Market entry strategies/modes

What is entry mode?

- The way of how to enter market
- Which and how many intermediaries to involve = design of the channel
- Three BASIC ENTRY MODES:
- A) export modes = 100% externalizing (low control, low risk, high flexibility) DISTRIBUTOR/IMPORTER/DEALER
- B) intermediate modes = contractual modes (shared control and risk, split ownership between 2 or more companies) JOINT VENTURES – NEW FIRM
- C) hierarchical modes = 100% internalizing (high control, high risk, low flexibility) FOREIGN SALES SUBSIDIARY

Potential determinants of the firm´s choice of foreign markets

THE COMPANY
Degree of internationalization
and overseas experience
Size/amount of resources
Type of industry/nature of business
Internationalization goals
Existing networks of relationships

THE ENVIRONMENT
International industry structure
Degree of the internationalIzation
of the market
Host country:
- market potential
-Competition
- Psychic/geographic distance
-Market similarity

INTERNATIONAL MARKET SEGMENTATION

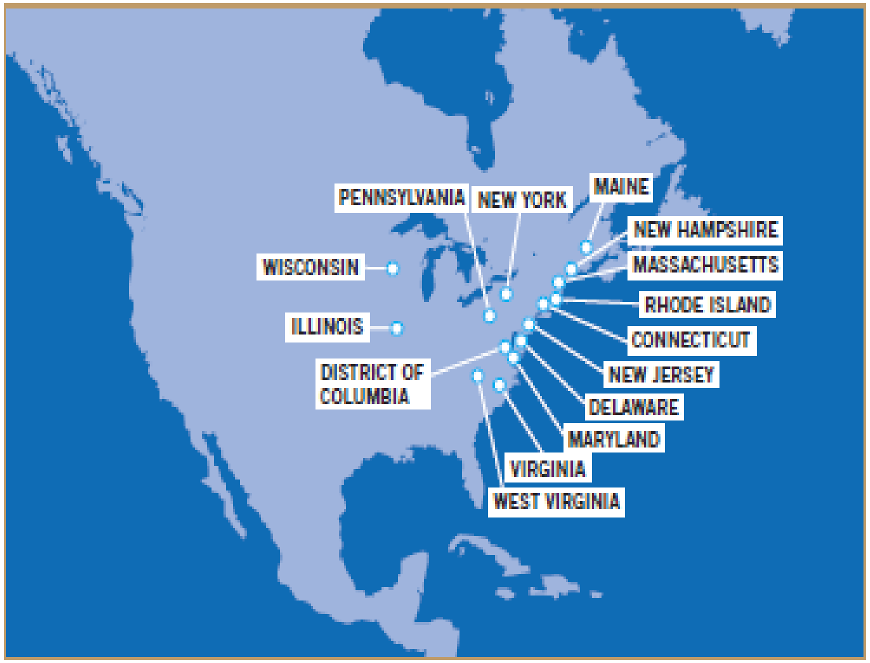
INTERNATIONAL

MARKET
SELECTION

Royal Ahold example

Where we operate

U.S. operations



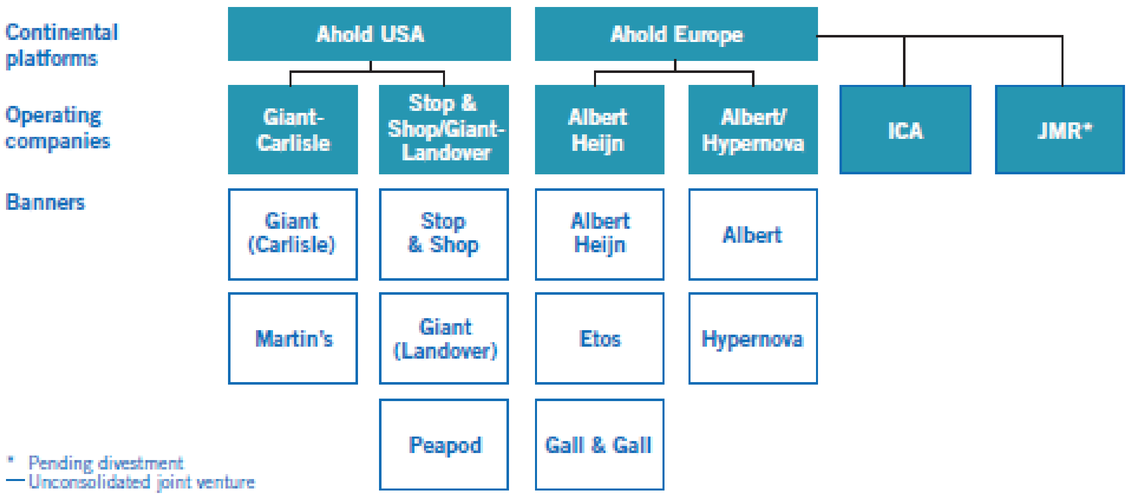
European operations

Organizational structure

Our business is organized into two continental platforms, in the United States and Europe, each led by a Chief Operating Officer. They are responsible for overseeing their respective operating companies and for implementing continental synergies and company-wide initiatives.

