

Market entry strategy
which is appropriate
in circumstances
marketing essay



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INTRODUCTION:

The assignment explains that if any firm goes into the international market then what are various types of entry modes and then what can be the various entry strategies. Axinn (2002), state that firms nowadays are enter into international markets much more than before. Therefore, theories regarding globalization that provide realistic mentoring is more significant than it have been discussed in six stages by Kotler & Armstrong (2001):

Looking at the international environment

Deciding whether to go in international market or not

Deciding which markets to go in

Deciding how to enter in the market

Look critically global marketing program, and

Deciding on a global market organization

Reference:

Axinn, C. N & Matthyssens, P (2002) Limits of Internationalization theories in an unlimited world. *International Marketing Review* 19(5), p436-449.

Kotler, P., Armstrong, G. (2001). *Principles of marketing* 9th Ed. Upper Saddle River: Prentice Hall International.

DEFINITION OF MARKET ENTRY STRATEGY:

According to Green (1995), In literature there is no agreement regarding managerial decision which constitute an entry strategy.

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Strategy is defined as the firm's consistent internal set of objectives and procedures or policies and goals, which support the organizations strengths and weaknesses with the outer opportunities and threats.

In other words, if a firm's internal variables will be coordinated with external environment to achieve superior performance it shows firm's effective strategy is in place.

A market entry strategy is formulated a firm's decision in regards to organization, market and product before the actual launch of product.

Market entry strategies are essential for existence of new firms as they are on the desire path right from the beginning exclusive of differing from their objectives. Several studies revealed that successful launch strategy raise the possibility of firm survival and better performance.

According to Sandberg and Hofer (1987), In contrast to any other variables effect of strategy, entrepreneur and structure of industry impact more on performance.

The market entry strategy is particularly significant, as it choose number of strategic and planned substitute to the firm in future.

We take market entry in a very slow and steady manner because there is lots of risk. Doing business internationally is altogether different from doing business in domestic market.

Reference:

Green Donna H./Barclay, Donald W./Ryans, Adrian B. (1995), Entry Strategy and Long-Term Performance: Conceptualization and Empirical Examination, in: Journal of Marketing, Vol. 59, pp. 1-16.

Sandberg, William R./Hofer, Charles W. (1987), Improving New Venture Performance: The Role of Strategy, Industry Structure, and the Entrepreneur, in: Journal of Business Venturing, Vol. 2, pp. 5-28.

FOREIGN MARKET ENTRY MODES:

There are different modes in which a domestic firm enters into a international market or the international arena.

INTERNATIONAL ENTRY COMPENDIUM

Export By Agent/ Distributor

Licensing Arrangement

Joint Venture

Foreign Manufacturing

Franchising Arrangement

Opening Overseas Office

We have almost six types of modes through which we can enter into the international business.

Exports through agents or distributors.

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Opening overseas office.

Licensing arrangement.

Franchising arrangement.

Joint Ventures.

Foreign manufacturing.

EXPORTS THROUGH AGENTS OR DISTRIBUTORS:

We appoint foreign agents in foreign countries and we start getting the business queries from them, this will be the type of process called as doing business through agent.

OPENING OVERSEAS OFFICE:

Once we are getting business through the agents now we can think in terms of opening our overseas office. So therefore entering into the international markets by opening our own office will further give a push to our sales in that particular country because we have a local presence and we can answer the queries of the overseas buyer. If we can keep our buyers happy we got a position to get more and more sales.

LICENSING ARRANGEMENT:

If we are already successful in a particular international country, our brands are very popular in that market. Now, we can move out of that particular market by allowing local firm of that particular country to enter into a type of arrangement called licensing arrangement.

We give a license to that particular company to start manufacturing our product using our brand name and the technology, but all the investment are made by that particular party, and in lieu if this licensing we are allowed to that foreign company we get the royalty. It means when we are in position to get royalty again we are in a position to have sales in that particular country. We enter into licensing arrangement because we want to enter into some other market to expand our market size.

FRANCHISING ARRANGEMENT:

It is the arrangement where we identify the type of franchisee who basically interested to take our franchise so this is an arrangement between franchiser and franchisee.

Franchisee: The party that is purchasing the franchise from the seller of the franchise.

Franchiser: The party that is offering the franchise for sale to the purchaser of the franchise.

Franchiser is a export firm who is trying to give its marketing rights to local firm in that country as well as helping that firm in terms of all types of business problems in exchange for a fee. In licensing we take royalty and in franchising we take fee. It is the basic difference between licensing and franchise.

Idea is again the same we want to expand our market scope so therefore in certain countries rather than locally produce product in that country we enter into franchising arrangement.

McDonald's is the same example of franchising.

JOINT VENTURES:

Once we have lots of experience and we have accumulated lots of resources we can also enter into certain countries in the form of strategic alliances, these alliances has given a name called joint venture. Joint venture is the type of equity participation.

