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Market Entry Modes

Chapter 10,11,12

Roadmap

- Introduction
- Factors Influencing the Choice of Entry Mode
- Export Modes
- Intermediate Modes
- Hierarchical Modes

Goals of the Lecture

- Distinguish between **indirect, direct and cooperative export modes**
- Understand the **five main entry modes** of indirect and direct exporting
- Describe the **main intermediate entry modes**
- Explain the different stages in **joint-venture formation**
- Explore different ways of managing a joint venture/strategic alliance.
- Describe the main **hierarchical modes**

Introduction

- A **market entry strategy** is the planned method of delivering goods or services to a new target market and distributing them there
- Requires managing contracts in a **foreign country**
- The main types of entry modes: **export, intermediate and hierarchical modes**.
- Where? When? How?

Factors Influencing Choice of Entry Mode

- **Internal factors**
- **External factors**
- **Desired mode characteristics**
- **Transaction specific factors**
- Rules based on which entry mode is chosen:
  - **Naive rule**- Same mode for all foreign market;
  - **Pragmatic rule**- Workable entry mode for each foreign market**;**
  - **Strategic rules**- All alternative modes are evaluated and compared before final choice for particular markets.

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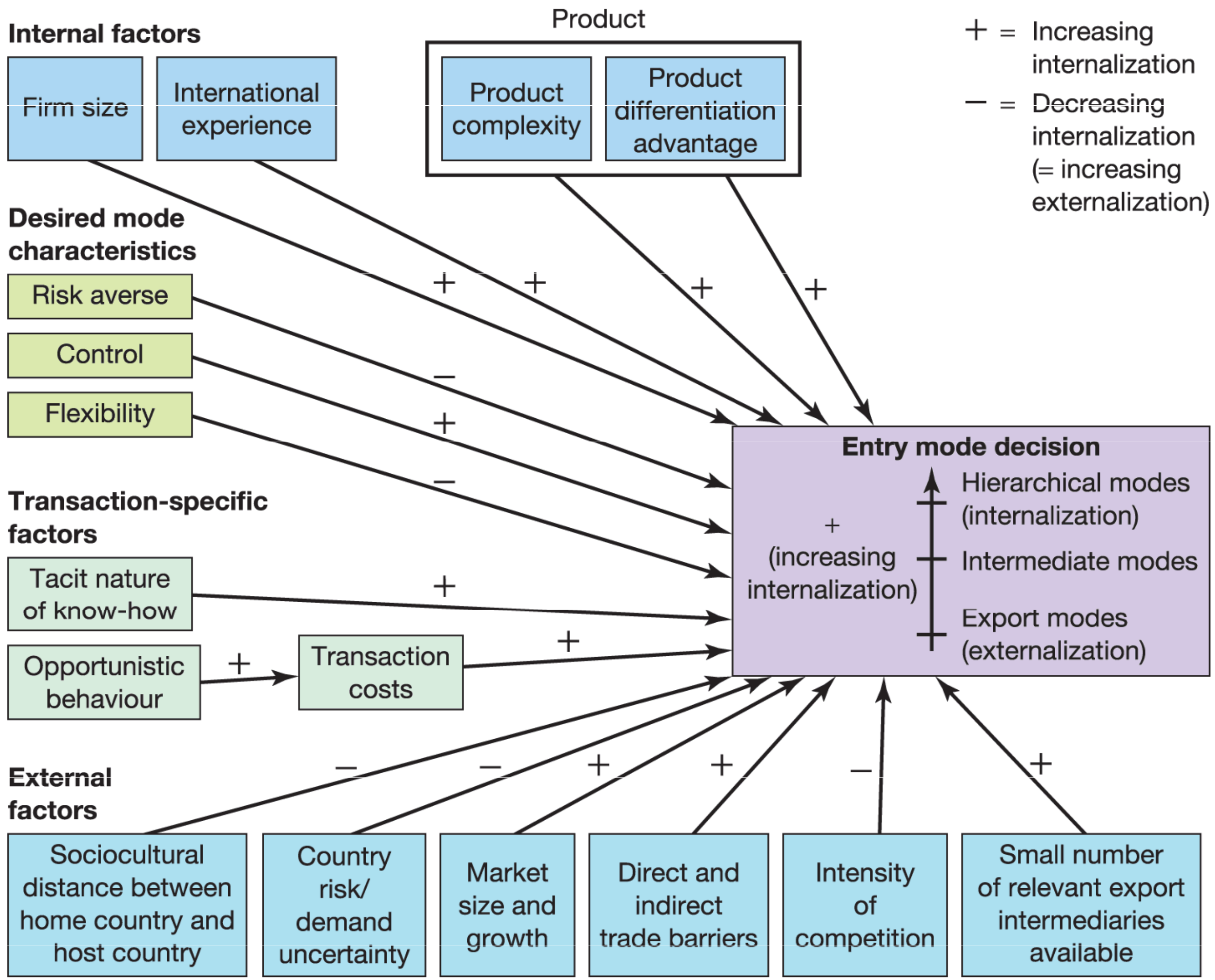

