but in the services sector offshoring has lowered average wages a bit.

Offshoring does create losers, most obviously those whose jobs disappear when business operations are shunted abroad. But on balance it is good for the economy, making domestic firms more productive and generating jobs at home as well as abroad. Just as trade delivers overall gains to developed economies by allowing them to specialise in activities in which they have a comparative advantage, so does offshoring.

- Do you think outsourcing and offshoring is goof for Western economies?

Source: *The Economist*, 6 June 2008.

Summary

Expanding markets around the world have increased competition for all levels of international marketing. To keep abreast of the competition and maintain a viable position for increasingly competitive markets, a global perspective is necessary. Global competition also requires quality products designed to meet ever-changing customer needs and rapidly advancing technology. Cost containment, customer satisfaction and a greater number of players mean that every opportunity to refine international business practices must be examined in the light of company goals. Collaborative relationships, strategic international alliances, strategic planning and alternative market entry strategies are important avenues to global marketing that must be implemented in the planning of global marketing management.

Q

Questions

1 How will entry into a developed foreign market differ from entry into a relatively untapped market?
2 Explain the popularity of joint ventures.
3 Assume you are marketing director of a company producing refrigerators. Select one country in Asia and one in Latin America and develop screening criteria to evaluate the two markets. On the Basis of these criteria make an analysis and select the country you should enter.
4 What are the factors that influence the attractiveness of a country as a market? How can you do the analysis to select a market to enter?
5 Explain the popularity of strategic alliances – why do companies enter these agreements?

F

Further Reading

F.R. Root, *Entry Strategies for International Markets* (Lexington, MA: Lexington Books, 1994).

H. Agndal, S. Chetty, H. Wilson, 'Social capital dynamics and foreign market entry' *International Business Review*, 2008, 17(6), pp. 663–75.

R. Mudambi and S.M. Mudambi, 'Diversification and Market Entry Choices in the Context of Foreign Direct Investment', *International Business Review*, 2002, 11(1), pp. 35–55.

References

1 This section draws on Peter Buckley and Pervez Ghauri (eds), *The Internationalization of the Firm: A Reader* (London: Thomson Learning, 2004).
2 Jan Johanson and Finn Wiethersheim-Paul, 'The Internationalization of the Firm: Four Swedish Cases', *Journal of Management Studies*, 1975 (October), pp. 305–22.
3 J. Johanson and J.E. Vahlne, 'The Internationalisation Process of the Firm: a model of Knowledge Development and Increasing Foreign Market Commitments', *Journal of International Business Studies*, 1977, 8(1), 23–32.
4 This section draws on Pervez Ghauri and Peter Buckley, 'Globalization and the End of Competition', in V. Havila, M. Forsgren and H. Håkansson (eds), *Critical Perspectives on Internationalisation* (Oxford: Elsevier, 2002), pp. 7–28.
5 Lars Oxelheim and Pervez Ghauri (eds), *European Union and the Race for Foreign Direct Investment in Europe* (Oxford: Elsevier, 2004).
6 G.D. Harrel and R.O. Kiefer, 'Multinational Strategic Portfolios', *MSU Business Topics*, 1981 (winter), pp. 51–5.
7 This section draws on G. Albaum, J. Strandskov and E. Duerr, *International Marketing and Export Management* (London: FT-Prentice Hall, 2002).
8 Pontus Braunerhjelm, Lars Oxelheim, and Per Thulin, 'The relationship between domestic and outward foreign direct investment: The role of industry-specific effects' *International Business Review*, 2005, 14(6), pp. 67–76.
9 U. Elg, P.N. Ghauri and V. Tarnovskaya, 'The Role of Networks and Matching in Market Entry to Emerging Retail Markets', *International Marketing Review*, 2008, 25(6), 674–99.

10 Raju Narisetti, 'Rubbermaid Brings to End Europe Venture', *Wall Street Journal*, 1 June 1994, p. A-4.
11 Roger Kashlak, Rajan Chandran and Anthony Di Benedetto, 'Reciprocity in International Business: A Study of Telecommunications Alliances and Contracts', *Journal of International Business Studies*, 1998, 29(2), pp. 281–304.
12 Preet Aulakh, Tamer Cavusgil and M.B. Sarkar, 'Compensation in International Licensing Agreements', *Journal of International Business Studies*, 1998, 29(2), pp. 409–20.
13 Dana B. Minbaeva, 'HRM practices affecting extrinsic and intrinsic motivation of knowledge receivers and their effect on intra-MNC knowledge transfer', *International Business Review*, 2008, 17(6), pp. 703–13.
14 For further details on this topic see Michael Row, *Countertrade* (London: Euromoney Books, 1989).