4.6 International marketing (HL)

Methods of entry into international markets

Many successful businesses are able to generate revenue from outside their home country. Entry into international markets is achieved through successful marketing strategies that take advantage of globalisation, the merging of cultures and the trend towards worldwide markets for goods and services. This has been a consequence of fortunate economics, stable political conditions, the removal of trade barriers by national governments, improved technology in transport and communication and more unified laws across countries.

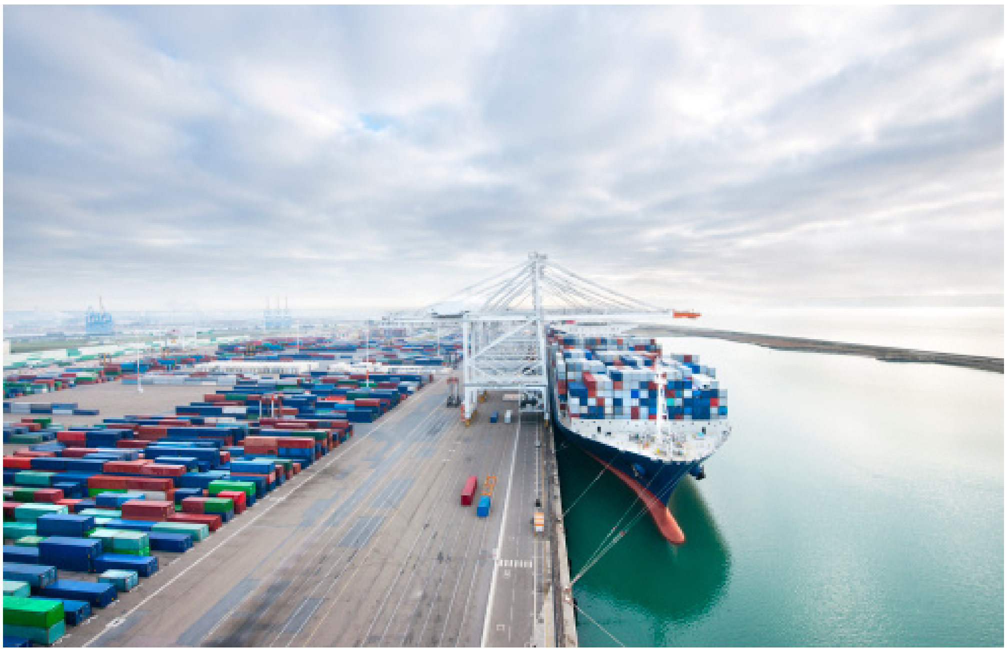

Figure 1. There are many methods to enter international markets: exporting is one of them.

Credit: Thierry Dosogne, Getty Images

International market entry strategies

When a business decides to operate in other countries, it needs to choose a strategy for entry into foreign markets. To do this, it should answer the following three fundamental questions:

- What level of control do we want to have over our marketing activities abroad?
- What level of risk are we willing to take?
- Can we bear the costs of such activities?

Businesses can enter international markets in different ways with various outcomes in terms of control over marketing activities, level of risk, and costs of both entry to and withdrawal from the overseas market. The entry strategies described below are some of the most common strategies used by businesses when entering overseas markets.

Exporting

Exporting can be either direct or indirect. Indirect exporting occurs when a business or an exporting agency purchases products from a country with the purpose of trading those products overseas. For example, The Body Shop sources the natural ingredients for its cosmetic products directly from farmers and farmer cooperatives in over 23 different countries.

Direct exporting is the most common approach for companies that wish to ensure a long-term place in international markets and build up expertise and knowledge about their foreign customers. Direct exporting can be done through agents, distributors or direct marketing and online sales.

Exporting is the lowest risk strategy of entry into international markets and requires few resources. In the case of direct exporting, businesses are able to retain control over the marketing of their products. In the case of indirect exporting, businesses with no expertise in international marketing can benefit from selling their products at better prices.