Internal factors
Firm size
International experience
Product
Product complexity
Product differentiation advantage
+ = Increasing internalization
– = Decreasing internalization (= increasing externalization)
Desired mode characteristics
Risk averse
Control
Flexibility
Transaction-specific factors
Tacit nature of know-how
Opportunistic behaviour
Transaction costs
Entry mode decision
Hierarchical modes (internalization)
Intermediate modes
Export modes (externalization)
+ (increasing internalization)
External factors
Sociocultural distance between home country and host country
Country risk/ demand uncertainty
Market size and growth
Direct and indirect trade barriers
Intensity of competition
Small number of relevant export intermediaries available

Export Modes

- Major types of export:
  - **Indirect** - manufacturing firm does not take direct care of exporting activities
  - **Direct** - producing firm takes care of exporting activities
  - **Cooperative** - Collaborative agreements with other firms concerning the performance of exporting functions
- The level of **“mindshare”** between manufacturer and the export-partner
- Drivers of partner mindshare:
  - Commitment and **trust**
  - **Collaboration**
  - Mutuality of **interest** and common purpose

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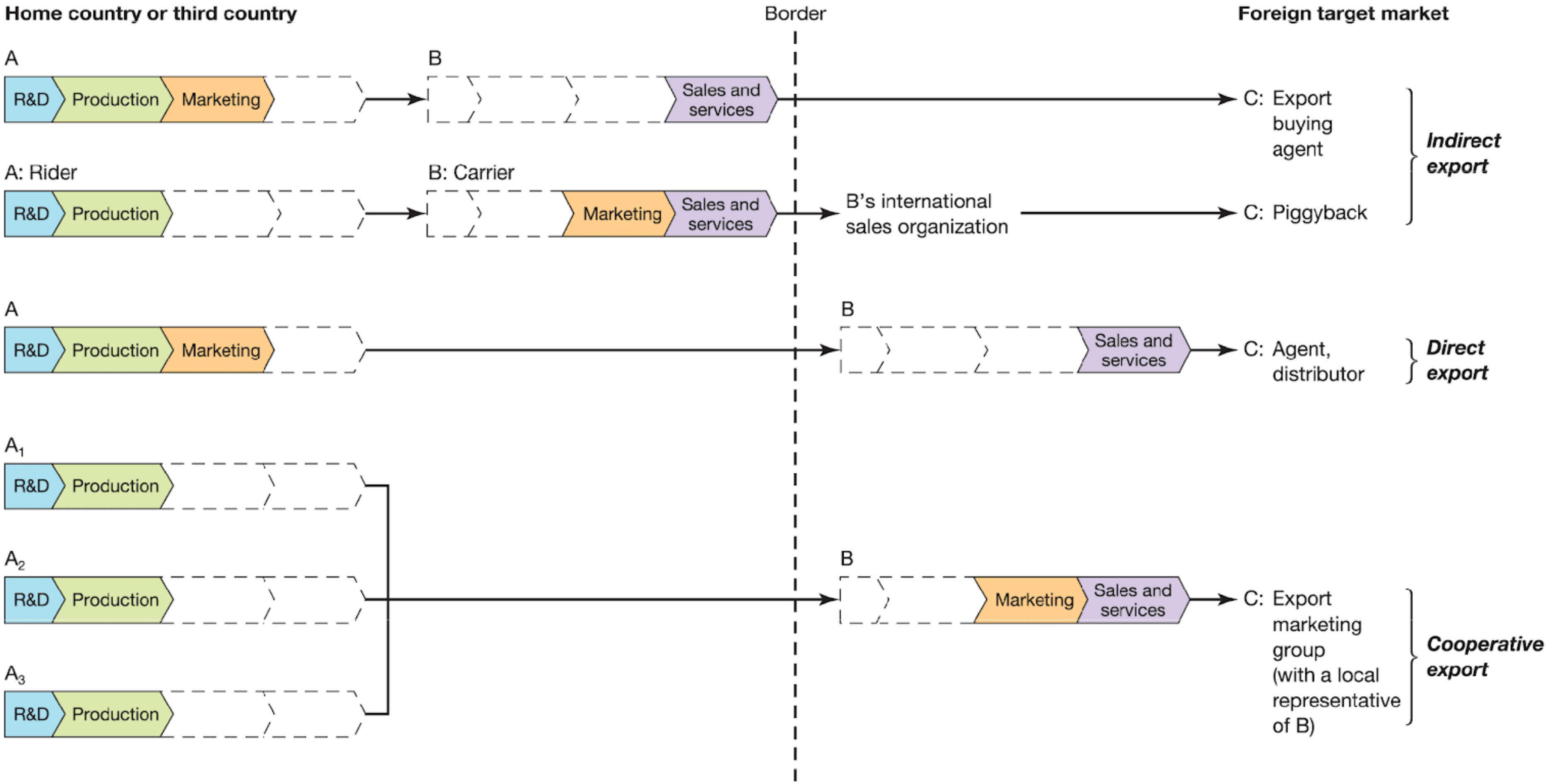
Home country or third country
Border
Foreign target market
A
R&D
Production
Marketing
B
Sales and services
C: Export buying agent
A: Rider
B: Carrier
R&D
Production
Marketing
Sales and services
B's international sales organization
C: Piggyback
Indirect export
A
R&D
Production
Marketing
B
Sales and services
C: Agent, distributor
Direct export
A_1
R&D
Production
A_2
R&D
Production
A_3
R&D
Production
B
Marketing
Sales and services
C: Export marketing group (with a local representative of B)
Cooperative export

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Export Modes – Indirect & Direct Export

- **Five main modes of inderect export:**
  - Export buying agent
  - Broker
  - Export house
  - Trading company
  - Piggyback
- **Two main modes of direct export:**
  - Distrubutor
  - Agents (exclusive, semi-exclusive, non-exclusive)
- Choice of intermediary
  - Suggestion for suitable agent
  - Recommendations from institutions
  - Competitor's agent
  - Targeted advertising in suitable papers

