Lecture 7

- Entry strategies in foreign countries
- Export, alliances and direct investments

Becoming international (I)

Internationalization is an ongoing process in which a firm acquires knowledge and experience.

Johanson and Vhalne (1990) state that the process is

- *sequential*
- *gradual*
- *unidirectional*

This implies that a company usually starts with an indirect export strategy and continues gradually to develop complex and more challenging forms of internationalization (from export, to agreements, to foreign direct investments).

Becoming international (II)

Truly, internationalization process is an ongoing process, which is graduate in terms of acquiring competences and experience but *it does not always follow sequential paths* since

- some phases can be skipped;
- companies can use more than one pattern/strategy at the same time;
- some firms 'born global' because they start their business in sectors which are already strongly internationalized.

- ➢ *Different ways to approach to international markets*
- ➢ *Different modes in developing interest toward international markets*
- ➢ *Different responses in relation to firm resources and skills*

Phases of international marketing involvement

- **NO DIRECT FOREIGN MARKETING**
  - No interest to foreign customers
  - Focus on domestic market
- **INFREQUENT FOREIGN MARKETING**
  - Temporary international activity through surplus productions (e.g. export)
  - No changes in firm organization
- **REGULAR FOREIGN MARKETING**
  - A part of production is dedicated to foreign countries
  - Product adaptation may be required
- **INTERNATIONAL MARKETING**
  - Full commitment and involvement in international marketing activities
  - Selling as well as production are international
- **GLOBAL MARKETING**
  - The world is seen as one market
  - The overall strategy lies between standardization and adaptation ("glocal" viewpoint)

Main issues for international product distribution

- Selling a product in foreign countries requires a high effort to companies in relation to the availability of financial resources, human resources and know how, skills and experience in dealing with international environments.
- Moreover, a company has to define the international distribution strategy from a double point of view:

How to enter in the foreign market	How to deal with local distribution channels
Indirect Export (through international intermediaries)	Local intermediaries (wholesalers, retailers)
Direct Export	Commercial subsidiaries or own retailers/point of sale (brand stores)
Licensing and franchising	Foreign companies become part of the firm's network and produce/distribute its products
Strategic alliances (e.g. joint ventures)	Partnerships with competitors, local distributors and other organizations
Direct investments	The company controls its business activities (production and, eventually, distribution)

Selling through Internet

The Internet is an important distribution method for multinational companies and a source of product for firms and consumers. E-commerce can be used for distribution and marketing of consumer goods, consumer services, B2B services and industrial products.

Factors affecting marketing through Internet

- *Culture* – the website and the product must be culturally neutral or adapted to fit uniqueness of a market, because culture does matter;
- *Adaptation* – ideally, a website should be translate into the language of the target market (at least the most important pages of the site!)
- *Local contact* – companies fully committed to foreign markets are creating virtual offices abroad, they buy server space and create mirror sites;
- *Payment* – the consumer should be able to use a credit card number – by email (from a secure page on the website), online or over the phone;
- *Delivery* – companies usually take advantage of international delivery companies, which provide delivery worldwide
- *Promotion* – a company has to promote its presence and products in the e-commerce network (how do you attract visitors from other countries to your websites?)

