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Market Entry Methods

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International Marketing/subject code

OUTLINE OF THE LECTURE

1. Export and import operations.
2. Forms low on capital investment.
3. Forms high on capital investment.

FORMS OF ENTERING INTERNATIONAL MARKETS

- Input of Entry - key decision.

- Influenced by many factors: the risk of doing business at the target market, the company's overall competitiveness in the international environment, potential of the target market, management experience, capital, resources etc.
- Forms of entry to foreign markets can be divided into three major groups:
  - export and import operations (international business methods),
  - forms low on capital investment,
  - forms high on capital investment.

THE MOST IMPORTANT MOTIVES TO ENTER FOREIGN MARKETS

- **Active**: favorable economic conditions abroad, unique products, expanding market share, improve trade and political climate, currency devaluation, a new demand for goods, economies of scale, creating the image of an international company.

- **Passive**: competitive pressures (competition entering domestic market), utilization of production capacity, declining home sales and profits (restrictive measures, worsening business and political climate), reducing the risk of overproduction, proximity to customers, saturated domestic markets.

SELECTION PROCESS FOR MARKET ENTRY STRATEGY

- We are dealing with: the choice of target countries / markets and their segmentation, identification of entry strategies (methods) and timing of entry.
- Selecting a target country / market - a complex process depending on many factors. For the vast majority affected by the state of the company itself. You can make general market segmentation within the EU / world – based on the cultural dimension / geographic / linguistic proximity:
  - Austria, Germany, Switzerland, Italy, United Kingdom, Ireland - very rich Anglo-Saxon and German-speaking European countries, total 205 mill. customers.
  - Belgium, France, Greece, Portugal and Spain - primarily Romanesque country with the typical character of local residents, currently in crisis, total 180 mill. customers.
  - Denmark, Sweden, Finland, Netherlands, Norway – Scandinavian countries, developed economies and demanding (specific) consumers, total 40 mil. customers.

1 EXPORT AND IMPORT OPERATIONS

- Traditional and simplest form of entry into foreign markets. Understood as a form not requiring any investment. BUT! Without investments or with investments (branch offices). Except the simplest form - doing research and adapting the strategy.
- Under the terms of foreign markets it is necessary to adapt the product policy, provide the necessary support services and finance costs associated with them, build distribution channels, determine the appropriate pricing strategy and finally invest heavily in communication policy.
- Enterprises can take advantage of the various exportation business methods, the choice depends on many factors, especially on the commercial policy terms, the nature of products and services, business partner selection and effectiveness of implementation of foreign trade operations, i.e. on the ratio of costs incurred and risks to acquirable prices.

1A INTERMEDIARY RELATIONS

- Intermediary is trading on his own behalf, for his own account and at his own risk.
- Intermediaries are selling the purchased goods to other customers, and their reward is the difference between buying and selling price, i.e. price margins.
- Advantageous for SMEs (don't have to establish specialized departments), and manufacturing companies.
- Advantages: lower costs of circulation and elimination of risks arising from international trade, possibility to export to markets which would be too costly to enter directly.
- The main drawback may be the loss of direct contact with the customer, and therefore the loss of control over the international marketing strategy.

1B CONTRACTS OF THE EXCLUSIVE SALE

- The Supplier agrees that goods specified in the contract will not be supplied to any other purchaser in a certain area, i.e. there is one exclusive dealer.
- Advantages: fast access to foreign markets thanks to the sale of goods in already constructed distribution channels. Furthermore, the manufacturer may enter distant markets, possibly even on markets with low expected turnover, but we want to be present there at relatively low costs and risks. It can also be a test of potential of the foreign market. Remains control over distribution.
- Disadvantage: loss of contact with the customer, the possibility of distributor failure (minimum redemption amount).

1C DEALERSHIP

- Dealership representative commits to the long term work towards concluding a certain type of contracts or to negotiate and conclude transactions on behalf of the represented and on his account. It is usually a non-exclusive representation.