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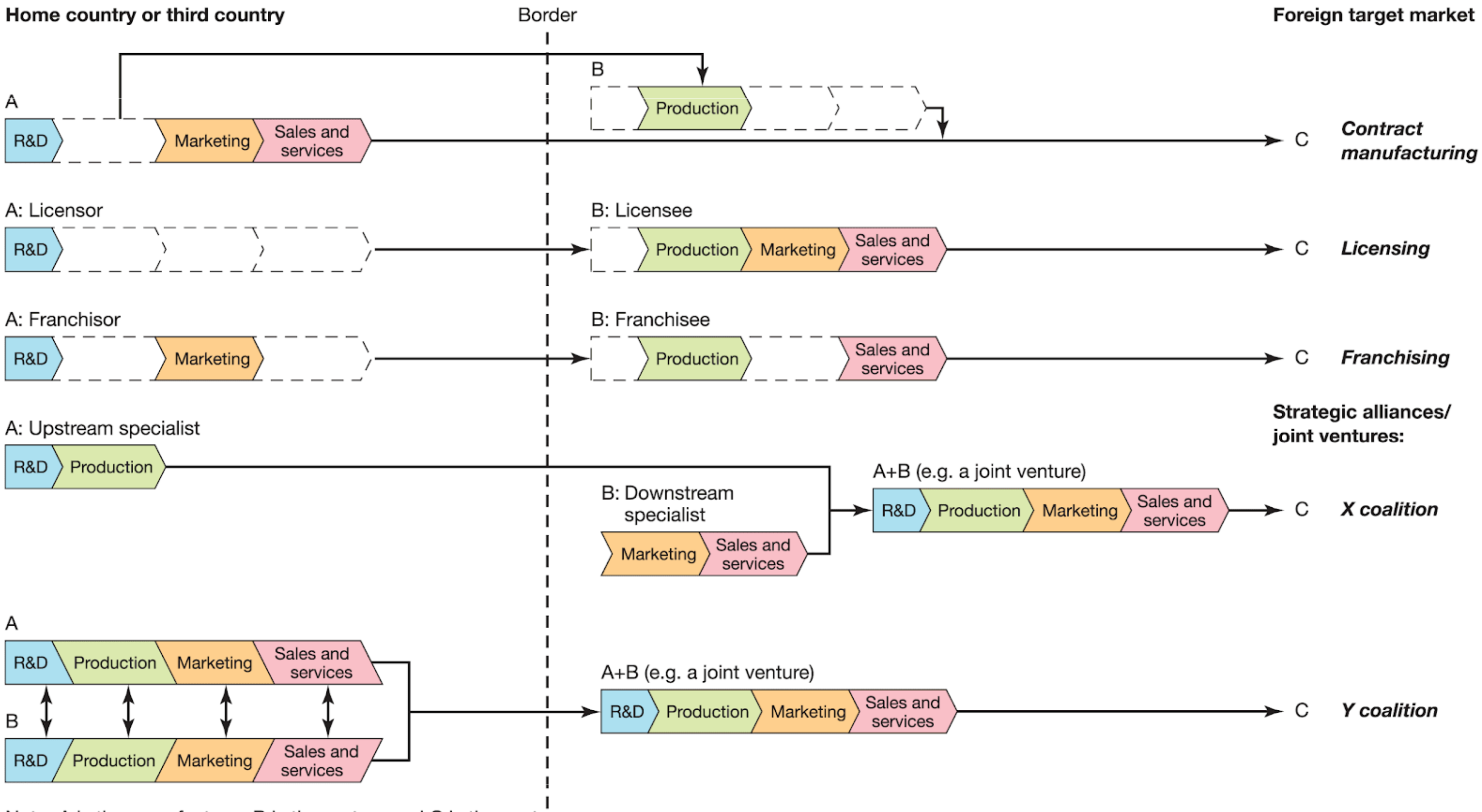
Export mode	Advantages	Disadvantages
Indirect exporting (e.g. export buying agent, broker or export management company)	Limited commitment and investment required. High degree of market diversification is possible as the firm utilizes the internationalization of an experienced exporter. Minimal risk (market and political). No export experience required	No control over marketing mix elements other than the product. An additional domestic member in the distribution chain may add costs, leaving smaller profit to the producer. Lack of contact with the market (no market knowledge acquired). Limited product experience (based on commercial selling)
Direct exporting (e.g. distributor or agent)	Access to local market experience and contacts with potential customers. Shorter distribution chain (compared with indirect exporting). Market knowledge acquired. More control over marketing mix (especially with agents). Local selling support and services available	Little control over market price because of tariffs and lack of distribution control (especially with distributors). Some investment in sales organization required (contact from home base with distributors or agents). Cultural differences, providing communication problems and information filtering (transaction costs occur). Possible trade restrictions
Export marketing groups	Shared costs and risks of internationalization. Provide a complete product line or system sales to the customer	Risk of unbalanced relationships (different objectives). Participating firms are reluctant to give up their complete independence

Questions?

