Essay on international marketing management

Business, Marketing

Selecting the best way to gain entry into a potential market is not an easy task. Should rapid acquisition be employed or should the firm secretly build market share without letting competitors get aware of it? Thus we see that no single strategy meets the requirement of a firm, a product or market itself. The major market entry strategies are as follows; Exporting Exporting is the most common form of entry into foreign markets. In the true sense exporting means marketing products in one country that are produced in some other country (FAO, 2007).

It is one of the traditional methods of gaining entry into foreign markets. In export strategy goods are produced in the parent country and then moved to foreign locations. No investment is required in terms of production in foreign land. The costs attached to exporting are termed as marketing expenses. Licensing Licensing is an approach to going global by manufacturing firms whereby an organization gives rights to another organization to use its brand name, technologyor product specifications. The parent firm demands a lump-sum payment or a fee usually based on sales in return (Austrade, n/a).

Licensing has a potential to pay a very large ROI as the licensor has to make a very small investment. Though for the licensor returns from marketing and production activities may be lost as the licensee is the one producing and marketing the product overseas. Joint Venture Joint ventures are a specific type of strategic alliances in which the partners decide to form a separate, independent organization for some business purpose. Joint ventures are a more broad type of involvement than either licensing or exporting (Cateora &Graham, 2006).

For example the mobile phone company Sony Ericsson is a joint venture between the two companies Sony and Ericsson; Sony being the leader in camera technology and Ericsson a worldwide mobile phone producer. The option is more popular in countries in which foreign ownership is restricted for example China and Vietnam. Acquisition Acquisition involves purchasing all or part of a company. It is an effective way of expanding a business venture by acquiring an existing business by entering new markets or product areas (Foley. 1999).

The company or part of the company being acquired is absorbed completely and ceases to exist independently by it. The key issues to take into consideration in the acquisition process are the structure of the deal and price of the acquisition. Another factor to consider is the strategic fit of the acquired venture with the overall direction and structure of the existing venture. Franchising Franchising is an approach to enter foreign markets by service organizations. This involves giving other companies the right to use your brand name, technology or product specifications (Shook, 1993).

Sophisticated franchising agreements basically indicate a business format on which the franchisee is to carry on business and make sure a universal customer practice through out the system. An example is Mc. Donald. Direct Investment Direct ownership of facilities in a target country is termed as direct investment. Direct investment includes relocation of capital, machinery and personnel resources. Acquisition of a unit or the institution of a new enterprise is an example of direct investment at a certain location (Austrade, N/A).

Direct ownership offers a far above the ground degree of operations controls and the capabilities to better understand the customers and the competition prevailing in the market. Though, a high commitment and availability of resources is required for direct investment. Direct investment has a very high potential for sales. Which Strategy for Which Organization From the following, one can say that a firm can choose a strategy that best suits its requirements. However there is no single strategy that can satisfy a firm at one given time.

Usually firms use a mixture of these strategies. For example a large manufacturing firm can use a mixture of both exporting and licensing. In small areas where large investment is not viable, licensing is the best approach. For example Budweiser gave a license to Aneheuser-Busch to brew and market the product in small districts of Canada, Mexico and Japan (Robins & Coulter, 2003) . Direct investment is also a good way for such firms if the cost of production and resources are available cheaper then home country. This reduces costs and increases profits.

Large technology based firms or financial institutions can head for joint ventures or acquisitions as it makes costs cheaper and combines resources of two companies giving them a competitive edge (Keegan, 1989). The example of Sony Ericsson is a good case in terms of joint ventures. Small manufacturing enterprises can either do licensing, franchising or exporting. Depending on the type of product they make. If it’s a manufacturing enterprise it can make use of exporting. If it’s a services unit it can use franchising and exporting both.

For example Haribhai's Spice emporium, a small business in Durban, South Africa, exports spices and rice to customers all over Africa (Robins& Coulter, 2003). This increases profits without incurring costs other than production only. Large servicing firms can also use franchising or direct investments. The hotel chains like Marriot, Sheraton and Holiday Inn are an example of direct investment and franchising by servicing firms. The Risk Factor Risks are associated with every business. Be it financial, political, brand image etc. while selecting for a market strategy firms make sure that the risk attached to the strategy is minimal.

