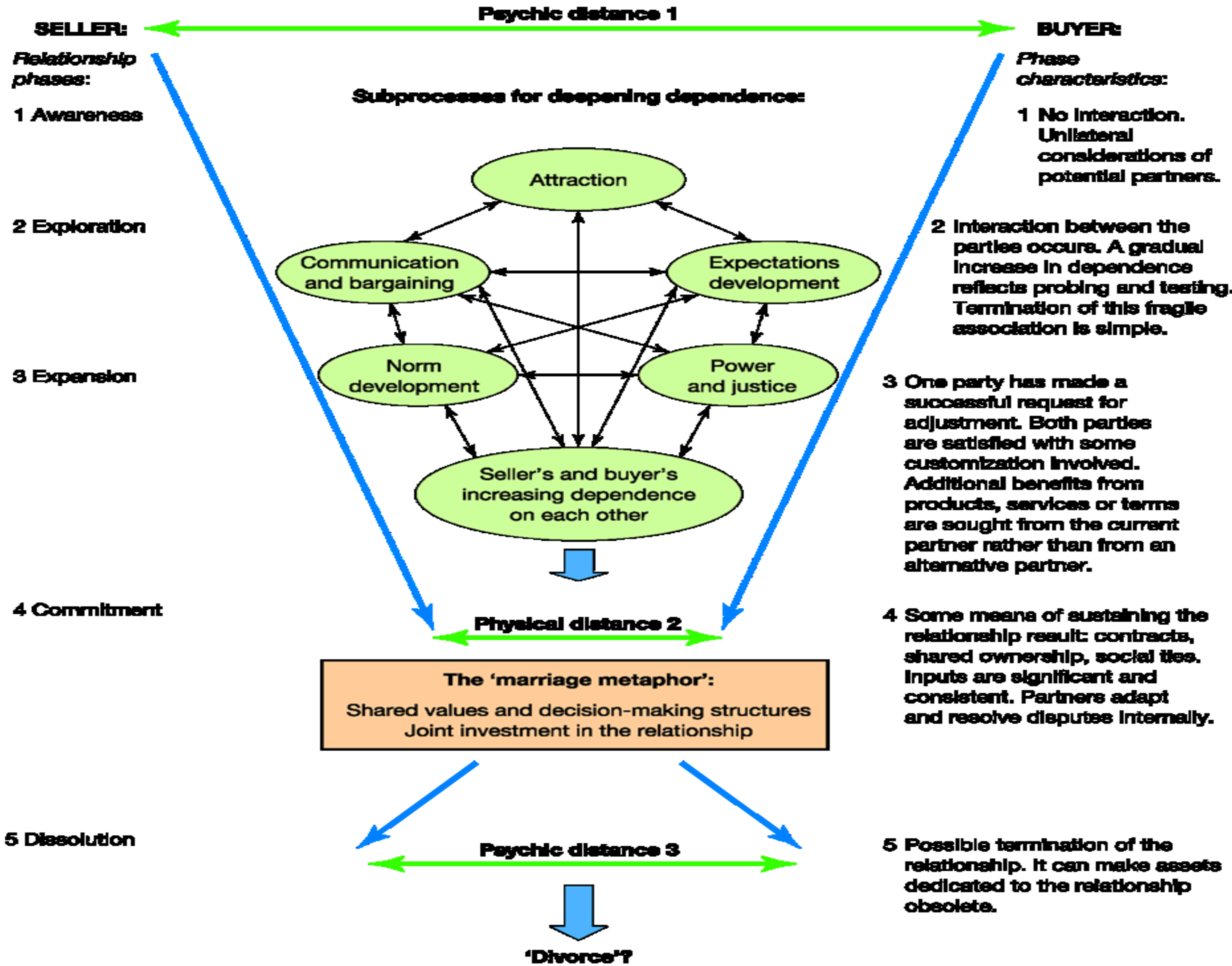
# International entry modes

http://cnettv.cnet.com/tata-nano/9742-1_53-50000141.html

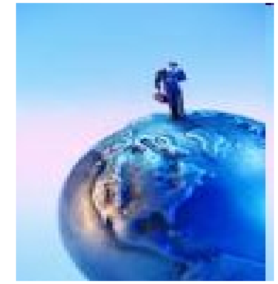
# The five-phase relationship model



# Types of entry modes

- Exporting (indirect and direct)
- Inermediate entry modes
- Hierarchical entry modes