Ahold USA comprises Stop & Shop/Giant-Landover and Giant-Carlisle. Ahold Europe comprises Albert Heijn in the Netherlands and Albert/Hypernova in the Czech Republic and Slovakia.

We also hold a 60 percent interest in ICA AB (ICA) that operates in Sweden, Norway and the Baltic States. We are in the process of selling our 49 percent stake in Jerónimo Martins Retail, which operates in Portugal.



1887: Albert Heijn took over his father's grocery store in the Dutch town of Zaandam.

Corporate Center

Our Company headquarters are based in Amsterdam, the Netherlands. We also

Joint ventures

ICA

Ahold has a 60 percent interest in ICA, a food retail and wholesale group headquartered in Stockholm, Sweden. The remaining 40 percent stake is held by Hakon Invest AB, a Swedish company listed on the Stockholm Stock Exchange. As of December 31, 2008, ICA served over 2,200 retailer-owned and company-operated retail food stores in Sweden, Norway, Estonia, Latvia and Lithuania. The group reported net sales of EUR 9.5 billion over 2008, which was up 9.6 percent from the previous year at constant exchange rates. ICA also provides limited consumer financial services through its bank in Sweden.

Under the shareholders' agreement with Hakon Invest AB, our 60 percent stake in ICA provides that strategic, financial and operational decisions will be made only on the basis of mutual consent.

Discontinued operations

Schuitema

In 2008, Ahold divested its 73.2 percent interest in Schuitema, acquired in 1988. As part of the transaction, Ahold retained 56 stores, 54 of which were converted into Albert Heijn supermarkets during the second half of 2008, and the remaining two in the first quarter of 2009. In addition, Ahold acquired a 20 percent indirect interest in Schuitema. Full details of the transaction can be found in Note 5 to the consolidated financial statements in this Annual Report.

ICA http://www.ica.se
Schuitema http://wrightreports.ecnext.com/coms2/reportdesc_COMPANY_C528Y0630

Stop & Shop/Giant-Landover

Stop & Shop

Company name	The Stop & Shop Supermarket Company LLC
Established	1914
Joined Ahold	1996
Region	United States, specifically the states of Massachusetts, Connecticut, Rhode Island, Maine, New Hampshire, New York and New Jersey
Store formats	Supermarkets and superstores
Private labels	Include: Stop & Shop, Nature's Promise, Simply Enjoy, CareOne, Guaranteed Value, Cottontails, Simply Dry, and Companion

Stop & Shop is one of the leading food retailers in the northeast United States. We operate over 380 stores, throughout seven states, employing approximately 60,000 people. In 2008, we launched a new brand identity at Stop & Shop that includes a fresh look for the stores, new logos, new prepared foods assortment, an expanded private label offering, and new shopping technology and customer websites. The initiatives are an important part of our Value Improvement Program to improve the products and services we offer, lower our prices and reduce our costs.

Stop&Shop

"From self-service markets to the introduction of the region's first superstore, Stop & Shop has always been an industry pioneer."

Carl Schlicker
President and CEO
Stop & Shop/Giant-Landover

Giant-Landover

Company name	Giant of Maryland LLC
Established	1936
Joined Ahold	1998
Region	United States, specifically the states of Virginia, Maryland and Delaware and the District of Columbia
Store formats	Supermarkets and superstores
Private labels	Include: Giant, Nature's Promise, Simply Enjoy, CareOne, Guaranteed Value, Cottontails, Simply Dry, and Companion

Giant-Landover is one of the leading supermarket brands in the mid-Atlantic United States. We operate more than 180 supermarkets across three states and the District of Columbia, employing over 22,000 people.

In 2008, we launched a new brand identity at Giant-Landover that includes a fresh look for the stores, new logos, new prepared foods assortment, an expanded private label offering, and new shopping technology and customer websites. The initiatives are an important part of our Value Improvement Program.

www.ahold.com/reports2008

Giant

"At Giant, we're proud of our heritage and our deep community roots."

