Impact of barriers in internationalisation marketing essay

This research work takes insight into the modes of market entry as how companies can adopt different strategies in order to enter into international market. Different modes like contingency approach, mergers, acquisitions, incremental internationalisation etc will be discussed. Then the next step would be the barriers that impact the process of internationalisation. The two most important barriers to entry followed by incumbents having a superior production process, capital intensity of the market, and customer loyalty. The least important barriers perceived by the executives in the study are government licensing requirements, followed by heavy advertising. Moreover, barriers to entry are created by absolute cost advantages, economies of scale, product differentiation, the degree of firm concentration, capital requirements to enter a market, customer switching costs, access to distribution channels, and government policy. The political barrier will be given high importance in this research study.

Overview:

In dissertation, I would like to work within the area of International marketing, in fact more closely to market entry strategy. I would like to do the in-depth analysis of different strategies adopted in order to enter international market for launching of products. Firstly, I would describe the cause of internationalisation as why companies adopt to step in international market. Then I would keep in view different kind of barriers and their impact on international activities of any company. Making that narrow then I would prefer to stick with political barrier. It would be more suitable for me to work on market entry strategy within the trade zone as well as between the trade zones. My research is also concerned about the factors that a company should consider while transforming its business from local to international community, as which country is should prefer, keeping in view its political, economical and financial certainty. The impact of competition and long-term relationships will also be viewed as an impacting factor in internationalisation. Impact of government policy would be given high preference as a barrier.

Theory:

Literature Review:

Why Internationalisation?

The process of international market development:

The internationalisation has been a slow process for most companies and it has often been a question of gaining experience of other countries step by step. When the home market limits the opportunities it might be necessary for expansion into other market areas. In this situation it has been necessary for the company to attempt to reduce uncertainty by exporting to neighbouring markets. Limited resources might also lead to that the company prefers forms of market entry that are not so costly and hazardous. However, during the last two decades, companies have developed their international activities more on a contingency basis. The international market behaviour has been influenced by a need to take advantage of different market opportunities and by an increasing need to serve customers in the global market environment. (jr2)

Several researchers within the area of international marketing have, during the last decade, devoted their topics to the process of internationalisation.

For the most part, this research has been focused (Fletcher, 2001) on factors causing internationalisation or to the process why companies become increasingly involved in international activities. Less interest has been devoted to the marketing strategy as such. This paper will therefore be focused on the marketing strategy and the need for adjustment due to the market situation. (jr2)

International Involvement

Companies enter international markets for a variety of reasons and in response to a number of market opportunities. Some researchers (Prahalad and Hamel, 1990; Kay, 1993) have made the case that internal factors such as resources, capabilities and competencies are more important in acquiring and sustaining competitive advantage than the company's position in relation to its competitive environment. In other words, the major sources of international competitive advantage are based on the business, rather than the specific industry.

How Internationalisation leads to Competitive advantage?

Strategic intent

Managers around the globe are facing the increasing necessity for their companies to develop their skills and knowledge to formulate strategy to be able to compete effectively in international markets. The key difference between domestic and international market activities is the multi-dimensionality and complexity of the different markets a company may operate in.

According to Aaker (1998) a sustainable competitive advantage can be reached by focusing the efforts on:

the way you compete;

basis of competition;

where you compete; and

whom you compete against.

Choice of market entry mode?

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The interest in market entry mode choice originates from the theory of international investment. It was studied as a problem with distinctive feature, extent, form and pattern of international production (Southard 1931; Hymer 1960; Caves 1971 and 1974; Dunning 1958 and 1977). Then it was discussed as a critical issue in international marketing by many economists and marketing experts. Wind and Perlmutter (1977) argued that the choice of market entry mode has great impact on international operations and can be regarded as “ a frontier issue” in international marketing. Root (1994) claimed that the choice of market entry mode is one of the most critical strategic decisions for MultiNational Enterprises (MNEs).

Being such an important issue market entry mode choice became the object of numerous theories and models developed to understand and explain associated phenomena. Among

these five basic approaches are particularly prominent and have been applied widely.

They are :

1. the Stage of Development (SD) model (Johanson and Paul 1975; Brooke 1986),

2. the Transaction Cost Analysis (TCA) model and extensions (Anderson and Gatignon,

1986; Hill et al. 1990; Erramilli and Rao 1993),

3. the Ownership, Location and Internalization (OLI) model (Dunning 1977, 1980, 1988,

1995, 1998, and 2000),

4. the Organization Capacity (OC) model (Aulakh and Kotabe 1997; Madhok 1998),

and

5. the Decision Making Process (DMP) model (Root 1994; Young et al. 1989)

The detail of these models and their conflicts with each other would be discussed in dissertation.