Intermediate Modes



Note: A is the manufacturer, B is the partner and C is the customer

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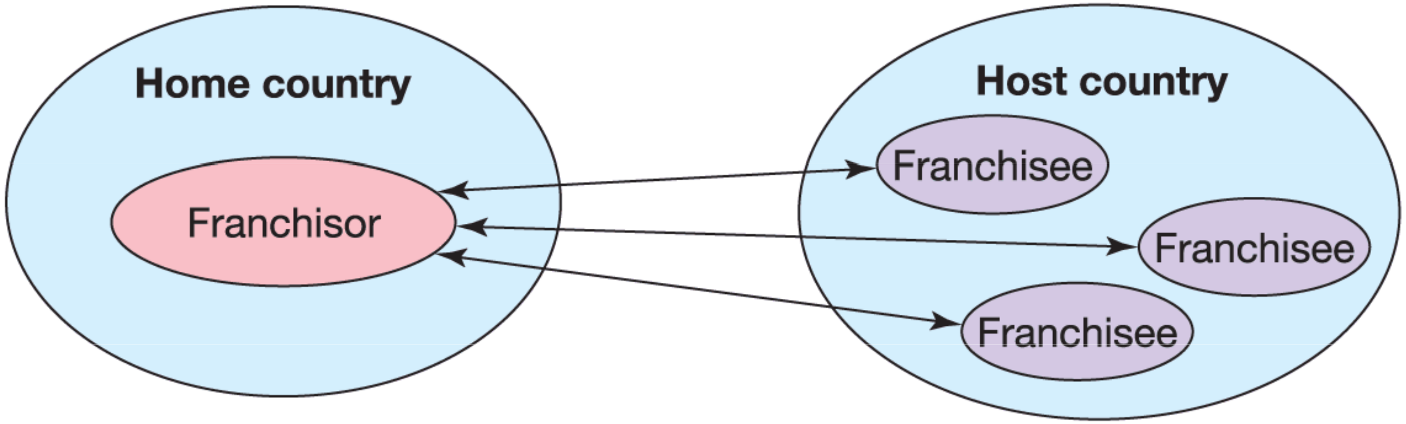
Intermediate Modes

- **Variety of arrangements:**
  - Contract Manufacturing
  - Licensing
  - Franchising
  - Management contract
  - Turnkey contracts
  - Joint- ventures
  - Technical know- how

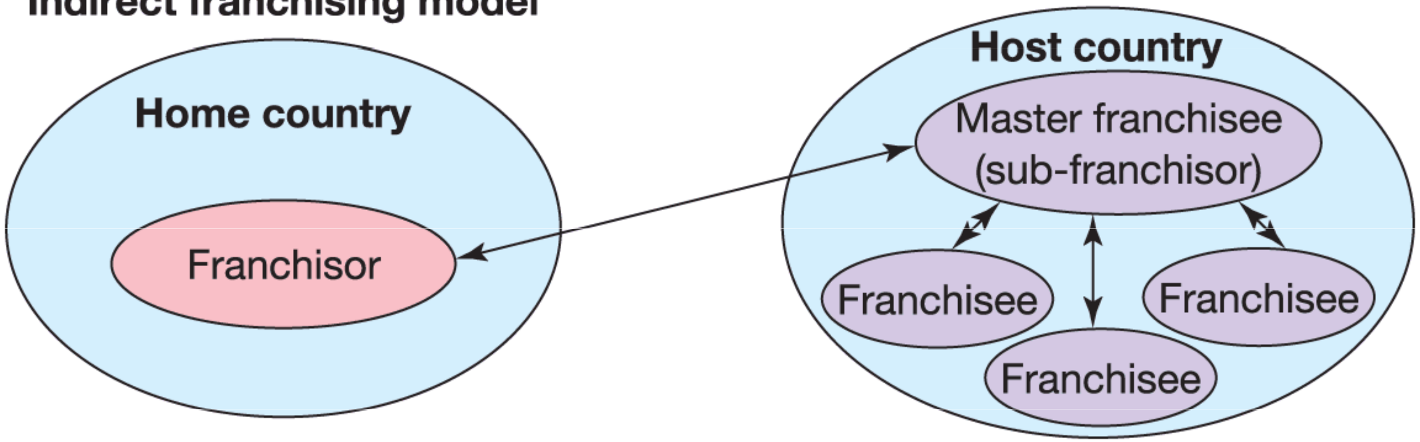
Intermediate Modes

- *Contract manufacturing*: manufacturing outsourced to an external partner, specialized in production and production technology.
- *Licensing*: The licensor gives a right to the licensee against payment (e.g. a right to manufacture a certain product based on a patent against agreed royalty).
- *Franchising*: The franchisor gives a right to the franchisee against payment (e.g. a right to use a total business concept/system against royalty).

