# Entry Modes & Strategies

Chapter 10 in Text Book

= Chapter 15 on Connect

Entry Modes

# MADE A DECISION TO ENTER A FOREIGN MARKET…

Entry Modes

# MADE A DECISION TO ENTER A FOREIGN MARKET…NOW WHAT?

# At Firm Level:

- Firms expanding internationally must decide

1. Which markets to enter
2. When to enter them and on what scale
3. Which entry mode to use
   - exporting
   - licensing or franchising to a company in the host nation
   - establishing a joint venture with a local company
   - establishing a new wholly owned subsidiary
   - acquiring an established enterprise

Deciding on which market to enter

# MARKET RESEARCH TO FINAL SELECT THE MARKET TO ENTER

# Market Research

After you determined which market to enter

# CHOOSE THE ENTRY MODE FROM THE 5 MAIN OPTIONS…

# How to Choose Entry Mode

- Several factors affect the choice of entry mode including
  - transport costs
  - trade barriers
  - political risks
  - economic risks
  - costs
  - firm strategy

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  - transport costs
  - trade barriers
  - political risks
  - economic risks
  - costs
  - firm strategy
- **NOTE: what makes sense for one company might not make sense for another**

# How to Rate a Market

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- Favorable markets' characteristics:
  - are politically stable
  - have free market systems
  - have relatively low inflation rates
  - have low private sector debt

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NOTE: NOT AN EXACT SCIENCE…(again)

Main Driver – A Basic Marketing Truism:

**MARKETS ARE MORE ATTRACTIVE WHEN YOUR PRODUCT IS NOT ALREADY WIDELY AVAILABLE AND MEETS AN UNMET DEMAND…**


Handimania

Management or Organizational Requirement

# MANAGEMENT NEEDS TO AGREE THAT THE TARGET MARKET MEETS STRATEGIC GOALS:

# Entry Timing

- Once attractive markets are identified, the firm must consider the timing of entry

1. Entry is **early** when the firm enters a foreign market before other foreign firms
2. Entry is **late** when the firm enters the market after firms have already established themselves in the market