Key decisions on internationalization

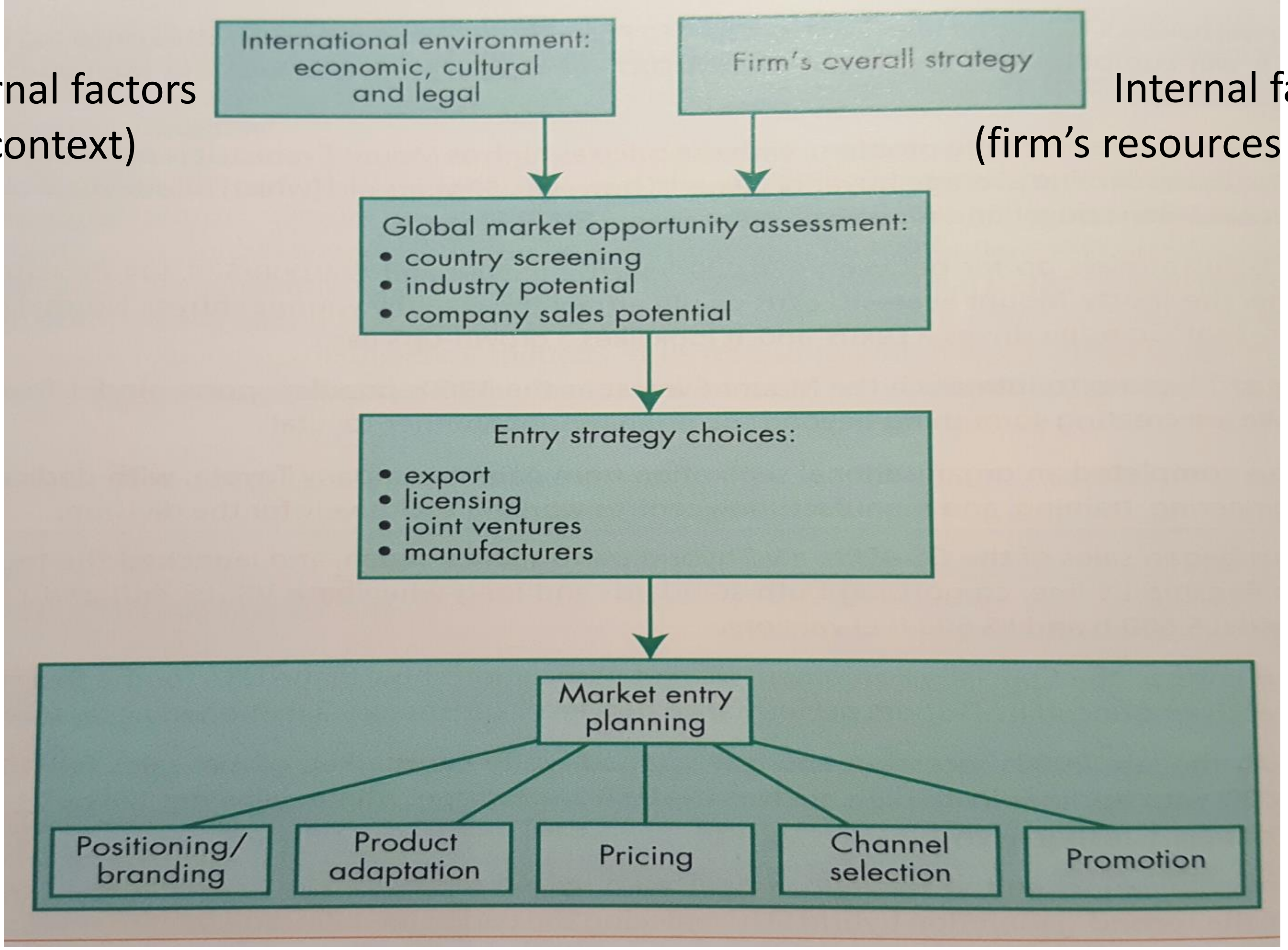
HOME MARKET → Process of internationalization → FOREIGN MARKET

1	Choice of area/country/ region Market selection process
2	Decisions about standardization/adaptation in marketing strategy
3	Choice of entry mode Factors influencing entry decision
3	Product, Branding, Positioning, Promotion, Local Distribution, Pricing

Factors influencing market entry

Esternal factors
(context)

Internal factors
(firm's resources and attitude)



Modes of entry in foreign markets

- **EXPORT**

  Direct

  Indirect

- **AGREEMENTS AND COOPERATIONS**

  Licensing

  Franchising

  Strategic alliances and joint ventures

  Contract manufacturing

  Turnkey operation

- **FOREIGN DIRECT INVESTMENTS (FDI)**

Exporting (I)

- It is the most common approach employed by companies taking their first international step
- Low risks of financial loss
- It can be a stable way to operate internationally
- It can be
  - **DIRECT** (through own point of sale, distribution brunches)
  - **INDIRECT** (through intermediaries, like trading companies, buyers, agents, etc.)

GENERAL TRADING
Wholesale Food Distributors
Home Product Export Services

Exporting (II)

There are two main methods of trading goods and services: direct export and indirect export.

DIRECT EXPORT – the organization produces the product in its home-country and then sells to foreign customers without using intermediaries.

The seller has to take responsibility for finding customers, negotiating with them, processing their orders and arranging shipment and after sale service. It involves high investments but allows better control, often achieved through the operations of sales representatives.