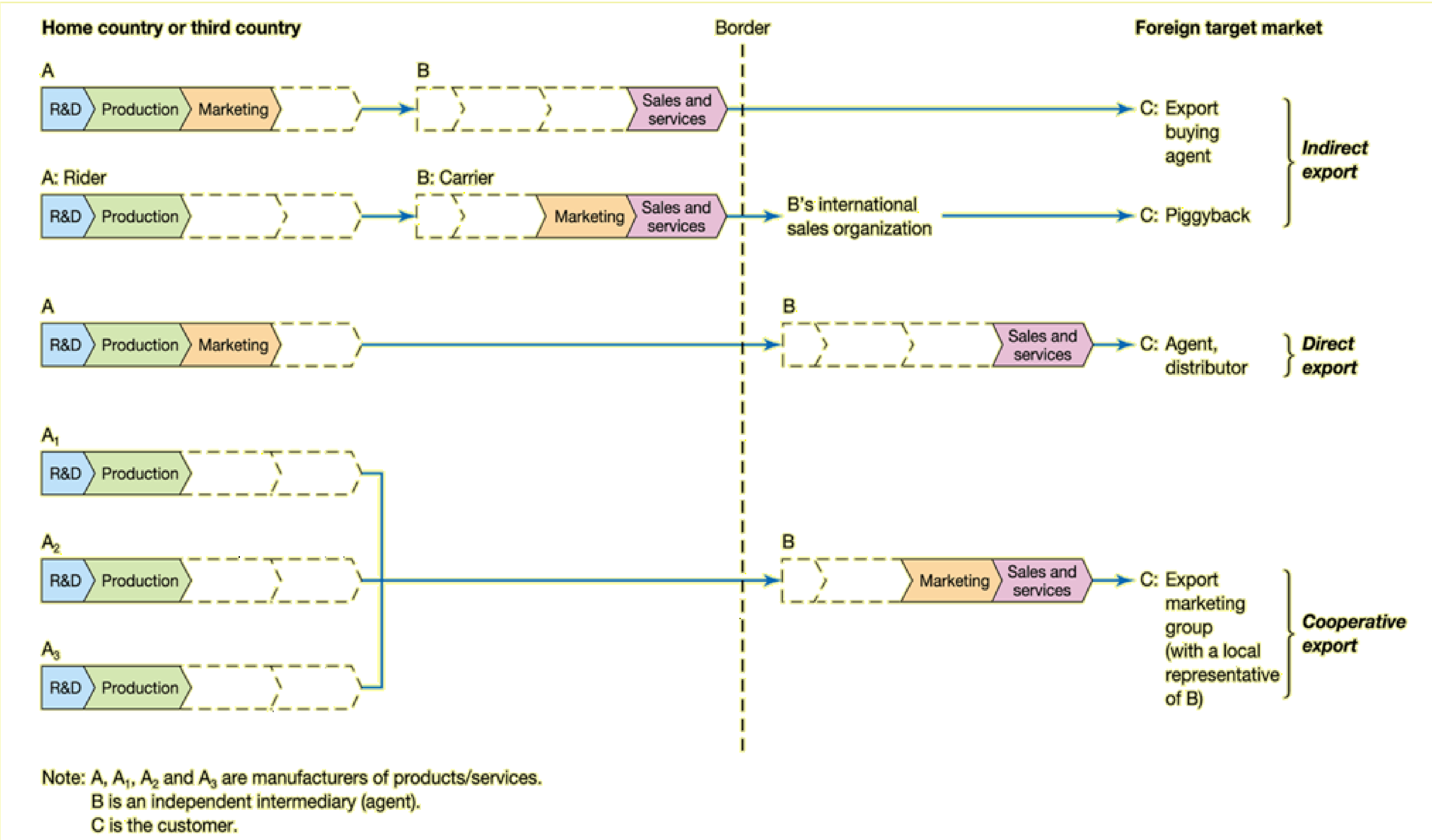
# EXPORTING



- - number and type of intermediaries, functions performed – full-service → high specialization (clearing goods)
  PARTNER MINDSHARE (= the measurement of the strength of a relationship between manufacturer and export-partner in terms of trust, commitment, and cooperation …