We have so many examples of joint ventures which are already takes place in India. Like joint venture of Hero Honda, there are two companies hero group is the Indian group and Honda group which is from Japan.

FOREIGN MANUFACTURING:

The company starts manufacturing their product in foreign countries. It means instead of manufacturing product in their own country and then exporting from their and paying the custom duty out there, the foreign firms can think of go out of there country and if they found that the government of that country is promoting industrial investment than they are in position to get the land, and other resources in the terms of finance etc. as well as lots of benefits from the government of that country and then they start local manufacturing in that country and without any type of the partner but on their own.

It is also called FDI (Foreign Direct Investment).

Reference:

Internet WWW page at URL:

" Foreign market entry modes" Quickmba. com. Accessed 08/04/10 from <https://assignbuster.com/market-entry-strategy-which-is-appropriate-in-circumstances-marketing-essay/>

FACTORS INFLUENCING THE CHOICE OF MARKET ENTRY MODE:

Several important factors that affect the choice of entry modes are:

Market Factors:

The size of the target country market is significantly influence on the entry mode. Small market have low break even sales volume so the entry mode must be different (Agent/distributor exporting, licensing and some contractual arrangements). For Markets with high sales potential have entry mode that have high break even sales volume (Branch, subsidiary, exporting and equity investment in local production).

Production Factors:

Entry mode are largely affected by production factors of targeted country like quality, quantity and cost of raw materials, labors and energy.

Economic Factors:

Economic infrastructure (Transportation, communication, port facilities etc) also affect the mode of entry into particular country or market.

Government Regulations:

Defensive Import regulations affect in the form of high tariffs, these regulations make problems an export entry.

Geographical Factors:

When geographically the distance to the targeted market is too long then cost of transportation becomes a barrier.

Dynamism of Country:

Economic dynamism of the country also affect the entry mode. Dynamism refers to the rate of investment, growth rate and personal income.

Social Cultural Factors:

Social and cultural factors are very wide that affect entry mode because of different values language, social structure and different life style of target market country to home country.

Reference:

Root, F. R (1994). Entry Strategies for international Markets: San Francisco: Jossey Bass Inc.

CONCLUSION:

For an Organizations or a company thinking of entry into the international arena set of strategic alternatives often changing and depending on the targeted country or market focuses on several ways to enter a foreign market. Organization need to be conscious of how prospective new market may best by still considering the risk and the different economic , environmental and cultural factors associated with the specific entry strategy (Deresky, 2003).

Reference:

Deresky, H.(2003). International Management 4th Ed. Pearson Education.

(B) Franchising is a common method of entering services markets abroad. What is the special attraction of international franchising to both partners?

FRANCHISE:

Franchise is “ a form of business organization in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor’s trade name and usually with the franchisor’s direction, in exchange for a fee.” (InvestorWords. com, 2009)

Reference:

Internet WWW page at URL:

“ Franchise” InvestorWords. com, 2009. Accessed 6 August 2009 from

BUSINESS FORMAT FRANCHISING:

Business format franchising, on the other hand, is defined as “ an arrangement where a franchisee receives (in addition to the right to sell goods or services) the franchisor’s designs, quality control and accounting systems, operating procedures, group advertising and promotions, training, and (in case of hotels and travel agencies) worldwide reservation system.” (BusinessDictionary. com, 2009). In short, franchising the business format allows small and medium scale franchisees to enjoy economies of scale, brand recognition and loyalty, and strategic support from a large and established franchisor. In return, the franchisor receives a fee for the use of its tradename, trademarks and expertise. More than that, however, the franchisor is able to expand its reach and name recognition with use of the capital investment of the franchisee.

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Reference:**Internet WWW page at URL:**

“ Business Format Franchising” BusinessDictionary. com, 2009. Accessed 6 August 2009 from

INTERNATIONAL MARKET ENTRY STRATEGY:

A business format franchise, from its very definition, is designed to replicate the totality of the franchisor’s business concept in different location; if the franchise is multinational, then the different locations may well be situated in different countries. More than just the trademarks and product design, the business format franchise makes use of the franchisor’s marketing strategy and plan, operating manuals and standards, and quality control. (Preble and Hoffman, 1995, p. 80) Growth in this area has been so predominant that it is forecasted to be the main (if not nearly exclusive) form of franchising internationally in the 21st century. Business format franchising has become the main vehicle by which multinational business have been able to take advantage of the unprecedented growth of international opportunities. (Preble and Hoffman, 1995, p. 80)

There are, according to Preble and Hoffman (2006) three generic approaches or experiences in global franchising strategies: the first mover, platform, and conversion approaches.

