

# Use of contract manufacturing and foreign assembly within an international market...

[Business](#), [Marketing](#)



## Use of contract manufacturing and foreign assembly within an international marketing strategy

### Abstract

The decision to enter foreign market is an ever increasing daunting task to many organizations in today's contemporary business world. Whenever the company wishes to enter a foreign market it is necessary, in fact mandatory to choose an entry strategy. This because the entry strategy has a bearing to the out come of the marketing targets, or in other words the strategy used determines successfulness of the marketing objectives. With these views, this paper shall look at the manufactures or producers options in respect to entering into a new foreign market. In order to do that effectively and efficient, the paper shall critically analyse the available option to export directly after manufacturing in home country and to manufacture locally in the foreign market. Thus by doing so, this paper shall demonstrate knowledge gain about the different strategic choices available to firms with regard to foreign market entry for the manufacturing firms. The other issue to be examined is to draw pros and cons of using these varied strategies.

### Introduction

When companies make a decision to enter into foreign market, the important aspect to consider is the international marketing strategy to use in order to be successful in their business operations. However, before selecting an entry mode the prerequisite considerations are necessary to ensure selection of a vital entry mode. As Jean-Pierre (2008) puts it, the focus of marketing both local and international is to meet the needs of the consumer

satisfactorily in order to gain profits. The global market has evolved over past decades and presently the modern marketer is concerned with strategies that are customer oriented.

According to Jobber (2002), international marketing refers to the marketing of goods and services outside the country that the firm is located. This marketing involves the marketing of the products in a more complex way than local or national marketing. Therefore international marketing calls for advanced marketing entry strategies to deal with dynamism, international competition and trade related regulations. There is a slight difference between international marketing and the global marketing according to Jobber (2002) who defines global marketing as marketing activities coordinated and integrated across multiple markets internationally. Xxxx, point out that the foreign marketing operations of the firm fall under the following categories.

Firstly, International category involves regional operations which are autonomous, Manufacturing and assembly, marketing and sales are decentralized beyond the home region, finished goods and intermediate products are exported and key decisions are made and coordinated from the central office in the home region of the firm. Secondly, Regional exporter that operates within a geographically defined region that crosses national boundaries and Markets served are culturally and economically homogenous. Thirdly, International to global that runs independent and mainly self-sufficient subsidiaries in a range of countries. The key functions like Research and Development, financing and sourcing are decentralized, but

the home region is primary base for many functions of the company. Fourth category, Exporter firm that Runs operations from a central office in the home country. The sole activities are to exporting finished goods to a variety of countries.

And lastly, is the Global category characterized by highly decentralized organizations operating across a broad range of countries (Collis 2006: 328). In context of primacy of the base functional, global category assumes that home location is not a priori to be the primary base for any functional area. Therefore, each function such as Research and Development, marketing and sales, manufacturing and sourcing is performed in the location(s) globally. In general, (Papadopoulos and Heslop, 2005; Prystay, 200; Keegan and Green 2005) summarises that global companies differs with international and local companies in the aspect that global companies think globally while acting locally.

## LITRATURE REVIEW

### ESSENTIALS FOR SELECTING MARKET ENTRY STRATEGIES

The prerequisite for the successful selection of marketing entry mode relies in the following essential domains for international and global marketing. Market selection is an essential part of the processes of deciding the appropriateness of a marketing strategy to be employed by the firm in internationalization of business operations (Davidson and Lawrence, 2006; Hellenes, 2008; Godiwalla and Cavusgil, 2006).

#### Market selection

Market selection is an essential component to decision in relation to market entry strategy. To offer a solid reason for the importance of selecting market priori to choosing a market entry strategy; he reiterates that global market has over 200 independent nations with their own distinctive characteristics that makes the global market too vast (Jobber, 2002). Therefore as a consequence, it is not possible for a business firm to operate in all of these markets. Additionally, there are various political, economical, social, developmental and geographical barriers in various markets that are varied which make entry to a number of markets very difficult. As a result, selecting an appropriate market is vital managerial processes towards adopting a suitable and sustainable marketing entry strategy.