Direct franchising model



Indirect franchising model



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Licensing	Franchising
The term 'royalties' is normally used.	'Management fees' is regarded as the appropriate term.
Products, or even a single product, are the common element.	Covers the total business, including know-how, intellectual rights, goodwill, trademarks and business contacts. (Franchising is all-encompassing, whereas licensing concerns just one part of the business.)
Licences are usually taken by well-established businesses.	Tends to be a start-up situation, certainly as regards the franchisee.
Terms of 16–20 years are common, particularly where they relate to technical know-how, copyright and trade marks. The terms are similar for patents.	The franchise agreement is normally for five years, sometimes extending to 11 years. Franchises are frequently renewable.
Licensees tend to be self-selecting. They are often established businesses and can demonstrate that they are in a strong position to operate the licence in question. A licensee can often pass its licence on to an associate or sometimes unconnected company with little or no reference back to the original licensor.	The franchisee is very definitely selected by the franchisor, and its eventual replacement is controlled by the franchisor.
Usually concerns specific existing products with very little benefit from ongoing research being passed on by the licensor to its licensee.	The franchisor is expected to pass on to its franchisees the benefits of its ongoing research programme as part of the agreement.
There is no goodwill attached to the licence as it is totally retained by the licensor.	Although the franchisor does retain the main goodwill, the franchisee picks up an element of localized goodwill.
Licensees enjoy a substantial measure of free negotiation. As bargaining tools they can use their trade muscle and their established position in the marketplace.	There is a standard fee structure and any variation within an individual franchise system would cause confusion and mayhem.

Intermediate Modes

- *Joint venture*: An equity partnership typically between two partners.
- Types of coalition:
  - Y coalition- each partner contributes with product lines and takes care of all value chain activities within.
  - X coalition- The partners divide the value chain activities.
- *Management contracts*: One firm supplies management know-how to another company that provides the capital and takes care of value chain functions in foreign country
- *Turnkey contract*: A construction contract in which a project is ready to produce cash flow upon its completion

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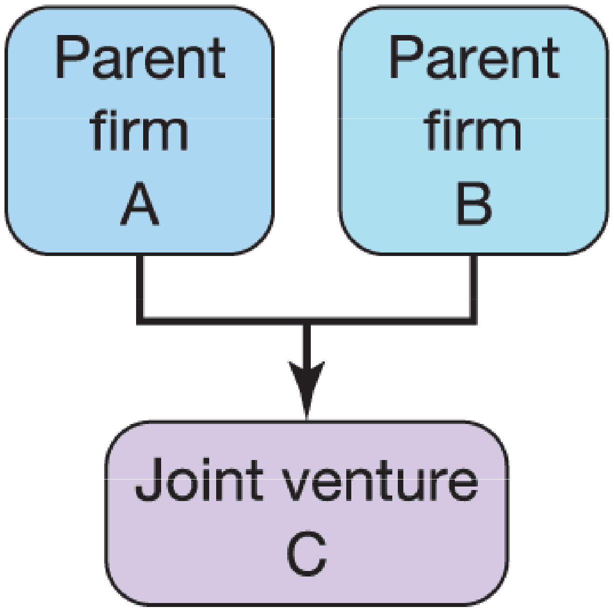
Intermediate Modes

Joint venture



Strategic alliance
(= non-equity joint venture)

Hierarchial Modes

– Producer is creating **own company** in the foreign market
– Involves an **investment**
– Internationalization stages (transferring responsibilities to local management in different countries)/orientation
  – **Ethnocentric** - domestic-based sales representatives
  – **Polycentric** - subsidiaries
  – **Regiocentric** - region centres
  – **Geocentric** - transnational organization