INDIRECT EXPORT – the organization produces goods at home and sells them through one or more intermediaries and thus indirectly to the foreign buyer. The intermediary could be based either in the seller's home country or in the foreign market; e.g. export agent, export wholesaler, export management companies, trading companies.

Exporting (III)

It is a relatively *low-risk* way to begin international expansion or test out an overseas market.

Little investment is involved, and fast withdrawal is relatively easy.

It represents, most of the times, the *primary entry strategy* into international markets; small businesses seldom go beyond this stage, and large firms use this choice for many of their products.

The firm which wants to handle its exporting strategy has two different options:

- to establish a *manager* or an *exporting department* within the organization
- to turn to an *export management company* (e.g. trading company), taking over some or all export functions, such as host-country regulations, tariffs, duties, documentation, etc.

Licensing (I)

- It is used in case of 'exporting' of patents rights, trademarks rights, intellectual property and rights to use technology.
- It can be a supplement strategy to exporting or manufacturing.
- Mainly use in case of scares capital and import restrictions.
- It can regard both production processes and distribution.

Krispy Kreme DOUGHNUTS®

Example of Licensing

- Examples of licenses include a company using the design of a popular character, e.g. Mickey Mouse, on their products.

Licensing (II)

An international licensing agreement grants the rights to a firm in the host country to either produce or sell a product, or both.

It involves the *transfer of rights to patents, trademarks, or technology* for a specified period in return for a fee paid by the license.

(e.g. *Nike* and *Disney* can be seen around the world under various licensing agreements)

It involves relatively *low-risk* strategy because it requires little investment, and it can be a very useful option.

- in countries where market entry by other means is constrained by *regulations* or *profit-repatriation restrictions*.
- in the *mature phase of a product's life cycle*, when competition is intense, margins decline and production is relatively standardized
- for firms with rapidly *changing technologies*, for those with *many diverse product lines*

Franchising (I)

- It is the fastest-growing market entry strategy.
- The franchiser provides a standard package of products, systems and management services.
- The franchisee provides market knowledge, capital and personnel involvement in management.
- The combination of skills permits flexibility in dealing with local market conditions and provides the parent firm with a reasonable degree of control.

Franchising (II)

- It is similar to licensing and it involves *little risk.*
- The franchisor licenses its trademark, business model, products and services, and operates principles to the franchisee for an initial fee and ongoing royalties.
- Franchising is well known in the domestic fast-food industry (e.g. McDonald's) and in the tourism industry for hotels (e.g. Holiday Inn Hotels): the franchisee benefits of firm's reputation, existing clientele, marketing tools, and management expertise; the franchisor can spread its brand, image and stores within specific geographical areas.

<u>Problem</u>: *quality control* especially with greater geographic dispersion.

Top 10 Franchises 2021

Rank	Name	Country	Industry
1	McDonald's	United States of America	Fast Food Franchises
2	KFC	United States of America	Food Franchises
3	Burger King	United States of America	Fast Food Franchises
4	7-Eleven	United States of America	Retail Franchises
5	Domino's	United States of America	Food Franchises
6	Ace Hardware Corporation	United States of America	Home Services Franchises
7	Century 21	United States of America	Real Estate Franchises
8	Papa John's	United States of America	Food Franchises
9	Taco Bell	United States of America	Fast Food Franchises
10	Pizza Hut	United States of America	Food Franchises

Top 10 Franchises 2022

Rank		Name	System Sales	Total Locations
1		McDonald's	$112,500,000,000	40,031
2		7-Eleven	$95,100,000,000	78,413
3		KFC	$31,365,000,000	26,934
4		Burger King	$23,450,000,000	19,247
5		Ace Hardware	$22,386,805,955	5,583
6		Domino's	$17,779,000,000	18,848
7		Subway	$17,500,000,000*	37,147
8		Chick-fil-A	$17,090,000,000*	2,709
9		RE/MAX	$16,130,000,000	8,964
10		Circle K	$15,236,410,066	11,154

Strategic alliances

- They increase competitive strengths and reduce weaknesses
- They involve two or more companies which
  - have a common objective
  - compensate strengths and weaknesses reciprocally
  - do not reach the goal by themselves because of high costs and risks
  - can reach goals that would not be achievable by themselves
- It allows one partner
  - to gain access to partner's distribution system
  - to acquire new skills
  - to reach a country that doesn't allow wholly-owned activities
- They can be
  - EQUITY – capital is involved
  - NON EQUITY – firms maintain their legal and capital independence (contracts)