In regard to market selection, Chan (2004) gives simplified processes to be engaged in selecting a suitable market for an organization in relation to international marketing. These tools of design are best suited for small scale, large scale and MNCs who would wish to partake on global scale or expansion. The tool of design or parameters that stipulate criteria for market selection processes are: determining international marketing objectives, determine parameters for market selection, Preliminary Screening of the product in relation to demographic characteristics, structure of the economy, per capita income, and infrastructural factors political condition. After screening of the markets and elimination of uneconomical viable markets for the firm, the next procedure is to Short-list the Markets.

Short- listing shall facilitated further screening and to scrutinize the most viable market amongst the long list. The last process is to evaluate and

Select the best markets to venture into. To these effect of market selection processes to be employed when selecting the best market<sup>5</sup> for the firm to engage in international marketing, the flow diagram below enhances a better understanding.

Diagram1. International Market selection processes

Source: Jean-Pierre, J. (2008), *Global Marketing Strategies*: Macmillan, London.

### Market profile

Another important component that should accompany the decision geared towards selecting marketing entry mode for a firm is the market profiling. In this regard, market profiles of already selected market in the previous processes of market selection, is to help the firm to formulate appropriate marketing strategies. Market profile can be general or specific. For specific market profile, it describes relevant characteristics of the market for a specific product in a nation of destination. This shall encompass brief general profile of the country and other part should consist of the market profile of product which proves to be of great help in the formulating appropriate product strategy, promotion strategy, distribution strategy and pricing strategy. Jean-Pierre (2008), emphasize that market profile for product in this case should have aspects of: Factors relevant to pricing, laws related to product, price, promotion, distribution, imports; Channel characteristics; Customer characteristics; Market segment characteristics; Competitive characteristics; and past, present and forecast of the future trends in the domestic production, demand, imports and exports.

While the general market profile encompasses the information necessary for the firm to know in order to inform their marketing entry strategy. Content wise, general market profile usually includes political characteristics. Secondly, general characteristics of a nation like the population characteristics. Thirdly, shall have economic policies and business regulations in general, nature and pattern of foreign trade. And lastly, clear understanding of the economic characteristics is important for successful marketing in international arena. By gaining proper and clear understanding in these domains the firm marketing strategy to the country shall be in harmony with the area of operation regulations with focus to gain profit.

#### Market segment selection

The firm ought to make a strategic decision about the specific segment of the target market selected and profiled. Market segment selection depends on the factors which are organization related like product mix, marketing characteristics of the company and size and resources of the organization. Secondly, product related factors like innovativeness of the product in contrast to a 'me too' product (Davidson and Lawrence, 2006; Godiwalla and Cavusgil, 2006).

Thirdly, the competitive factors determine market segment selection. Such factors are the weaknesses and strengths competitors and the extent of competition in the different segments of the in the business field. For instance, the company with marketing strength and innovative product can easily settle for lucrative segment of the market then later spread to other segments within the market (Paul, Wetzels and Wu, 2003). Whereas a small

firm with a 'me too' product is likely to compete directly with large established firms.

## FOREIGN MARKET ENTRY STRATEGIES

In regard to international marketing strategy, the most important and vital strategic decision is to choose and decide the mode of entering the foreign market. In classifying international marketing strategy to use in entering into a foreign market, Doole and Lowe (2001), proposed four classes depending on the level and mode of operation. These classes are: Manufacturing as market entry strategy: Own Subsidiary, Acquisition, Assembly and contract manufacturing. Direct Exporting as an entry strategy: includes Distributors, Agents, Direct Marketing, Franchising, and Management Contract. Cooperative or ownership Strategies: Joint Ventures, Strategic Alliances. And lastly are the strategies relating to Indirect Exporting: Piggybacking, Trading Companies, Export Management Companies, Domestic Purchasing.