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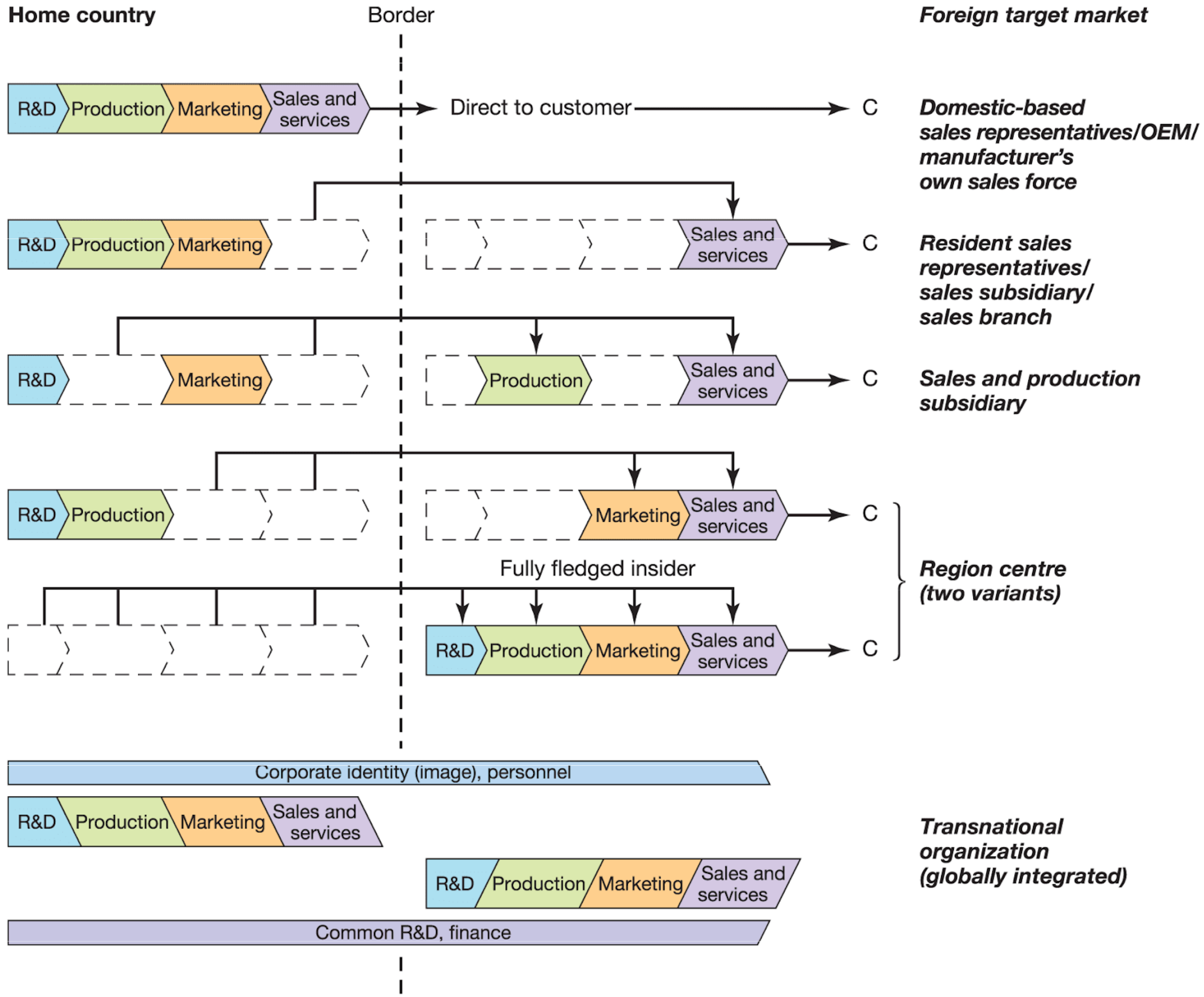
Home country
Border
Foreign target market
R&D
Production
Marketing
Sales and services
Direct to customer
C
Domestic-based sales representatives/OEM/ manufacturer's own sales force
Resident sales representatives/ sales subsidiary/ sales branch
Sales and production subsidiary
Fully fledged insider
Region centre (two variants)
Corporate identity (image), personnel
Common R&D, finance
Transnational organization (globally integrated)