Licensing for example has the risk of leakage, the debauchery of a firm's proprietary advantage. Some one else now has the authority to use the firms name. The reputation of parent firm now rest in the hand of another's performance. There is a lack of control on assets such as brand image and product differentiation. Also there is always a threat that the licensee might become a competitor at a alter stage in time. Same is the case in franchising. A continuous and careful control on the quality is important to maintain the brand image and integrity. Exporting faces risks such as trade barriers and tariffs.

These add to costs for the exporting firm. Also the government of a certain country at any point in time ban exports of certain products which can be harmful for an exporting firm. The exporting company is always viewed as an outsider firm by the other country. Joint ventures include an even greater risk. There is threat of dilution of control as now two organizations are in charge. They are even more difficult to manage as the company size

increases greatly and there is danger of knowledge spillover and the partner can gain info and become a competitor (Foley, 1999).

Acquisitions have a risk of conflict between the existing line of products and the new products of acquired company. Both might not be compatible and it would require re branding. Moreover an acquisition might require reeducationof the staff as the values and principles of the acquiring firm may totally be different from the acquired firm. However acquisitions are not viewed as favorable moves by governments and staffs due to the problems faced afterwards. Direct investment has the highest risk.

It requires huge capital and human resources and demand an ever greater commitment and stamina. Local conditions until favorable, direct investments should never be made. Managing local resources is a difficult job and requires great skill and commitment. Cultural and Geographical Factors Joint ventures, exporting, acquisitions and direct investment, all of these expansion strategies face geographical constraints because the rate of expansion is limited by the fact that the expanding entity's presence or involvement is needed in the new geographical markets being tapped.

They also face cultural constraints as the business venture undertaking the expansion needs to accommodate its product/service to the cultural differences and expectations of the foreign country (Cateora & Graham, 2006). In both franchising and licensing arrangements, the business undertaking expansion is not required to invest directly into the expansion or enter the market directly. Hence, the geographical constraints are limited and the expansion can occur anywhere in the world without the physical presence of the manufacturer and at limited cost.

The cultural constraints are also limited as the franchisee or licensee adds their local insight about the changes required to accommodate the product/service to the foreign market and makes the required changes without the franchisor/licensee having to face the risk offailuredue to cultural differences or lack of acceptance in the foreign market. Franchising Franchising is an international market entry mode in which a servicing firm or organization gives a right to use its brand name, technology and product specifications to another firm.

The firm allowing the usage is known as franchisor and the firm buying the rights is known as franchisee. The franchisor demands a lump-sum payment or a fee based on sales usually from the franchisee in return of these rights. Franchising is a business agreement. The agreement grants franchisee the rights to do business in a prescribed format over a period of time in a specified manner. However, franchising could be described as a business design in which the franchisor presents an absolute business package. There are two types of franchising; product distribution and business format (Oju, n/a).

Business format franchising is name for the format in which a franchisor lays down a complete plan of action for the franchisee as to how to manage and operate the business. The plan offers step-by-step measures for main phases of the business, expecting most management difficulties and presents a full matrix for management choices met by the franchisees. The key benefit of buying a business format franchise is that the organization itself and the distribution channels and means been developed, trialed, and linked with the trademark.

As a consequence, swift development of a flourishing retail notion can happen more quickly than with the help of expansion which is company owned. Services such as automotive repairs, advertising services, carpet cleaning, household furnishings etc are expected to experience rapid growth in the new century due to business format franchising. Expansion without Investment Franchising basically is an expansion strategy. This strategy is a non equity based strategy as it does not require any investment by the franchisor.

In fact the franchisor is receivingmoneyonly for giving the rights to the franchisee for using the brand name and specifications. The money at stake is of the franchisee. His profits depend upon the sales he makes. Because the money invested is by the franchisee, the franchisor firm grows at the expense of the franchisee’s capital. One of the main reasons behind why firms franchise is that they, at times do not have the required capital to set up new outlets or stores. For example Mr. Brown who is the former President of KFC states that KFC had to pay a sum of $450 million in order to build its first 2700 stores.

