Management principles: market entry strategies

[Business](), [Management]()

Executive Summary

This report has been written to seek to explore the management principles, which may be applied by businesses when they seek to enter new international markets. The report shall be split into three parts, which will focus on different elements of this. Firstly, the various market entry strategies, which are available to firms who are intending to become international businesses, shall be briefly described. Secondly, three market entry strategies shall be discussed (including their definitions, the basic decisions required to implement these and the positive or negative aspects of each of these strategies). Finally, an analysis of a market entry strategy, which has been used by IBM to move their business into China from the United States (U. S.) shall be analysed and discussed. Then a number of conclusions shall be drawn in relation to market entry strategies and how they have been utilised by firms to date.

Introduction

This report has been written to seek to explore the management principles, which may be applied by businesses when they seek to enter new international markets. The report shall be split into three parts, which will focus on different elements of this. Firstly, the various market entry strategies, which are available to firms who are intending to become international, shall be briefly described. Secondly, three market entry strategies shall be discussed (including their definitions, the basic decisions required to implement these and the positive or negative aspects of each of these strategies). Finally, an analysis of a market entry strategy, which has been used by IBM to move their business into China from the United States shall be analysed and discussed. The first of these topics shall now be briefly discussed.

Market entry strategies available for a firm intending to become international.

When an organisation has made a decision to enter an overseas market, there is a variety of options open to it (Meyers et al. 2009). These options will be varied depending upon the cost, risk or the degree of control, which can be exercised over them (McDonald, Burton and Dowling, 2002). However, the easiest way which a firm may enter a new market is by using a form of entry strategy derived from exporting (Morsink, 1998). This may be implemented by using either a direct or indirect method such as, an agent or countertrade (Morschett, Schramm-Klein and Swoboda, 2010). However, there are more complex ways through which firms may seek to enter new international markets (Porter, 1980) these may be derived from the undertaking of joint ventures, or export processing zones (Roberts and & Hite, 2007). Cunningham(1986) identified five strategies, which have been used by firms when they are seeking to enter foreign markets, these are: Technical innovation strategy. This is when a firm seeks to create an image so that they are perceived to have superior products.

Product adaptation strategy – This is when a business modifies an existing product.

Availability and security strategy – This is when a firm seek to overcome transport risks by countering perceived risks.

Low price strategy – This is when a firm use a low price to penetrate the new market.

Total adaptation and conformity strategy – This is when a firm use a foreign producer to manufacture their products (Cunningham, 1986: 9).

Therefore, from the above, we can ascertain that there are a number of market entry strategies, which may be used by firms to seek to enter new international markets. In the next section of this report, three of these shall now be discussed in more detail.

Three market entry strategies, which firms may use to become international businesses

There are three main entry strategies, which may be used by firms to enter international markets. These are direct, indirect or foreign based (Dunning, 1985). Each of these has a number of advantages and disadvantages. For example, a direct strategy involves the sharing of risk and knows, may be only means of entry into an international market or may be source of supply for third country (Dunning, 1985). Each of these is advantageous and may be implemented through an agent, distributor, government or an overseas subsidiary. However, the disadvantages associated with this approach are that partners may not have full control or management within a company, it may be impossible to recover capital, there could be disagreements between purchasers or third parties or partners may have different views on the exported benefits of the goods or services in question (Ferrell and Hartline, 2008). In comparison, indirect approaches involve trading companies, export management companies, piggybacking or countertrading (Glowik and Smyczek, 2011). Furthermore, foreign based market entry strategies enable companies to set up their operations in other countries. So there are a variety of ways in which organisations can enter foreign markets. Three of these methods shall now be outlined in more detail.

The first of these is the use of export processing zones. This is often defined as a zone within a country, exempt from tax and duties, for the processing or reprocessing of goods for export (Croft, 1994). This is a foreign market entry strategy, which is derived from the use of licensing, joint venture, contract manufacture or ownership (Griffin, 2008). In order to determine if this is the best approach, a firm will need to ascertain if there is a demand for their product, they will need to identify potential partners and they will need to ascertain if their earnings will be advantageous from adopting this market entry strategy. The advantages of using this approach are that the host country obtains know how, there is capital, technologyor employment opportunities created within the country in question, there could be foreign exchange earnings and this helps foreign internationalization is enabled more easily (Gwartney, Stroup, Sobel and MacPherson, 2009). However, the disadvantages of this approach are that partners do not have full control or management of their business, it may be impossible to recover capital, there could disagreements between parties as they may have different views on exported benefits or other business topics (Lane, 2006).