Figure 2. Exporting is an internal method of international marketing.

Credit: alvarez, Getty Images

Table 1: Leading export countries worldwide in 2019.

Source: WITS (World Integrated Trade Solution) (https://wits.worldbank.org/CountryProfile/en/Country/WLD/Year/2019/TradeFlow/Export/Partner/by-country)

Rank	Country	Value of exports (USD)
1	USA	2.4 trillion
2	China	1.7 trillion
3	Germany	1.2 trillion
4	UK	670 billion
5	France	634 billion
6	Netherlands	607 billion
7	Hong Kong	597 billion

Rank	Country	Value of exports (USD)
8	Japan	591 billion
9	Italy	573 billion
10	Canada	454 billion

Franchising

Franchising is a form of external growth where a franchisee buys the rights to use the name and business model of a franchisor (also written 'franchiser'). The franchisor is usually a company with a successful and proven business model that wishes to expand. (See Section 1.5.4 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/external-growth-id-36536) for the main advantages and disadvantages of franchising.)

This is a quick, relatively easy and cost-efficient route into foreign markets, and the franchisor retains a high degree of control over the marketing of its products.

Figure 3. Many well-known coffee shops are franchises.

Credit: xavierarnau, Getty Images

Licensing

Licensing involves one company producing another company's products and using its brand name, patents and expertise under licence. Film, television and sports industries have used this strategy successfully to enter international markets. An example is the licence that the Canadian company Entertainment One granted to the Japanese company Saga Toys to find the best partners to produce Peppa Pig merchandise, before the launch of the children's series in Japan.

Direct investment (foreign direct investment)

Direct investment, or foreign direct investment (FDI), is a long-term investment in a foreign country by a multinational company (MNC) and involves setting up factories and distribution facilities in the foreign country. The company can establish assembly operations in the foreign country to assemble components that are produced domestically. This strategy is used widely by the Japanese car manufacturers Nissan and Honda, which established assembly plants in the UK. However, these companies have been blamed by critics for not contributing sufficiently to the development of the UK economy and for the limited technology transfer, which makes it possible for them to move to another location relatively easy.

Another example of direct investment is when a business decides to develop its own foreign subsidiary, known as a **wholly owned subsidiary**, thus indicating a long-term commitment to the foreign market. The German vehicle manufacturer BMW, for example, has a network of 31 production and assembly facilities in 15 countries, and a global sales network in more than 140 countries. Toyota has 67 manufacturing facilities worldwide and markets its vehicles in more than 170 countries and regions worldwide.

Direct investment is the most expensive strategy of entry into foreign markets. It is also the strategy with the highest risk. However, it allows the business a high level of control so that it can achieve its strategic marketing objectives.

Figure 4. Global location of Toyota factories.

Source: Brejnev (https://commons.wikimedia.org/wiki/File:World_locations_of_Toyota_factories.PNG), CC BY-SA 3.0 (https://creativecommons.org/licenses/by-sa/3.0), via Wikimedia Commons

Making connections

The IBDP Economics course includes the advantages and disadvantages of FDIs in recipient countries.

Joint ventures

In a joint venture, companies from two different countries combine their resources to create a new, larger company with the purpose of launching a product into a new market. Each partner will hold an equity stake in the newly formed company and will provide expertise to enable the company's development and operation.

Examples of joint ventures include:

- **BMW Brilliance.** This car manufacturing company was established by BMW and Brilliance Auto Group in order to start manufacturing cars in China.
- **Caradigm.** This health care software and analytics company was created by Microsoft and GE Healthcare (a subsidiary of General

Electric). The purpose was to enable health systems and professionals around the world to improve health care quality and experience by using real-time information.