Robin Michel
Executive Vice President and General Manager
Giant-Landover

Albert Heijn/Etos/Gall & Gall

Albert Heijn

Company name	Albert Heijn B.V.
Established	1887
Region	Europe, the Netherlands
Store formats	Compact hypermarkets, supermarkets, convenience stores and home shopping. Also Etos and Gall & Gall specialty stores
Private labels	Include: AH Huismerk (house label), AH Excellent, AH Biologisch (organic), AH Express and Euroshopper

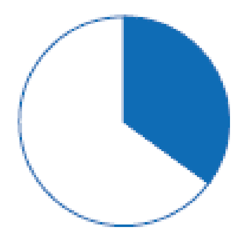
Albert Heijn is the leading food retailer in the Netherlands and one of the country's best-known brands. Albert Heijn operates more than 820 stores and employs over 70,000 people. In 2008, Albert Heijn increased its number of stores by 71, including 54 stores acquired as part of the sale of our majority stake in Schuitema. We continue to grow sales and market share by providing value and an extensive range of private label products. We also continue to innovate our store formats and offering in response to the changing needs of customers and specific local preferences.

The Albert Heijn operating company includes Etos, Gall & Gall, and the Ahold Coffee Company which produces coffee, mainly for Ahold's subsidiaries and joint ventures.

"One of Albert Heijn's greatest strengths as a company is our ability to understand what the customer wants and translate that insight into innovative products and services."

Dick Boer
President and CEO
Albert Heijn

Sales



35.1%
share in total Ahold sales

☐ Ahold (total group) €25,722m
■ The Netherlands €9,029m

Etos

Company name	Etos B.V.
Established	1918
Joined Ahold	1974
Region	Europe, the Netherlands
Store formats	Drugstores
Private labels	Include: Etos house label (Etos Huismerk) and Etos value selection (Etos Voordeelselectie)

Etos is one of the leading health and beauty retailers in the Netherlands, operating over 500 stores and employing over 2,500 people. In 2007, we successfully began repositioning Etos in the highly competitive Dutch market. Etos offers health and beauty shoppers affordable prices as well as service, quality, selection and knowledgeable staff.

"Customers come to Etos for a wide assortment of A-brand and private label products at competitive prices and in a store with friendly and knowledgeable personnel."

Jan van Dam
General Manager
Etos

Highlights: Etos

- Etos opened its 500th store and was named the best drugstore in the Netherlands.

Gall & Gall

Company name	Gall & Gall B.V.
Established	1884
Joined Ahold	1989
Region	Europe, the Netherlands
Store formats	Wine and liquor stores
Private label	Includes: range of selected Gall & Gall house wines

Gall & Gall is the leading wine and liquor specialist in the Netherlands, operating over 530 stores and employing over 1,200 people. In 2008, we began the roll-out of a new type of liquor store with an updated brand image designed to appeal to a broader customer base. We also piloted a smaller store format designed to be incorporated into an Albert Heijn supermarket. In addition, we are labeling shelves according to wine type rather than country of origin to make selecting easier for customers who like wine but are not experts. We are training our staff to provide quality service and advice.

	December 28, 2008 Number	December 30, 2007 Number
Store portfolio development		
Albert Heijn	**823**	752
Etos	**506**	485
Gall & Gall	**532**	519
Albert Heijn/Etos/Gall & Gall	**1,861**	1,756

GALL & GALL

"We want to be the most accessible, attractive and inspiring wine and liquor store in the Netherlands."

Peter Zoutendijk
General Manager
Gall & Gall

Highlights: Gall & Gall

- Gall & Gall converted 11 former Schuitema stores to Gall & Gall stores and opened four new stores.

Albert/Hypernova

Company name	Albert/Hypernova
Established	Ahold Czech Republic (1991), Ahold Retail Slovakia (2001)
Region	Europe, the Czech Republic and Slovakia
Store formats	Hypermarkets and supermarkets
Private labels	Include: Albert, Albert Excellent, Albert Bio, Euroshopper

Albert and Hypernova are among the best-known food retail brands in the Czech Republic and Slovakia. We operate 300 stores in the Czech Republic and 25 stores in Slovakia and employ over 14,500 people in both countries.

