

Example of research paper on foreign market entry and diversification

[Business](#), [Company](#)



Introduction

The overall business landscape is being continuously changing because of the different factors and elements. This in turn makes it important for the organizations to come up with different effective and efficient strategies to respond to the changing external and internal elements or factors. The organizations can come up with different strategies and techniques to cope up with the changing internal and external environment. Effective and efficient strategic management allows the organizations to successfully operate in the highly competitive and changing industry or environment (George, 2012).

In this report, an attempt has been made to suggest and justify the diversification and foreign market entry strategy for Gucci. This is further supported by the methods and recommendations to overcome different issues and challenges faced during diversification and foreign market entry.

Argument for Diversification of Business

Gucci is a big name in the fashion and accessories industry. However the company is facing increasing competition in the industry as there are several other large and small organizations operating in the industry and catering to the needs and requirements of the same target market. For this reason there is high need of new and different strategies for enhancing and improving the overall performance and growth of the organization. According to the Ansoff growth model the organizations have four different strategic options in order to improve the market position and growth. These four options are (George, 2012):

- Market penetration (same product same market)
- Market development (same product new market)
- Product development (new product same market)
- Diversification (new product new market)

The current local and international market of Gucci is already saturated and it is high time for the company to go for diversification strategy in order to make sure that the company has more options for increasing its overall performance and growth. The diversification can be related or unrelated. In related diversification the organization enters into the new industry or market which is related with the current operations and industry of the organization. On the other hand in unrelated diversification the organization enters into completely different and new industry or market as compared to the current industry or market of the organization (Williamson, Cooke, Jenkins, & Moreton, 2012). The diversification strategy can be helpful and beneficial for Gucci and will contribute towards the process of improving and enhancing the overall growth and performance of the company.

Strategy for Diversification

It is highly important for the organizations to come up with effective and efficient plan or strategy for diversification. For this purpose, it is essential to first analyze and evaluate all internal and external factors associated with the diversification strategy of plan. This is important in order to make sure that the diversification strategy is well executed and implemented and results in increasing the overall performance, growth, and profits of the organization. (Hitt, Ireland, & Hoskisson, 2012).

In reference to the Gucci, the company can enter into the industry or market segment of skin and hair care. The company at the moment is operating in the fragrance and other related accessories market segment and entering in the skin and hair care market segment will be a related diversification. The cosmetics industry all over the world is showing positive growth and returns. The overall sales of the cosmetics or beauty products for the period of January 2012 to March 2012 witnessed an increase of around 14 percent (The Beauty Company, 2012). At the same time the skincare segment witnessed an increase of around 19 percent in the overall sales all over the world (The Beauty Company, 2012). Within the cosmetics industry the skin care and hair care are two most profit giving segments as shown in the image below:

(Barbalova, 2011)

Foreign Market Selection and Formulation of Strategy

Foreign market selection is one of the most important and crucial decision for the organizations. It is important for the organizations to carefully analyze and evaluate the environment and other factors of the foreign market before taking the actual decision of entering into the foreign market.

At the same time it is essential to carefully evaluate and understand different cultural and other differences in order to make sure that the entry into foreign market is successful and profitable (Omar, M., & Porter, 2011).

In reference to the Gucci, the management should consider entering into the market of China. China is one of the rapidly growing countries and is being reporting continuous economic growth (Overholt, 2010). Apart from this the cosmetic industry of China is growing with rapid pace as it witnessed 18.7

percent growth in the sales in the year 2011 and the overall retail prices of cosmetics are also increasing (Li and Fung, 2012).

The best entry mode for Gucci in China will be merger with some local cosmetic distribution company. Although, China has liberalized its markets and is welcoming the foreign investors but at the same time it is difficult for any international company to survive in the Chinese market as Chinese government and policies support the local companies and organizations. Hence, it will be beneficial for Gucci to enter into the Chinese market by entering into a partnership or merger with a local cosmetic distribution company in China (Li & Zhou, 2010).

Challenges to be faced in the Foreign Market and Resulting Strategies

It is important to for the organizations to identify and understand the different issues and challenges which will be faced in the foreign market. It is also important for the organizations to come up with proper and effective strategies to cope up with these challenges and issues in order to make sure that the entry into the foreign market is a success and results in improving the overall profitability and growth of the organization (Williamson, Cooke, Jenkins, & Moreton, 2012).

In reference to the decision of Gucci to diversify in the skin and hair care products and entering into the market of China; there are several issues and challenges which have to be faced by the company. First of all the company will have to face the challenges associated with the difference in the culture and other management practices. The second challenge will of difference in the consumer behavior and preferences. Apart from this, the organization

will also have to face the political and legal issues and challenges associated with the increased regulation by the Chinese government and more preference to the local companies (Guthrie, 2012). All these challenges can be avoided by the management of Gucci by employing different effective and efficient strategies. In order to cope up with the changes in the consumer preferences and behavior, it is important for the company to carefully analyze and explore the consumer behavior and needs and come up with more personalized and customized solutions for this market. Along with this the strategy of entering into a partnership or merger with the Chinese distribution company will allow Gucci to successfully avoid the issues and challenges associated with the different cultures and management styles and at the same time will be able to cope up with the political and legal regulations in the country (Li & Zhou, 2010).

Scenario when it is not feasible to enter into Foreign Market

It is important to acknowledge here that it is not always feasible or beneficial to diversify or expand into a foreign market. For this reason it is important to carefully evaluate and analyze all internal and external factors before talking the decision of entering into a foreign market (Hitt, Ireland, & Hoskisson, 2012). For instance, there is possibility that the legal and political environment is not conducive to enter into the new international market because of the increased regulations and taxes. Apart from this another reason for not entering into the foreign market is the high difference or variance in the consumer behavior or preferences and the offerings of the company.

Creation of Business Environment Conducive to Ethical Behavior

It is important for the organizations to create or generate a business environment which is conducive to the ethical behavior. This is more essential in the case of entering into a foreign market. The company should consider and acknowledge the differences in the culture, management, and ethical styles and should take appropriate steps and measures to provide an environment which supports ethical behavior (Hitt, Ireland, & Hoskisson, 2012). The management of Gucci can make it possible by understanding the culture and management practices of China.

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