# Entry Timing

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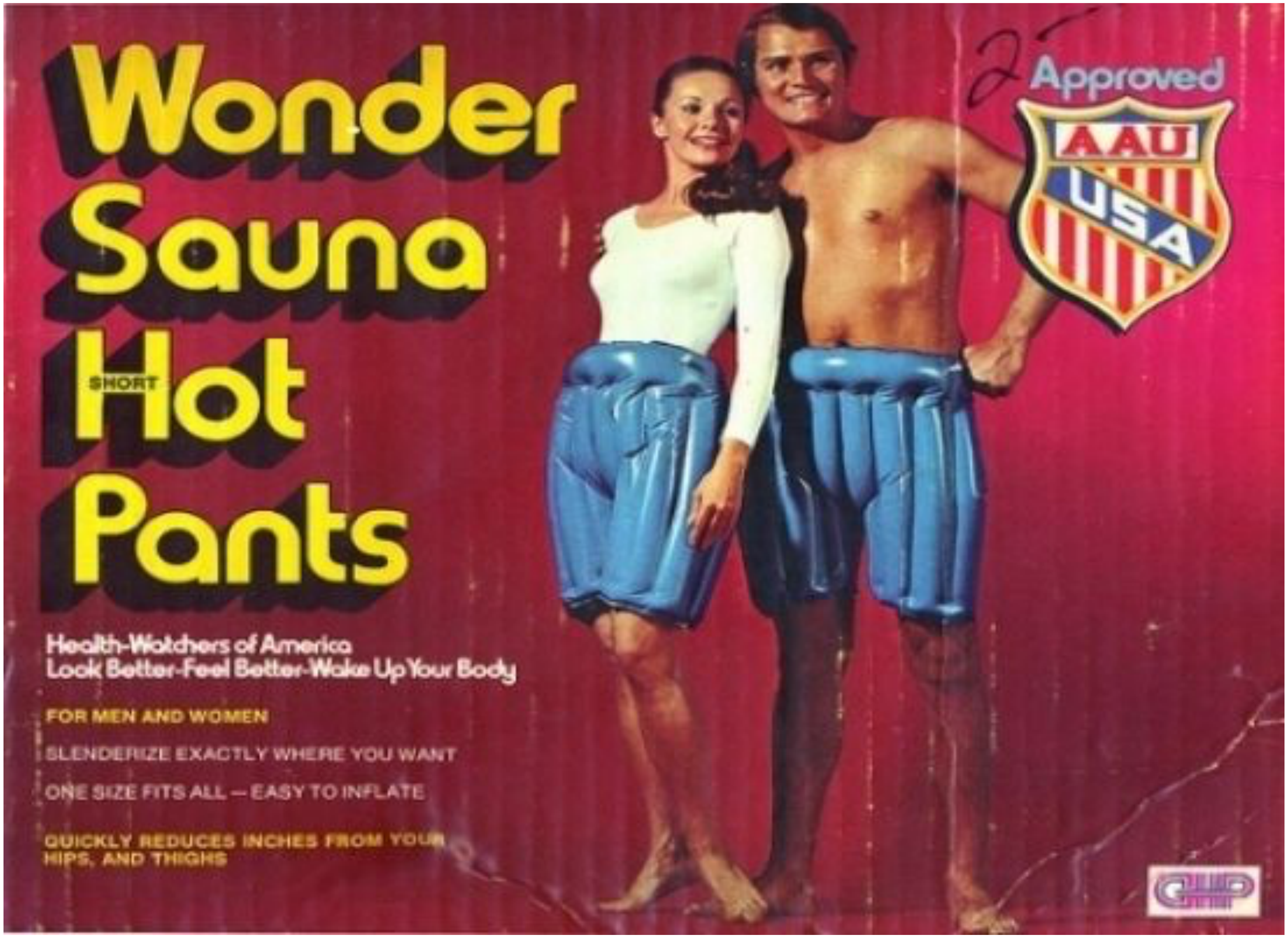
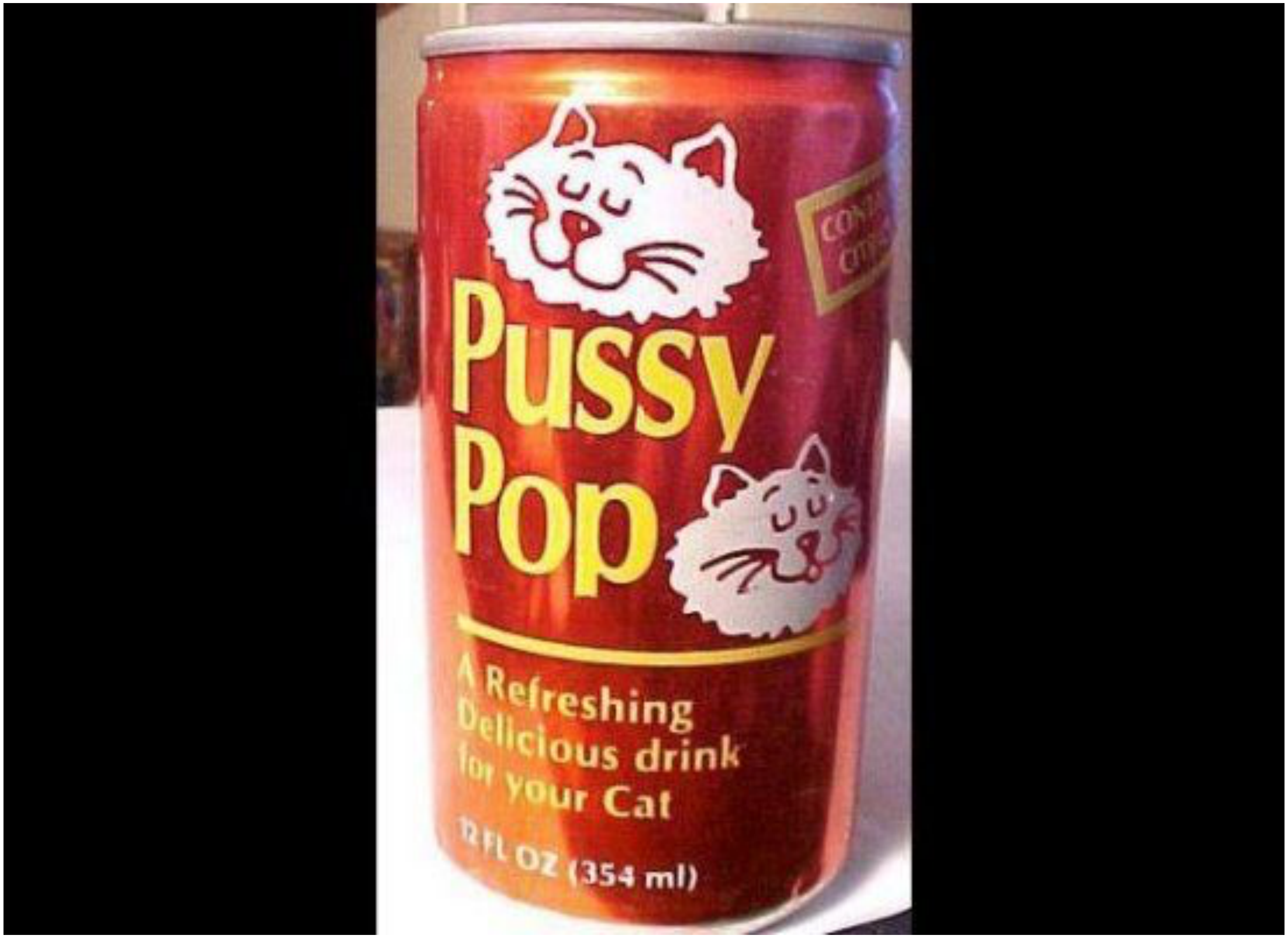
2. Entry is **late** when the firm enters the market after firms have already established themselves in the market