International joint ventures provide a route of entry into markets where the government restricts foreign ownership – such as in Saudi Arabia and other Middle Eastern countries – or where speed of market entry is crucial. They are also an appropriate way of entering foreign markets when research and development costs or operations costs are high. Joint ventures are also sometimes necessary for achieving competitive advantage. This was the case for the truck divisions of Toyota and VW, which entered into a joint venture in order to combine their expertise in developing e-mobility solutions for the commercial vehicles sector.

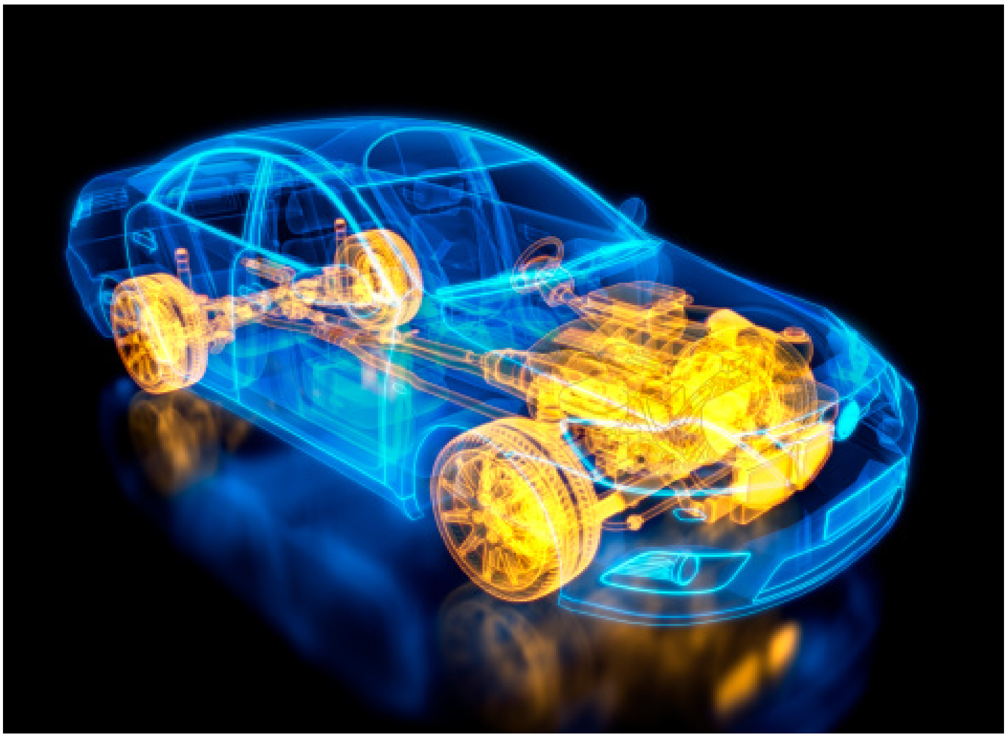

Figure 5. Several vehicle manufacturers have formed international joint ventures.

Credit: Henrik5000, Getty Images

Mergers and acquisitions

A merger occurs when two companies legally consolidate into one company. An acquisition occurs when one company purchases the shares of another company. International mergers and acquisitions provide a fast route of entry into international markets and have been used recently by businesses from emerging markets. For example, the technology company Lenovo acquired the PC division of IBM in order to enter international markets quickly.

Acquisitions are also a method of entry into foreign markets where governments have privatised state-owned utilities companies. As a result of such privatisation, parts of these formerly state-owned companies were acquired by private or public limited businesses. Such acquisitions occurred in the 1990s in central and eastern European countries, when state-owned enterprises were privatised.

Figure 6. The Kraft Heinz Company is a multinational food company and was created from a merger between Kraft Foods and Heinz.

Source: Lacrossewi, (https://commons.wikimedia.org/wiki/File:Kraft_Heinz_Headquarters_Chicago.jpg) CC BY-SA (https://creativecommons.org/licenses/by-sa/4.0) 4.0, via Wikimedia Commons

Takeovers

A takeover occurs when one company purchases a majority or all of the shares of another company in order to gain control of the business. When 50% of the shares are acquired, the acquirer becomes the main shareholder and has decision-making control in the business. One of the most notable takeovers took place in 2000, when pharmaceutical company Pfizer took over Warner–Lambert for 90 billion USD.