JAGUAR LAND ROVER

FCA FIAT CHRYSLER AUTOMOBILES

Class exercise

- Find pertinent examples about strategic alliances among famous companies
- Explain the object of these alliances and the advantages for the companies involved

International joint ventures

- At a much *higher level if investment and risk*, joint ventures present considerable opportunities unattainable through other strategies.
- It involves an *agreement* by two or more companies to produce a product or service together.
- This strategy facilitates a *rapid entry* into new markets by means of an already-established partner that has local contracts and familiarity with local operations.
- International joint ventures are a common strategy for corporate growth around the world; they also are a means
  - to overcome trade barriers
  - to achieve significant economies of scale for development of a strong competitive position
  - to secure access to additional raw material
  - to acquire managerial and technological skills
  - to share the risk associated with operating in a foreign environment

Types of international joint ventures

Equity JV – two or more partners have different relative ownership shares (equity percentages) in the new venture (as with most global manufacturers, Toyota has equity alliances with suppliers, sub-assemblers and distributors; most of these are part of their network of internal family and financial links).

Non-equity JV – agreements are carried out through contract rather than ownership sharing; such contracts are often with a firm's suppliers, distributors, or manufacturers, or they may be for purposes of marketing and information sharing, such as with many airlines partnerships.

Problems: partner selection; definition of mutual beneficial working agreement; management skills.

Contract Manufacturing

- A common means of using cheaper labour overseas is contract manufacturing, which involves *contracting for the production* of finished goods or component parts.
- These goods or parts are then imported to the home country, or to other countries, for assembly or sale; alternatively, they may be sold in the host country.
- This strategy can be a desirable means of quick entry into a country with a low capital investment and none of the problems of local ownership.

(e.g. *Nike* uses this option around the world)

<u>Problem</u>: managers have to ensure reliability and quality of the local contractor and work out adequate means of capital repatriation.

Turnkey Operations

A company *designs* and *constructs* a facility *abroad* (such as dam or chemical plant), *trains* local personnel, and then turns the key over to local management.

There are some important critical factors for success:

- the *availability of local suppliers* and *labour*
- the availability of reliable *infrastructures*
- an acceptable means of *repatriating profit*
- *risk of exposure* if the contract is with the host government

Manufacturing – Foreign Direct Investments

- Also called wholly-owned subsidiary with a foreign country
- It concerns delocalization strategy in order to
  - Capitalize low-cost labour
  - Avoid import taxes
  - Reduce high cost of transportation
  - Gain access to raw materials
  - Way to reach the market
- Manufacturing is places where it is most cost-effective
- Manufacturing investments can follow two objectives:
  - RESOURCE SEEKING
  - MARKET SEEKING

Motivations for FDI

Resource seeking – Companies search for either natural resources (mineral, agricultural or oceanographic) or human resources (low-cost labour or highly skilled labour). Often, searching for resources is related to obtaining economic sources for production; companies have affiliates in multiple markets with highly specialized product lines or components, and exchange their production in order to maximize the benefit to the company.

Market seeking – Companies search for better opportunities to enter and expand within foreign markets; especially when markets are closed or the access is restricted, companies have a major incentive to invest rather than export. The goal is not so much related to achieve economies of scale and resources, but it concerns more the possibility to serve a specific and/or potential local demand.

Fully Owned Subsidiaries

In countries where a fully owned subsidiary is permitted, a multinational company wishing to have *total control* of its operations can establish owned subsidiaries to manufacture its products (*green field* investment), or it may *acquire* an existing firm in the host country (*brown field* investment).

(e.g. Philips Morris acquired the Swiss food firm Jacobs Suchard to gain an early inside track in the European Common Market and to continue its diversification away from its aging tobacco business)

This strategy allows

- to achieve a rapid entry into a market with established products and distribution networks;
- to provide a level of acceptability not likely to be given to a "foreign" firm.

The strategy of starting a business from scratch in the host country – establishing a new wholly owned foreign manufacturing or service company, with products aimed at the local market or targeted for export – entails the *highest risk* .

(e.g. Honda, Toyota and Nissan have successfully used this strategy in the US)

The establishment chain model of mode of entry in foreign markets