  - drivers: (1) commitment and trust; (2) collaboration; (3) mutuality of interest and common purpose + product, brand and profit
- 3 major types:
  a) indirect export – through usually another domestic company – export house, trading company that performs exporting activities
  b) direct export – company performs exporting activities (majority of or all) itself
  c) cooperative export – collaborative agreements with other organizations – some exp. activities

# Export modes



# Indirect export modes

- Limited international expansion objectives
- Minimal resources
- Gradual market entry
- Test of market

- Little or no control over the way the product is marketed
- No contact
- Little or no information

1. Export buying agent (export commission house) – the overseas customer's hired purchasing agent operating on basis of orders received from the customer/buyer – scan domestic market
2. Broker – to bring a buyer and seller together; performs a contractual function; does not actually handle the products sold or bought; the broker is paid a commission (cca 5%); commodity specialist
3. Export management company (export house) – „export department“ for a range of companies; conduct business in the name of each manufacturer it represents; knowledge of the market!!!; specialization by geographical area, product or customer type; paid a commission;

   - competitive products, interest in high profitable products, lower specialization…
4. Trading company – colonial times, Africa and East Asia, in Japan over 50% of whole export; barter – or counter trade, financing
5. Piggyback – non-competitive but related and complementary products; SME with a larger eporting company – full utilization of export facilities of a larger company

# Direct export modes

Manufacturer sells directly to the importer located in the foreign market

DISTRIBUTOR

- independent company that stocks the manufacturer's product
- It has freedom to choose own customer and price
- Profit from the differences between seller and buyer price
- Exclusive representatives = sole distributors in a country
- Buy on their own accounts
- Usually represents the manufacturer in all aspect of sales and servicing

AGENT

- Independent company that sells on behalf of the manufacturer
- Usually it will not see or stock the product
- Exclusive, semi-exclusive, non-exclusive
- Commission on a pre-agreed basis
- Sells to wholesalers and retailers
- Gathering some market and financial information- but not always – depends on contract