We are currently rebranding all our Albert and Hypernova supermarkets in the Czech Republic to Albert to build a single powerful brand and achieve a stronger position in the market. Our offering – particularly fresh food – and our private label products are playing an important part in strengthening the brand. In 2008, we launched Albert Excellent with premium products and Albert Bio to meet the growing demand for organic produce.

The following table contains operational information including net sales and operating income (loss) information for Albert/Hypernova in 2008 and 2007:

"We are focused on providing the best products and service – and a touch of inspiration to make the difference in our customers' lives."

Johan Boeljenga
President and CEO
Albert/Hypernova

Sales

6.9%
share in total Ahold sales

□ Ahold (total group) €25,722m
■ Albert/Hypernova €1,774m

Factors influencing choice of entry mode

- **TARGET MARKET**

- nature, size and geographical distribution of customers
- needs, requirements and preferences of customers (+ frequencies and amount of purchases)
- level of economic development of the market (availability of suitable marketing organizations)
- market access (competitive situation, infrastructure development, intermediary availability, political stability, legal barriers)
- governmental policies

- **PRODUCT**

- nature (unit value, weight and bulk, technical complexity, perishability…)
- use
- selling job requirement
- stage of development (PLC)

- **COMPANY RELATED FACTORS**

- marketing management capability and know-how
- international market know-how
- financial strength
- extent of control

Importance of entry decisions

- Price that final users or consumers will pay (margins, efficiency…) ?
- Product decisions (location of production base, fluctuation of production – production stability   problems of inventory, security of employment…)?
- Speed and costs of international channel development (+ time)?
- Forecasting of structural changes in distribution?
- The offer and selection of suppliers?
- Organization of company?
- Strengths and weaknesses of every link in channel?
- Objectives, resources and policies + the control system to monitor the performance
- Case study Jarlsberg

EXPORTING/export mode

- \- number and type of intermediaries, functions performed – full- service → high specialization (clearing goods) PARTNER MINDSHARE (= measurement of the strength of a relationship - effort, involvement, sales performance…

  \- drivers: (1) commitment and trust; (2) collaboration; (3) mutuality of interest and common purpose + product, brand and profit.
- 3 major types:
  a) indirect export – another domestic company – export house, trading company… 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

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 o 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
- Some furnish market and financial information

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

Case study: Lysholm Linie Aquavit

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 an exit strategy!
- http://wps.pearsoned.co.uk/ema_uk_he_hollensen_globalmark_4/64/16424/4204785.cw/index.html MARIOTT

Case study Ka-Boo-Ki

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)

http://wps.pearsoned.co.uk/ema_uk_he_hollensen_globalmark_4/64/16425/4204808.cw/index.html STARBUCKS

Case study: condoms Durex condoms

Entry mode and involvement

1. High location attractiveness High capacity High risk	5. Low location attractiveness High capacity High risk
2. High location attractiveness High capacity Low risk	6. Low location attractiveness Low capacity High risk
3. High location attractiveness Low capacity Low risk	7. Low location attractiveness Low capacity Low risk
4. High location attractiveness Low capacity High risk	8. Low location attractiveness High capacity Low risk