TRY Onion Nuggets™
McDonald's®
Onion Nuggets™



Wonder
Sauna
SHORT
Hot
Pants
Approved
AAU
USA
Health-Watchers of America
Look Better-Feel Better-Wake Up Your Body
FOR MEN AND WOMEN
SLENDERIZE EXACTLY WHERE YOU WANT
ONE SIZE FITS ALL — EASY TO INFLATE
QUICKLY REDUCES INCHES FROM YOUR
HIPS, AND THIGHS


Pussy
Pop
A Refreshing
Delicious drink
for your Cat
12 FL OZ (354 ml)


Ramen
Soup for
Sluts
くて美味しい

# Pioneer Advantages

- First-mover advantages include
  - Ability to preempt rivals (brand)
  - Ability to build sales volume and have experience curve advantage (cost advantage)

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- First-mover advantages include
  - Ability to preempt rivals (brand)
  - Ability to build sales volume and have experience curve advantage (cost advantage)
  - Ability to create switching costs

[redacted]

# First Mover Disadvantages

- Pioneering Costs
  - Market environment differences
  - Business failure risks
  - Advertising and Promotion costs

# Scale of Entry

- After choosing market and timing of entry, decide on scale of market entry
  - Entering on a significant scale is a strategic commitment
    - the decision is long term and difficult to reverse
  - small-scale entry allows for learning

Repeat

# THERE IS NO “RIGHT” OR “WRONG” WAY…IT’S BASED ON MANAGEMENT’S STRATEGIC DECISIONS….

# How

- These are six different ways to enter a foreign market

1. Exporting – a common first step for many manufacturing firms
   - later, firms may switch to another mode

# Exporting

- Exporting is attractive because
  - it avoids the costs of establishing local manufacturing operations
  - it helps the firm achieve experience curve and location economies
- Exporting is unattractive because
  - there may be lower-cost manufacturing locations
  - high transport costs and tariffs can make it uneconomical
  - agents in a foreign country may not act in exporter’s best interest

# How

- These are six different ways to enter a foreign market

1. Exporting – a common first step for many manufacturing firms
   - later, firms may switch to another mode
2. Turnkey projects - the contractor handles every detail of the project for a foreign client, including the training of operating personnel
   - at completion of the contract, the foreign client is handed the "key" to a plant that is ready for full operation

# Turn-Key

- Turnkey projects are attractive because
  - they are a way of earning economic returns from the know-how required to assemble and run a technologically complex process
  - they can be less risky than conventional FDI
- Turnkey projects are unattractive because
  - the firm has no long-term interest in the foreign country
  - the firm may create a competitor
  - if the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/or actual competitors

# How

3. Licensing
   – patents, inventions, formulas, processes, designs, copyrights, trademarks

# Licensing

- Licensing is attractive because
  - the firm avoids development costs and risks associated with opening a foreign market
  - the firm avoids barriers to investment
  - the firm can capitalize on market opportunities without developing those applications itself
- Licensing is unattractive because
  - the firm doesn't have the tight control required for realizing experience curve and location economies
  - the firm's ability to coordinate strategic moves across countries is limited
  - proprietary (or intangible) assets could be lost
    - to reduce this risk, use cross-licensing agreements