The first- and early-mover strategies are those strategies which suggest that early entrants into the industry, or “ pioneers”, attain market dominance (i. e., traditionally enjoy larger market shares) over their competitors who arrive later. For this strategy, the timing of market entry is of greatest importance

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to the success of the franchise. Preble and Hoffman cite Makadok (1998) as a study that such advantages in pricing and share advantage indeed materialize, and are of surprisingly longstanding (or sustainable) duration. First movers exhibit a greater aggressiveness in pursuing strategic investments in research and development, advertising, promotion and distribution. It was determined that “ Franchisors facing domestic market saturation and rapidly growing markets abroad are more likely to utilize first-mover strategies for international expansion.” (Preble & Hoffman, 2006, p. 36).

The second category of global franchising strategies is that of platform strategies. This involves selecting the most ideal (or at least most advantageous, usually the most “ business-friendly”) country in a region and establishing its “ platform” in that country first, and then eventually expanding into neighboring nations. It is also called an “ incremental phased approach” (Gupta & Govindarajan, 2000). This is ideal for expansion into regions wherein the countries comprising the region differ in their levels of organizational development, political stability and cultural traits (Preble & Hoffman, 2006, p. 39) Situating in a business-friendly country helps to minimize the risk of entry into a region which may either not be open to the company’s presence there, or that do not possess the infrastructure and facilities needed for business to flourish. It is recommended that entry into dissimilar markets should be attempted or undertaken only by experienced franchisors.

The last classification of strategies for business format franchising is known as conversion strategies. This involves the franchisor adding new franchisees

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to the network through the acquisition of independent businesses, business chains, or franchisees from other franchise systems – in short, it is a process similar to “ reverse franchising”. The business already exists; the business format franchisor merely converts these existing establishments to include them in the franchisor’s own system. Conversion franchising is best suited to the penetration of mature and already crowded and costly markets, by acquiring existing locations, sometimes in prime, expensive, real estate, eliminating competitors, and benefit from the franchisees’ existing business network and connections. The franchisor could also take advantage of the franchisee’s critical resources and skills from which can be developed sources of competitive advantages.

The acquired firm, on the other hand, benefits from a source of managerial acumen from the franchisor, aside from the acquisition of a known brand, new technology, logistical support and training.

In summarizing these strategies, it is readily apparent that conversion strategies provides the greatest opportunity for not only experienced but also inexperienced franchisors to penetrate international markets and expand operations even in saturated and highly competitive business environments.

Reference:

Preble, J F & Hoffman, R C (1995) “ Franchising Systems Around the Globe: A Status Report” Journal of Small Business Management, Apr95, Vol. 33 Issue 2, p80-88.

Preble, J F & Hoffman, R C (2006) “ Strategies for Business Format Franchisors to Expand into Global Markets.” Journal of Marketing Channels, Vol. 13 Issue 3, p29-50.

The diagram on the page following illustrates the three generic strategies just described.

A Contingency Model for Global Franchising Strategies

(Source: Preble & Hoffman, 2006, p. 45)

Reference:

Preble, J F & Hoffman, R C 2006 “ Strategies for Business Format Franchisors to Expand into Global Markets.” Journal of Marketing Channels, Vol. 13 Issue 3, p29-50.

ATTRACTION FOR INTERNATIONAL FRANCHISING:

There is some special attraction for both the franchiser and franchisee that's why franchising has been famous around for decades. It is a great approach for business man to hold and drive own business. Same like that it is attractive for the second party in term of operating a business in new environment because they do not have know how of market, cultural and other political and social condition of that particular country.

Franchisee should have to do some homework, research the company, and should consult with a franchise consultant before making a final commitment. Franchiser has to do the same research about the country's

political condition, possible social and cultural issues, credibility and previous working experience of the franchisee in the related field.

Here are some of the advantages for both the partners in franchising business.

LOWER FAILURE RATE:

When franchising business is setup there are very low chances to failure of business because franchisee is using the name and fame of the already established organization. On the other hand, franchiser uses the experience and knowledge about the local market, which is very essential for survival of any organization. Independent businesses have 70% to 80% chance of failure in the initial critical years while franchising business has 80% chance of surviving.

HELP WITH START UP AND BEYOND:

Franchisee got lots of help on initial stages of business and operating it afterwards. Most of the franchisee gets all the apparatus, supplies and instruction or even training which is very essential to start the business. In most of the cases, franchisee gets constant training and help with marketing and management. Franchisee will reap the benefits of the company's international marketing campaigns, while the franchiser get benefit in terms of finance by entering into new market.

BUYING POWER:

Your franchise will gain from the combined buying power of the International Company as the franchisor can manage to pay in bulk and go by the

investments along to franchisees. Stock and materials will cost less than if you were operating an independent company.

STAR POWER:

Most of the well-known franchises have international brand name and recognition. Getting a franchise can be similar to buying a business with built-in consumers.

PROFITS:

A franchise business can be hugely beneficial and profitable. (Think of McDonalds and KFC, for instance.)

Reference:

Internet WWW page at URL:

“ Attraction For International Franchising” sbinfocanada. about. com,

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