The contingency approach

Due to the increased internationalisation and globalisation in most industries many companies do not always follow the evolutionary or step-by-step explanations of company internationalisation. In many cases, it has been obvious that companies do not make market entries step by step (Okoroafo, 1991; Rundh, 1994; Bell, 1995), rather they make their decisions to develop their international activities by other strategic reasons such as acquisitions, alliances and mergers. For companies marketing niche products it is obvious (Lindmark et al., 1994) that they need to start international activities at an early stage due to a limited domestic market. The incremental models have therefore been questioned by different researchers (Nordström, 1991; Vahlne and Nordström, 1992; Andersen, 1993). The contingency approach (Robertson and Chetty, 2000) is based on the premise that the company's international development is contingent on a wide range of market or company-specific factors. External situations or local market opportunities may cause companies to leapfrog stages or to enter markets that are distant from the domestic market or the prevailing international market activities. In response to the developments in the international environment, more complex forms of international market behaviour have evolved.

Barriers to entry and internationalisation:

Barriers to entry have been a popular field of research since the seminal work of Bain (1956). Barriers are obstacles preventing entrant firms from being established in a particular market (Porter, 1980). However, despite the practical and theoretical importance of the matter, we still have only limited understanding of the impact of barriers on the market strategy of an entrant firm.

Industries such as telecommunications are subject to these unification processes (Pehrsson, 2001). A general aim is to encourage the establishment of both domestic competitors and competitors stemming from other countries (Karlsson, 1998). But what is the expected impact of barriers on market strategies of entrants? Are early and late entrants affected in different ways?

In theoretical terms, we need further knowledge of a relation between conditions external to the firm and the firm strategy, and, therefore, application of the contingency perspective (Hambrick, 1983; Peteraf and Reed, 2007) is appropriate. The central view is that a fit between external conditions and firm strategy provides a basis for competitive advantage and high performance (Miller, 1996).

According to the review by Peteraf and Reed (2007), an earlier central criticism of contingency theory was that contingency research was reductionist (Meyer et al., 1993), and empirical models did not account for the impact of interactions among central elements. However, recent studies on internal alignment focus on interaction effects among firm attributes and impact on firm performance (Kauffman, 1993; Levinthal, 1997). Yet, we still have very limited knowledge of interactions among external conditions and the impact on firm strategy.

This paper applies the contingency perspective and focuses on the impact of barriers to entry on the market strategy of early and late entrants. The purpose is to review previous research and to propose a model for the impact of barriers on strategy where product/market scope and product differentiation are central strategy components.

Important barriers to entry

A barrier to entry can be categorized as either exogenous or endogenous (Shepherd, 1979). Exogenous barriers are those that are embedded in the underlying market conditions and, in principle, firms are not able to control exogenous barriers. On the contrary, endogenous barriers are created by the established firms through their market strategies and their competitive behavior and are thus based on incumbents' reactions to new entrants' efforts to become established. However, Gable et al. (1995) observed that frequently the barrier types are mutually reinforcing, and they may be difficult to interpret.

The impact of barriers on strategy

Researchers have studied the impact of barriers to entry on two strategy components, namely product/market scope (Bonardi, 1999; Delmas and Tokat, 2005; Haveman, 1993; Pehrsson, 2001, 2007; Robinson and McDougall, 2001), and product differentiation (Delmas et al., 2007; Russo, 2001; Schlegelmilch and Ambos, 2004) including innovativeness (Han et al., 2001; Salavou et al., 2004). Table II summarizes key findings of the studies of strategies of market entrants and incumbents.

As regards product/market scope, Pehrsson (2007) studied perceptions of expansion barriers in 191 subsidiaries of incumbent Swedish manufacturing firms in Germany, the United States and the UK. He found that the impact of barriers was due to the breadth of the product/market scope of the firms. Hence, obstacles to access customers affect performance in a negative way if the firm has a narrow product/market scope. One reason why the obstacles are not significant if the scope is broad may be that different customer types and delivered products in this context are associated with more degrees of freedom in choosing customers. Problems in accessing a certain customer type may thus be balanced against limited problems regarding other types.

The impact of barriers on entry timing

Makadok (1998) and Pehrsson (2004) underscore that the entry timing advantages of first- and early-movers seem to be resistant to erosion by the entry of additional competitors in a market. Once a new competitor has entered the market, it is difficult to match the performance of the incumbents due to extensive customer loyalties established previously. For the entrant firm this creates severe obstacles to customer access.

Karakaya and Stahl (1989) studied the effects of barriers on the timing of market entry of 49 firms delivering industrial goods and consumer goods. The researchers particularly found that switching costs of potential customers is perceived as more important for late entry than early entry in both industrial goods and consumer goods markets. This finding supports the notion that late market entrants will face extensive obstacles to access customers due to previous loyalties between sellers and buyers.

Broad Research Questions/Objectives:

Why Internationalisation?

How internationalisation leads to competitive advantage?

Why the choice of market entry mode is the critical issue in international marketing?

What is the impact of mode of entry into international market on company's goals and strategies?

Important barriers to entry?

The impact of barriers on product/market scope?

Impact of barriers on entry timing?

Direct/indirect effects of barriers?

Impact of government policies on internationalisation?

Political issues…