# Cooperative export - export marketing groups

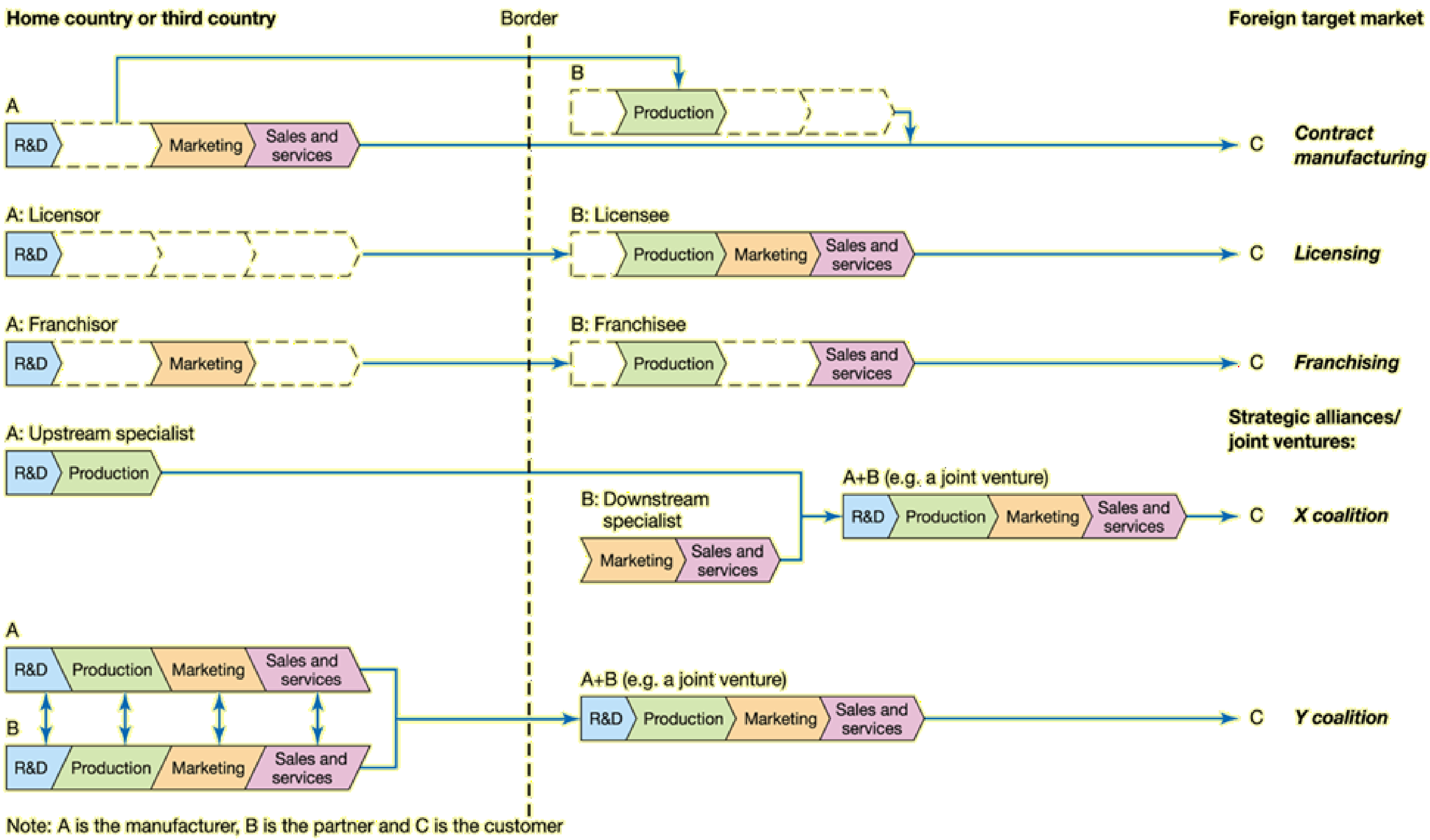
- Functions:
  - exporting in the name of the association
  - consolidating freight, negotiating rates and chartering ships
  - performing market research
  - appointing selling agents abroad
  - obtaining credit information and collecting debts
  - setting prices for export
  - allowing uniform contracts and terms of sale
  - allowing cooperative bids and sales negotiation

- Usually SMEs – more effective

# What to look for in an intermediary

- Size of firm
- Physical facilities
- Willingness to carry inventories
- Knowledge/use of promotion
- Reputation with supplier, customers, and banks
- Sales performance record
- Cost of operations
- Overall experience
- Knowledge of English or other relevant languages
- Knowledge of business methods in manufacturer's country

# Intermadiate export modes



# INTERMEDIATE ENTRY MODES

- = transfer of skills and knowledge

(1) Contract manufacturing – outsourced to an external partner specialized in production and production technology – lower risk, lower costs, appropriate foreign market demand; better interaction with local market, high level of control; high flexibility; product could be exported

(2) Licensing – patent covering a product or process, know-how, technical/marketing advice and assistance, use of trade mark/name – concentration on core competences - R&D, lower expertise for overseas, the end of the PLC in home country, government regulations restrict foreign direct investment…

(3) Franchising – product and trade name, business format package (trade mark/name, copyright, design, patent, trade secret, business and management know-how, geographic exclusivity, market research for the area…)

(4) Strategic alliances/joint ventures – new opportunities, speed up market entry, lower costs compared to solely business; up-stream collaboration – on R&D and/or production; down-stream – marketing, distribution, sales, service - = Y coalition; both streams – X coalition


- Seeking for resources:
- Development know-how
- Sales and service expertise
- Low-cost production facilities
- Strategically critical manufacturing capabilities
- Reputation and brand equity
- Market access and knowledge
- Financial resources…
- ? Who is the leading company?
- ? Double..management?
- ?Repatriation of profits?
- ? Shared equity?
- Mixing different cultures!
- Developing trust!
- Providing and exit strategy!

# Contract manufacturing

### Contract manufacturing

- ______ is the term used to refer to manufacturing which is outsourced to an external partner, one that specializes in production and production technology.