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Hierarchial Modes

- *Domestic- based sales representative*: The sales representative resides in the home country of the manufacturer and travels abroad to perform sales function.
- *Subsidiary*: A local company owned and operated by a foreign company under the laws and taxation of the host country.
- *Region centr*es: The regional HQ (headquarters) will play the role of coordinating and stimulating sales in the whole region.
- *Transnational organization*: Integration and coordination of operations including R&D, production, marketing, sales and services across national boundaries in order to achieve synergies on global scale. Examples are acquisitions and greenfield investment

Hierarchical entry mode	Advantages	Disadvantages
Domestic-based sales representatives	Better control of sales activities compared with independent intermediaries Close contact with large customers in foreign markets close to home country	High travel expenses Too expensive in foreign markets, far away from home country
Foreign sales, branch/ sales and production subsidiary	Full control of operation Eliminates the possibility that a national partner gets a 'free ride' Market access (sales subsidiary) Acquire market knowledge directly (sales subsidiary) Reduce transport costs (production subsidiary) Elimination of duties (production subsidiary) Access to raw materials and labour (production subsidiary)	High initial capital investment required (subsidiary) Loss of flexibility High-risk (market, political and economic) Taxation problems

Hierarchical entry mode	Advantages	Disadvantages
Region centres/ transnational organization	Achieves potential synergies on a regional/global scale Regional/global scale efficiency Leverage learning on a cross-national basis. Resources and people are flexible and can be put into operating units around the world	Possible threats: ● increasing bureaucracy ● limited national-level responsiveness and flexibility A national manager can feel they have no influence Missing communication between head office and region centres
Acquisition	Rapid entry to new markets Gaining quick access to: ● distribution channels ● a qualified labour force ● existing management experience ● local knowledge ● contacts with local market and government ● established brand names/reputation	Usually an expensive option High-risk (taking over companies that are regarded as part of a country's heritage can raise considerable national resentment if it seems that they are being taken over by foreign interests) Possible threats: ● lack of integration with existing operation ● communication and coordination problems between acquired firm and acquirer
Greenfield investment	Possible to build in an 'optimum' format, i.e. in a way that fits the interests of the firm (e.g. integrating production with home base production) Possible to integrate state-of-the-art technology (resulting in increased operational efficiency)	High investment cost Slow entry of new markets (time-consuming process)

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Star Sapt – which entry mode?

- **Assess Internal Capabilities:** Review Stap Sart's resources, including financial, human, and operational capacities, to determine which entry modes are viable.
- **Understand Market Dynamics:** Analyze the target market's regulatory environment, competition, customer preferences, and cultural nuances to gauge entry mode suitability.
- **Risk Evaluation:** Consider the political, economic, and commercial risks associated with each entry mode and how they align with Stap Sart’s risk tolerance levels.
- **Cost-Benefit Analysis:** Conduct a cost-benefit analysis for each potential entry mode, considering both short-term and long-term implications for Stap Sart’s business.
- **Strategic Fit:** Ensure that the chosen entry mode aligns with Stap Sart’s overall strategic objectives, market goals, and the company's dynamic and flat hierarchical structure.

Star Sapt – which entry mode?

- **Strategic Alliances or Joint Ventures might be the most suitable entry mode for the following reasons:**
- **Resource Optimization:** Strategic alliances or joint ventures allow Stap Sart to pool resources with a local partner who has an established presence and understanding of the market. This can be particularly advantageous for a small company with limited financial and human resources.
- **Market Knowledge and Risk Sharing:** By partnering with a local entity, Stap Sart can leverage the partner's market knowledge and networks, which is critical in the dynamic field of personal branding. Additionally, sharing the risks with a partner can be beneficial for a company with a less rigid hierarchical structure, ensuring more flexible management and decision-making processes in a new market environment.

Questions?

Takeaways?

Takeaways

- Export modes
- Intermediate modes
- Hierarchical modes

Home-readings for Next Week

- Reading for next lecture:
  - International Product and Service Strategies (**Dr. Čuhlova**)
  - *Hollensen – Global Marketing 2020. Chapter 14*
- Case Study
  - **Zippo Manufacturing Company:** Has product diversification beyond the lighter gone too far? (p. 505)

Thank you for your attention