Entry strategies and globalization

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The industrial revolution that started in the 19th century changed forever the way business organizations operated in America and abroad. Businesseswere able to increase their production a lot which changed the way companies they distributed their products and services. Companies suddenly had more production available than what the local marketplaces could process. The globalization movement of the 20th century found a solution to the problem by providing businesses with different alternatives to achieve market entry. The four major market entry strategies available to business are indirect and direct export, licensing, joint ventures, and direct investment. The globalization movement provided companies with the capability to realize business with foreign nations. The promotion of free trade among nations has help business organization penetrate marketplaces around the world. Out of the four major market entry strategies the easiest one to implement is exporting. Companies with little experience dealing with foreign markets start off by implementing indirect exporting. Indirect exporting occurs when a company uses intermediaries to facilitate the export of products. For example a company sells 1000 units to retailer such as Wal-Mart and then Wal-Mart sells its products in stores worldwide. The second type of exporting is direct exporting. Direct exporting can be achieved in several ways. A company can achieve direct exporting by establishing an overseas sales branch or subsidiary, by using traveling export sales representatives, and by establishing a domestic export department or division (Kotler, 2003). Exporting is the less risky of the market entry strategies because a firm does not have to invest in a lot resources to achieve market penetration. The second major market entry strategy is licensing. Licensing can be defined as the granting of permission to use intellectual property rights, such as trademarks, patents or technology, under defined conditions (Investorwords, 2011). In this arrangement the licensor gains entry at little risk, while the licensee gains production expertise of a well-know product or brand name. Some of the disadvantage of this arrangement is that the licensor has little control over the licensee and it does not control its own production and sales facilities (Kotler, 2003). In a licensing arrangement both parties involved share in the profits. A third type of market entry strategy is a joint venture. A joint venture is a business project in which foreign investors join with local investors to create company in which they share ownership, profits, and control. In a joint venture earnings are divided proportional to the ownership stake each part holds. Prior to China's entrance to the World Trade Organization foreign companies could only enter China's marketplace by entering into a joint venture with a Chinese company. The fourth type of market entry strategy is a direct investment. Direct investment occurs when a company enters a foreign marketplace by establishing a physical presence on foreign land. Some of the benefits of direct investment include the ability to secure cost economies in the form of cheaper labor and raw materials, foreign government investment incentives, and freight savings (Kotler, 2003). References Investorwords. com (2011). Licensing. Retrieved February 21, 2011 from http://www. investorwords. com/2799/licensing. html Kotler, P. (2003). Marketing Management (11th ed.). New Jersey: Prentice Hall.