Figure 7. Pfizer took over Warner–Lambert for 90 billion USD in 2000.

Credit: Cecilie_Arcurs, Getty Images

Making connections

Section 1.5.4 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/external-growth-id-36536)of the IBDP Business Management course focuses in detail on the advantages and disadvantages of the external growth methods discussed above.

International marketing strategies

Once a company has decided to operate internationally, there is one fundamental question to answer: Should its products, services and communications be standardised across different overseas markets? If the answer is ‘yes’, then this would be the most efficient approach, as it would allow for huge economies of scale. However, it might not be the most effective approach in terms of generating sales and revenues, as customers from different countries and cultures have different needs.

Standardisation

A business that has a global marketing strategy aims to standardise everything in its marketing activities for all markets. The most successful companies using this strategy of standardisation offer their customers high added value by providing them with better benefits than those of competitors, especially local competitors. Examples are found in luxury goods markets where the same strong brand images are communicated to all global consumers. In 2021, Lamborghini sold 8405 cars worldwide, built and assembled in its two factories in Sant'Agata Bolognese, Italy.

Figure 8. In luxury goods markets, a standardised global marketing strategy can be used.

Source: NearEMPTiness (https://commons.wikimedia.org/wiki/File:100_Years_Maserati_at_Autoworld_Brussels.JPG), CC BY-SA 4.0 (https://creativecommons.org/licenses/by-sa/4.0), via Wikimedia Commons

Adaptation

Most businesses use the marketing strategy of adaptation when entering foreign countries. This approach ensures that some or all elements of the marketing mix are adapted to meet the needs of local consumers. Starbucks is a good example as it offers different menus in different countries and also changes the layout of its shops to better suit the local consumers.

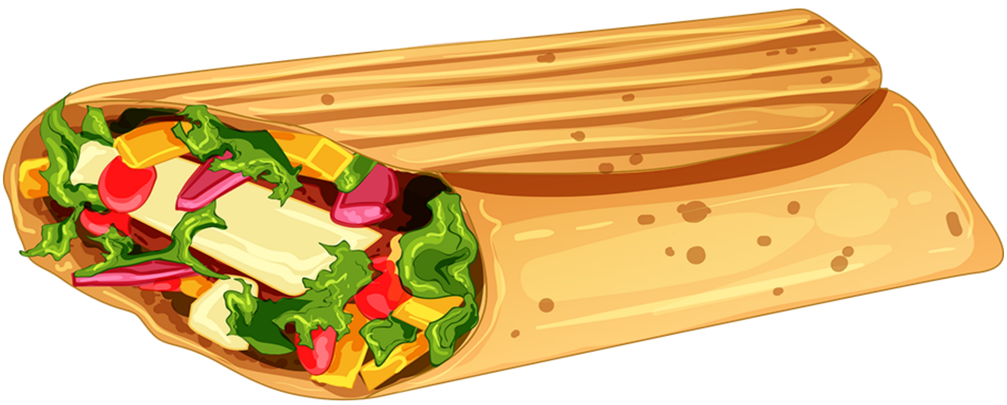

Figure 9. McDonald's introduced a vegetarian menu in India to suit local demand.

Theory of Knowledge

Businesses operating in multiple countries need to be conscious of the different cultural values that might be held by each country. McDonald's in India is an example of a food company that has changed its menu to suit the taste of the local population.

However, there are ethical and social sustainability issues related to the displacement of local food culture. Although it is profitable for McDonald's to cater to the needs of the local population, fast-food chains have contributed to rising obesity and diabetes in the country. People are taking less time to cook traditional foods, which are in most cases healthier.

- How might the attempts of a business to localise their product in a cultural context actually damage that cultural context?