### Factors encouraging foreign market production

- Desirability of being close to foreign customers
- Foreign production costs are low
- Transportation costs may render heavy products non-competitive
- Tariffs can prevent entry of an exporter's products
- Government preference for national suppliers

# Licensing

- the exchange of rights, such as manufacturing rights, to another in exchange for payment


**Rights that may be offered in a licensing agreement**

- Patent covering a product or process
- Manufacturing know-how not subject to a patent
- Technical advice and assistance
- Marketing advice and assistance
- Use of a trade mark/trade name

# Motives for licensing

**IN**

- Licensor firm will remain technologically superior in its product development
- Licensor is too small to have financial, managerial or marketing expertise for overseas investment
- Product is at end of product life cycle in advanced countries but stretching product life cycle is possible in less developed countries

**OUT**

- Opportunity for profit on key components
- Government regulations may restrict foreign direct investment or, if political risks are high, licensing may be only realistic entry mode
- Constraints may be imposed on imports

# Franchising

- the exchange of rights between a franchisor and franchisee, such as the right to use a total business concept including use of trade marks, against some agreed royalty

Types:

- Product and trade name franchising
- Business format ‘package’ franchising

# Business format ‘packages’

- Trade marks/ trade names/ designs
- Patents and copyrights
- Business know-how/ trade secrets
- Geographic exclusivity
- Store design
- Market research
- Location selection
- Human resources training
- Supply resources


# Interdependence between franchisor-franchisee

**Franchisor-franchisee**

- Fast growth
- Capital infusion
- Income stream
- Community goodwill

**Franchisee-franchisor**

- Trade mark strength
- Technical advice
- Support services
- Marketing resources
- Advertising

# Joint venture and strategic alliances

- an equity partnership between two or more partners?