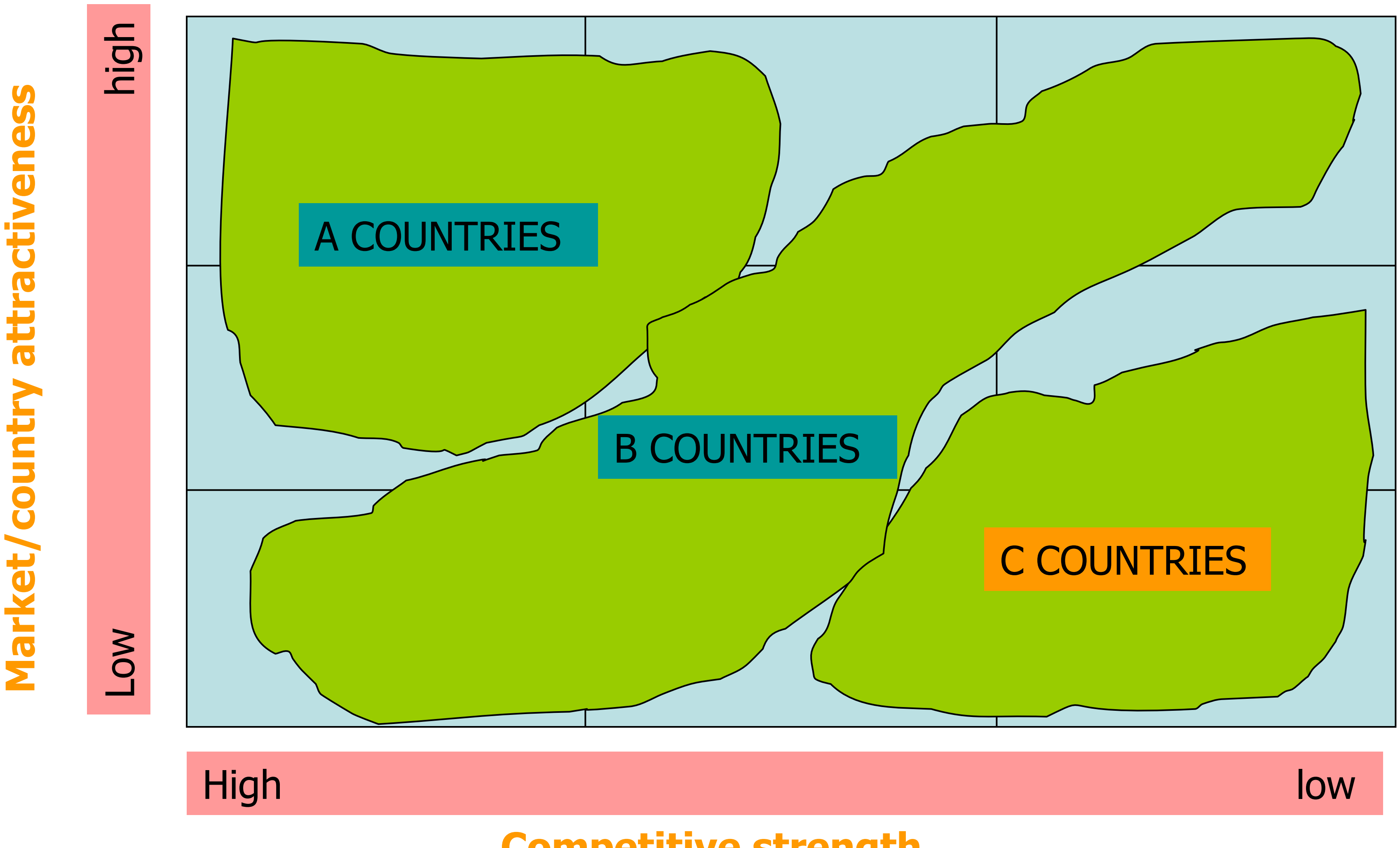
Indirect export – the least involvement

Equity investment – the most involvement

BERI Business Environment Risk Index

CRITERIA	WEIGHTS	RATING (scale 0-4)	INDEX
Political stability	3		
Economic growth	2,5		
Currency convertibility	2,5		
Labour cost/productivity	2		
Short-term credit	2		
Long-term loans/venture capital	2		
Attitude towards foreign investor and profits	1,5		
Nationalization	1,5		
Monetary inflation	1,5		
Balance of payments	1,5		
Enforceability of contracts	1,5		
Bureaucratic delays	1		
Communications:phone, fax, internet	1		
Local management and partner	1		
Professional servces and contractors	0,5		
Total	25	x 4 (max)	max. 100

BCG gowth-share matrix
(applied to international marketing)



Dimensions of BCG matrix

MARKET/COUNTRY ATTRACTIVENESS

Market size (total and segments
Market growth (total and segments)
Buying power of customers
Market seasons and fluctuations
Average industry margin
Comp. conditions
Market prohibitive conditions
Government regulations
Infrastructure
Economic and political stability
Psychic distance

Points: very poor 1 – very good 5

X weight factor (% from 100)

COMPETITIVE STRENGTH (relative)

Market share
Marketing ability and capacity (country-specific know-how)
Product fits to market demands
Price
Contribution margin
Image
Technology position
Product quality
Market support
Quality of distributors and service
Financial resources
Access to distribution channels

Managing the channel

- RELATIONS WITH INTERMEDIARIES:
- Gravity policy (selling to the intermediary and „let it be“)
- Push policy (promotion through the marketing channel – aggressive sale and promotion the product to other channel members at lower levels)
- Pull policy (mass advertising of the company – end users demand the product from intermediaries)

- COMMUNICATION GAPS:
- Cultural (values, social norms, attitudes)
- Nationality (loyalty)
- Environmental (knowledge and fitness – one country versus the foreign country)
- Distance (geographic inperfections on existing communication media)

Channel feedback – effective information system

Alternative basic international channels