- If the contract is about exclusive representation, then the represented is obliged in a determined area and with a determined range of shops to not use any other sales representative, and sales agent is not authorized to represent another person or transact business on their own account or the account of another person. The recognition commission is there for the times a party breaks the rules.

1D CONSIGNMENT …

- In the consignment contract, the consignee is obliged to arrange on his own name for the consignor certain business matter. Consignment agreement differs from the agreement on mediation by the fact that consignee is committed directly to concluding a particular contract, while the intermediary agrees to mediate an opportunity to sign a contract.

- The advantage of using the services of consignee is the control over prices (the consignee sells goods at prices determined by a consignor), the possibility to use goodwill of consignee, and his business contacts and distribution channels. The disadvantage may be too much autonomy of the consignee and not utilizing the company's image on the international market.

1D … AND MANDATE RELATIONS

- Mandate contract iw when an individual gives another person the power to carry out designated actions on the individual's behalf in legal dealings.
- Mandate contract is concluded only between entrepreneurs and has many commonalities with the consingment contract. The difference lies mainly in the fact that the nominee is acting on behalf of a client.

1E PIGGYBACK

- Piggyback is a collaboration of multiple companies in the same business sector in export, in which usually large and well-known company makes its international distribution channels available for smaller firms, with some sort of fee.
- The advantage for small businesses is the ability to use the name and experience of a large company which provides its partner series of marketing and logistics services.
- The advantage for a large company is to offer customers a complete range of assortment (and a remuneration), which obtains from its business partners.

1F DIRECT EXPORTS

- Direct market methods are most commonly used in industrial marketing in the export of machinery, manufacturing equipment and investment units. Deliveries of these products are very complicated and they involve the need to provide a full range of professional services, where the immediate presence of manufacturers in the international market is needed.
- The advantage is the possibility of control over the implementation of its own marketing strategy in international markets. The exporter should be able to get higher prices because he secures full implementation, and therefore bears all costs and risks of international trade.

1G ASSOCIATION OF SMALL EXPORTERS 1

- The main advantages arising from participation in an association of export companies, are: the cost savings, the possibility of restricting export risks, better bargaining position and thus generates the possibility of more favorable prices, the use of image of the whole association etc.
- The disadvantage may be unbalanced relations within the association, and therefore the possibility of unequal treatment of minor members and the loss of a certain degree of autonomy.
- Often export activities will expand and the small business decides to set up its own export department and participation in the association becomes the impulse for the development of independent international business.
- The Czech Republic is supporting export alliances as a part of the pro-export policy.

1G ASSOCIATION OF SMALL EXPORTERS 2

- **Analysis of business potential** - resources management, financial resources, human capacity, innovation, information.
- **Marketing mix** - 4P vs. 7P vs. 4C.
- **SWOT analysis** - one of the simplest analysis able to provide the basics for decision making.

2. FORMS LOW ON CAPITAL INVESTMENT

- Used by companies when they decide not to invest abroad but still want to develop international business presence to highlight their products or services in the target market by means other than export operations.

- BUT! Again, these are not zero investment, they always require some capital investment.

2A LICENSING 1

- The term refers to the license permits, consents to the activity that is otherwise prohibited (from lat. Licere = allow). In the area of intellectual property, the term license expresses permission for the use of intangible assets by another person, for example in the production of the invention protected by the patent.

- We want to sell licences if: the company is not able to implement manufacturing, R & D has a new solution, the barriers do not allow direct exports, the market is politically unstable, the market is small, the sale of industrial property rights is associated with favorable co-op or other export of goods, infringing rights.

2A LICENSING 2

- We want to buy licences if: we don't have our own R & D, foreign patents are better than what we are able to develop, some of our products have patent in a foreign market.
- On the consumer market may be margins so low that it pays to sell patents and allow Asian companies to just produce.
- Some markets are patent protected. E.g. China has its own standard for Wi-Fi. If I want to sell any device able to connect - I have to buy the patent.