A + B → C – JOINT VENTURE

A ↔ B - STRATEGIC ALLIANCE

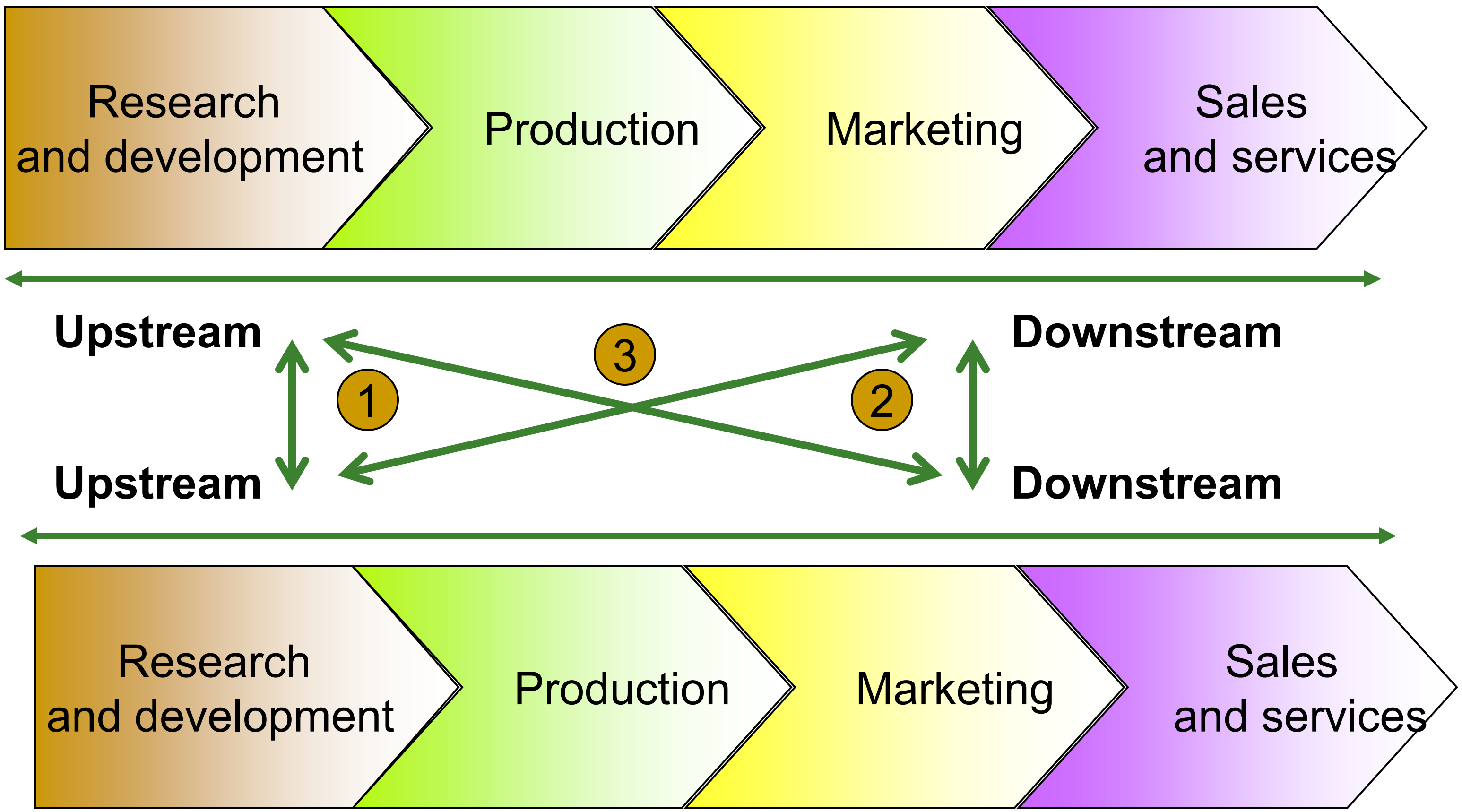
**Reasons for using joint ventures**

- Complementary technology or management skills can lead to new opportunities
- Firms with partners in host countries can increase speed of market entry
- Less developed countries may restrict foreign ownership
- Costs of global operations in R&D and production can be shared
- Entering new markets

# Factors to consider within the cost/benefit analysis when deciding about JV/SA

- Financial commitment
- Synergy
- Management commitment
- Risk reduction
- Control
- Long-run market penetration
- Resources (own and of partner): critical manufacturing capabilities, low-cost production facilities, reputation/brand equity, market access/knowledge, development know-how, sales and service expertise..

# Collaboration possibilities in the value chain




Source: Source: Adapted from Lorange and Roos, 1995, p. 16.

# HIERARCHICAL ENTRY MODES

- The firm completely owns and control foreign market entry mode
- Allocation of responsibility and competence between head office and subsidiaries:

(1) Domestic-based sales representatives/manufacturer´s own sales force

(2) Resident sales representatives/sales subsidiary/sales branch

(3) Sales and production subsidiary

(4) Region centre

(5) Transnational organization(globally integrated)

# Type of modes

## Domestic-based sales representative

- type of sales representative resides in the home country of the manufacturer and travels abroad to perform the sales function

**Advantages**

- Better control of sales
- Close contact with customers

**Disadvantages**

- High travel expenses
- Too expensive for markets far from home

## subsidiary

- a local company owned and operated by a foreign company under the laws and taxation of the host country

REASONS:

- To defend existing business
- To gain new business
- To save costs
- To avoid government restrictions

# Methods of establishing a wholly-owned subsidiary and site selection criteria

- Methods: Acquisition and Greenfield investment
- Criteria:
- Investment climate
- Investment incentives
- Operational costs
- Workforce considerations
- Corporate tax advantages
- Quality of living
- Infrastructure in place
- Business services available
- Sufficient office space
- Presence of other companies

# Foreign sales, sales and production subsidiary

**Advantages**

- Full control of operation
- Market access
- Market knowledge
- Reduced transport costs
- Access to raw materials

**Disadvantages**

- High initial capital investment
- Loss of flexibility
- High risk
- Taxation problems

# Region centres

**Advantages**

- Synergies on regional/global scale
- Scale efficiency
- Ability to leverage learning on cross-national scale

**Disadvantages**

- Potential for increased bureaucracy
- Limited national level responsiveness
- Missing communication between head office and centre

# Acquisition

**Advantages**

- Quick access to
  - Distribution channels
  - Labour force
  - Management experience
  - Local knowledge
  - Local contacts
  - Established brand names

**Disadvantages**

- Expensive option
- High risk
- Integration concerns

# Greenfield investment

**Advantages**

- Optimum format possible
- Optimum technology possible

**Disadvantages**

- High investment cost
- Slow entry of new markets