# How

3. Licensing
   - patents, inventions, formulas, processes, designs, copyrights, trademarks
4. Franchising - a specialized form of licensing
   - used primarily by service firms

# Franchising

- Franchising is attractive because
  - it avoids the costs and risks of opening up a foreign market
  - firms can quickly build a global presence
- Franchising is unattractive because
  - it inhibits the firm's ability to take profits out of one country to support competitive attacks in another
  - the geographic distance of the firm from its franchisees can make it difficult to detect poor quality

# Management Focus from the Book:

- Jollibee from the Philippines:
  - Had only 11 stores when McDonald's entered the market…but they did really well – raising the stakes for McDonald's as well…

[redacted]


Jollibee
Drive-Thru
CNN

# How

5. Joint ventures with a host country firm - jointly owned by two or more otherwise independent firms
   – Mostly 50–50 partnerships, unless law requires different

# JV’s or Allliances

- Joint ventures are attractive because
  - firms benefit from a local partner's knowledge of the local market, culture, language, political systems, and business systems
  - the costs and risks of opening a foreign market are shared
  - they satisfy political considerations for market entry

# JV's or Alliances

- Joint ventures are unattractive because
  - the firm risks giving control of its technology to its partner
  - the firm may not have the tight control to realize experience curve or location economies
  - shared ownership can lead to conflicts and battles for control if goals and objectives differ or change over time

# How

5. Joint ventures with a host country firm - jointly owned by two or more otherwise independent firms
   - Mostly 50–50 partnerships, unless law requires different
6. Wholly owned subsidiary - the firm owns 100 percent of the stock
   - set up a new operation
   - acquire an established firm

# WOS

- Wholly owned subsidiaries are attractive because
  - they reduce the risk of losing control over core competencies
  - they give a firm the tight control in different countries necessary for global strategic coordination
  - they may be required in order to realize location and experience curve economies
- Wholly owned subsidiaries are unattractive because
  - the firm bears the full cost and risk of setting up overseas operations

| Entry Mode | Advantages | Disadvantages |
|---|---|---|
| Exporting | Ability to realize location and experience curve economies | High transport costs<br>Trade barriers<br>Problems with local marketing agents |
| Turnkey contracts | Ability to earn returns from process technology skills in countries where FDI is restricted | Creating efficient competitors<br>Lack of long-term market presence |
| Licensing | Low development costs and risks | Lack of control over technology<br>Inability to realize location and experience curve economies<br>Inability to engage in global strategic coordination |
| Franchising | Low development costs and risks | Lack of control over quality<br>Inability to engage in global strategic coordination |
| Joint ventures | Access to local partner's knowledge<br>Sharing development costs and risks<br>Politically acceptable | Lack of control over technology<br>Inability to engage in global strategic coordination<br>Inability to realize location and experience economies |
| Wholly owned subsidiaries | Protection of technology<br>Ability to engage in global strategic coordination<br>Ability to realize location and experience economies | High costs and risks |

# Company Circumstances Drive Entry Decisions

- The optimal entry mode depends on the nature of a firm's core competencies
- Competitive advantage based on proprietary technological know-how
  - avoid licensing and joint ventures unless the technological advantage is only transitory, or can be established as the dominant design
- Competitive advantage based on management know-how
  - the risk of losing control over the management skills is not high, and the benefits from getting greater use of brand names is significant

# Greenfield vs. Brownfield

Greenfield venture may be better when the firm needs to transfer organizationally embedded competencies, skills, routines, and culture

Brownfield may be better when there are well-established competitors or global competitors interested in expanding

# Acquisitions

- Acquisitions are attractive because
  - they are quick to execute
  - they enable firms to preempt their competitors
  - they may be less risky than greenfield ventures
- Acquisitions can fail when
  - the acquiring firm overpays for the acquired firm
  - the cultures of the acquiring and acquired firm clash
  - anticipated synergies are slow and difficult to achieve
  - there is inadequate pre-acquisition screening
- To avoid these problems, firms should
  - carefully screen the firm to be acquired
  - move rapidly to implement an integration plan

# Alliances

- Strategic alliances are attractive because they
  - facilitate entry into a foreign market
  - allow firms to share the fixed costs and risks of developing new products or processes
  - bring together complementary skills and assets that neither partner could easily develop on its own
  - help a firm establish technological standards for the industry that will benefit the firm

In Alliances

# PARTNER SELECTION IS KEY!

[redacted]


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