The second approach, which may be used to enter a foreign market, is often based on bartering. Bartering is defined as the direct exchange of one good for another (Kotler and Armstrong, 2008). In order to determine if this is the best approach, a firm will need to ascertain if there is a demand for their product, they will need to identify potential partners with whom they may barter goods and they will need to ascertain if their earnings will be advantageous from adopting this market entry strategy (Schultz, Robinson and Petrison, 1998). The disadvantages of this approach are that it may involve short-term investments, capital or employment movements, transaction costs and benefits, the business is not part of economy so it may be aliened, laws may be different or create more bureaucracy (Smith, 2011). However, they are simple to administer, there is no currency and they are commodity based valuation or currency based valuation, so there are also a number of advantages to adopting this approach.

The third method, which may be used by firms to enter a foreign market, is referred to as countertrade (Williamson, 1975). Countertrade is when a customer agrees to buy goods on condition that the seller buys some of the customer’s own products in return (Kotler and Armstrong, 2008). In order to determine if this is the best approach, a firm will need to ascertain if there is a demand for their product or a demand for their partners, they will need to identify potential partners from which they make purchases and they will need to ascertain if their earnings will be advantageous from adopting this market entry strategy (Williamson, 1985). The advantages of this are that it is a method of obtaining sales by retaining a seller and it is an effective method of breaking into a closed market. However, the disadvantages are that there may be usage differences or variety differences between products and locations, it is difficult to set a market price and there may be inconsistencies in the delivery and specification of the product or service quality (Glowik and Smyczek, 2011).

Each of these three market entry strategies may be employed by companies who wish to enter foreign markets. However, what has been interesting is the recent shift in companies moving to China (Hira and Hira, 2008). This shall be discussed using IBM as an example (Highbeam. com, 2005).

Analysis of the market entry strategy of IBM to move their business into China from the United States.

In recent years, according to Hira and Hira (2008), a number of multi-national companies, which have been based in the United States, have started to move their operations to China. This is sometimes referred to as off shoring. Off shoring is when companies seek to move parts of their operations to other countries. One example of this is the U. S. company named IBM, which is moving their business China. In this scenario, the market entry strategy, which is being adopted by IBM, is based on knowledge transfer and a foreign market entry strategy (Glowik and Smyczek, 2011). Additionally, IBM is adopting a total adaptation and conformity strategy as they are using a foreign producer to manufacture their products (Cunningham, 1986). This is a big move for IBM, which is a multinational technology and consulting corporation with headquarters based in Armonk, New York in the U. S. They produce and market computers, to both businesses and domestic consumers. The manufacture and develop both hardware and software, and provides infrastructure, hosting and consulting services in areas covering many divisions from mainframe computers to nanotechnology (Shelly, 2010). Originally IBM had twenty-five 25 research and development (R&D) centers in the US, Europe and Asia. However recently it has decided to establish two major research and development centres in Beijing and Shanghai of China. This move has been undertaken to seek to take advantage of the emerging markets and economies in China and to encourage the technology development in an open standard and open source code (hHghbeam. com, 2005). This has brought a number of advantages to IBM due to the low labour costs, the high technological centres which already exist in China and a general reduction in their overheads due to the lower operating costs (Thomson and Sigurdson, 2007). Therefore, this move has been advantageous to them in a number of ways. However, they have also been able to take advantage of entering this new market as their products and services are now being utilized in China too (Engardio, Roberts and Bremner, 2004). To this end, this move has been good for IBM. However, one must also consider that there may be a number of disadvantages for this company in the future such as, the company may not attain full control or management of their business or it may be impossible to recover capital should these new investments in China fail (Lane, 2006). However, to date IBM seems to be reaping the benefits of this move, only time will tell if this has been beneficial overall.

Conclusions

From the above, we can ascertain that there are a number of market entry strategies, which may be used by firms to seek to enter new international markets. Each of these has a number of positive or negative aspects which must be considered carefully by businesses before they enter new markets as is shown by IBM who have moved their business into China from the United States.

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