2A LICENSING 3 - TYPES

- **Patents** - shall be granted for inventions that meet the legal requirements: they are new to the world, i.e. not part of the current state of technology but are the result of inventive activity and industrial application.
- **Industrial Designs** - appearance of a product.
- **Utility Blueprints** - technical product solutions.
- **Protective designation** - the right to use trademarks and trade names of the company.
- **The license to use the know-how** – i.e. false license. In these cases you can grant exclusive or non-exclusive licenses.

2C FRANCHISING 1

- Franchising is a contractual relationship between the partners, in which the franchiser authorizes and obliges the individual franchisees (the acquirer) to use the trade name and / or trademark right and to use the line of business of his company, i.e. provides its know-how, including management system, providing services and provide sales and technical assistance, and the licensee (franchisee) undertakes to pay the contractually agreed remuneration policies and adhere to providers commercial policy.

- Common in retail, hospitality, fast food, gas stations, etc.

2C FRANCHISING 2

- The franchisee is an independent entrepreneur. So it is a combination of the market force of established know-how of a large company with the initiative of private owners with the necessary responsibility for economic results.
- The franchisor determines business strategy, provides training and further staff education, provides assistance in the field of legal services, accounting and logistics. Often it supplies suppliers, the technical facilities of the establishment, assistance in securing financing, etc.

2D MANAGEMENT CONTRACTS

- Particular type of contract used by companies from developed countries with specific know-how.
- The object is to provide managerial skills and managers (investment units on a turnkey basis).
- It is basically a transfer of proven management concepts abroad.
- The reward can be percentage of the obtained turnover, profit, option to acquire the shares etc.

2E PROCESSING OPERATIONS

- The essence is the manufacturing or processing of raw materials or semi-finished products to a greater degree of finality, respectively into the finished product.
- The reason is the lower costs abroad (labor, energy, materials, transportation).

3 CAPITAL ENTRIES

- The highest degree of internationalization of business activities and due to the investment demands are typical for large companies.
- They most commonly take the form of direct or portfolio investment.
- Foreign direct investment can be characterized as an investment which purpose is the establishment, acquisition or expansion of lasting economic relations between an investor of one country and company based in another country.
- Foreign investors bring to the country the capital needed for modernization and restructuring of enterprises, advanced technology, technical and managerial know-how, may enable the creation of new jobs, facilitate the entry of products into foreign markets, etc.

FORMS OF DIRECT INVESTMENT

- **Acquisition** (takeover) - can be characterized as taking over a functioning company or a part of it. In corporate practice, we meet with friendly takeover, aimed at strengthening the company's position and benefiting from synergy effects, or so-called hostile takeover, the aim of which may be termination of competition.

- **Mergers** - may take the form of mergers or fusions. Merging means combining companies, where the merged company ceises to exist without liquidation of assets and liabilities as the assets and liabilities are transferred to the company with which it merged. Fusion means combining companies, in which both merging companies cease to exist and a new legal entity is created.

FORMS OF DIRECT INVESTMENT

- **Greenfield investment** - are newly established and newly built enterprises. Greenfield investments can be compared to acquisitions with certain advantages for the host country. Usually they bring into the country more capital, more new modern technologies, increase competition in the market and are more beneficial in terms of job creation.

- **Joint venture** – is the connection of sources of two or more entities into joint ownership. It is a form of business, aiming at the implementation of a joint business plan, participation in profits generated, shared taking of entrepreneurial risk and cover potential losses.

STRATEGIC ALLIANCES

- Connection of large, financially strong companies from developed countries.

- Common in automotive, telecommunications, computer science, aerospace industries.

- The goal of the strategic alliance may be further joint development or production of certain components which are subsequently used in the assembly of final products of both partners.

- In the Czech Republic for example TPCA from PSA.

THE END

Thank you for your attention.
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