At that moment such a huge amount was not available to the firm and the firm opted for franchising the outlets thus making the franchisees invest their capital. The interesting fact here is that KFC is now fully capable of raising capital through traditional means but it still opts for franchising as it reduces costs for the company (Spenelli & Birley, 2004). Franchising allows some functional benefits as well which in turn reduce production costs at the expense of franchisee (Shook, 1993).

Monitoring costs are also reduced considerably as company owned retail outlets would require the company to keep a check on them where as franchised stores have the staff and money of the franchisee and there fore he makes sure that everything runs smoothly. Motivational Factor As mentioned earlier the money invested in the franchise id of the franchisee. Thus the franchisees are more motivated than the company's employees as their profits depend on the sales they make. A franchise is lead by owners not employees.

Thus an owner manager must be more motivated and effective than a manager who has no investment in the business and is rewarded by a salary (Brown, 1981). A franchisee has a continued interest in the business because it is his business where as an employee might not have continued interest in the business as it is not his business. The Knowledge Edge Expanding a business requires a very deep and detailed insight on the local market conditions. Overseas expansion requires that the market be well studied before taking any steps. This problem is solved by franchisors with the help of locals of that country or in other words the franchisees.

Locals or nationals are well aware of suppliers and vendors. They can lessen the cost of resources through their links. Thus the best approach for a services firm is to franchise an outlet first. Some businesses also need to have knowledge about local taste and preferences of consumers (Mclees, 1996) . Market related information of this kind can result in high costs of gathering information for a firm. Thus for such a firm, it is advantageous to hand over the business to a franchisee who is accustomed the local market conditions and preferences and can collect information more efficiently.

For example, in the real estate business, a native franchisee is more likely to be conscious of that area's landed property and real estate likings than some corporate management. Technology and Business Transfer In franchising, the franchisee inherits technology and developed business from the franchisor. Technology transfer is a process that moves technology from one unit to another. Franchisees, as they are carrying a business’s name also get the technology being used by the business.

The business wants no compromise on quality and that means that the same technology be transferred to the franchisee as well so that quality and quantity are the same. Technology and business transfer only happens when the two parties agree upon a perceived value. This includes royalty payments depending on successful commercialization in almost all cases (Tikoo, 1996). Though, often it has seen that a franchisor who transfers assets and equipment to the franchisee gives rise to bilateral bargaining problems. For example when the franchising period is over, the franchisee might refuse to return equipment or it may hold upon advertising funds.

Developing countries or newly developed countries cab benefit the most from franchising. Countries such as Estonia, Pakistan, and India etc can capitalize on franchising as the market players in these countries might not have enough developed businesses or technology. Franchising in these countries enables business people to grow and develop skills by running a developed business and get access to technology which they could not on their own. Franchisor Support and Developed Business Format To franchise a business, an organization must first make its potential franchisees believe that they are going to make money.

Franchisees want proven evidence that the business is sound and that if they invest in it, they will get a good living in return. This is achieved by providing support and a well made business model or format to them which they can replicate in order to grow and develop. The business format or the operations manual provides information on how to run the new outlet in order for it to be successful. It points out the main activities and clarifies how to do them in the right manner. Apart from the business format, franchisees also get support from the franchisor in terms of training activities for franchisees which would assist them in future.

Support also includes administration and marketing support for the franchisee as he is new in the market and is not aware of processes and ways of doing business (Business link, 2007). References 1. Brown, H. 1981. Franchising: Realities and Remedies. Published by Law Journal Press. 2. Cateora, P and Graham, J. 2006. International marketing 12th edition. Published byAcademicInternet Publishers. 3. Foley, J. 1999. The Global Entrepreneur: Taking Your Business International. Published by Dearborn. 4. Keegan, J. 1989. " Global Marketing Management", 4th ed. Prentice Hall International Editions,

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