## DIRECT EXPORTING AS MARKET ENTRY STARATEGY

In employing direct exporting as an entry mode to foreign market Doole and Lowe (2001, p. 259) states that the nature, size and structure of the market will be significant to decide whether to use direct exporting as an entry mode or not. This mode is best for Companies that wish to pursue a long-term position in a foreign market; hence they have to be directly involved. Using the direct mode of entry allows the organization more control over activities like adaptation to local markets, marketing mix variables, market selection, and monitoring competitor's activities.



The burden of use of direct exporting is the aspect that needs long term commitment and investment from the organization to be able to sustain foreign market activities. However, due to high risks of conducting business through direct export establishing a beach head as an initial step in their exporting strategy is highly recommended for the firms intending to employ the strategy. Furthermore, crucial success factor to the international expansion depends on organization's attitude and commitment (Paul, Wetzel and Wu, 2003: 207). Despite the attitude and commitment of the firm towards expansion, the size of the firm may enhance or hinder international development as organizations rely on the capability of its human capital for planning for its activities.

### Agents

Under direct export market entry strategies there are a number of the modes that ranges from Agents to management contract modes. The mode employs Agents which are in real sense individuals or companies operating (Tait, 2007) in a foreign market which has been selected by the organization that the organization enters into a contract to obtain orders for the product on the organization behalf. In return the agent firm or individual (s) are paid a commission for their work. The organization usually select the agents in case were there is low exposure to risk especially in dealing with non-direct competing products.

Agents can only prove beneficial to the organization when they can interlink and able ability to form relationships, adequately provide feedback regarding market development strategies and have thorough knowledge in regard to

local market. However caution should be taken when selecting a suitable agent. Collis (2006) suggest that a effective criteria for selecting a suitable agent should include financial strength analysis of the agent, determining the agents contracts and relationships with current and potential customers, Clarify the nature and extent of their relationships with competing organisations and evaluate the premises, equipment and resources available like capability of sales representatives and personality. The firm benefits since the agents do not have a share in the entire processes they only receive and work on the commission.

### Distributors

When the organization involves distributors in entry mode, the distributors take responsibility and ownership for the goods. Some scholars refer to the distributors as merchant middlemen who bear the profitability and risk of unsold products. In this context, the distributor seeks exclusive rights for the sales and servicing of a particular region under which represent the manufacturer or the producer (Keller, 1993; Henry, 1995). Thus, distributors ought to be specialized in handling of the products and their marketing skills. Currently, the firms face difficulties in entering into a contract with a single distributor for several products since distributors are becoming fewer, larger and more specialised in their activities in the global market. Management

### Contracts

When a firm uses management contracts in today's cotemporary business world, it implies that the organization wishes to internationalise the services. In this regard, Management contracts invoke marketing or selling knowledge,

selling the skills and expertise of organizations in an international arena. In most cases, the contracts apply to technical areas of business marketing. For instance, installing management operating and control systems and training of local work force are some of the aspect that relates to contract management aimed at taking over after the contractor is finished. In this case, turnkey operations methodology approach is recommended for setting up, running and training work force. Empirically, Tata Tea has a joint venture contracts to manage Sri Lanka Estate Management Services Pvt. Ltd.

### Licensing ; Franchising

The use of Licensing ; franchising is advantageous to the organization since it only involve minimal attitudes, efforts and commitment of resources on the international marketer part, therefore prove to be easy modes for entering the foreign market to international marketer. International licensing in regard to marketing, the licensor (producer or manufacturer) allows the licensee (a company in another country) to use its IPR (intellectual property Right) like patents, technical know-how, trade marks, marketing skills, and copyrights, technology(Paul, Wetzel and Wu, 2003; Keller, 1993; Henry, 1995; Von Keller, 2003).

While Franchising is a form of licensing in which the franchiser (a parent company) allows the franchisee (another independent entity) the right to do business in a prescribed manner. Licensing ; franchising mode can take the form of selling products, production and marketing techniques, using its name, or/ and general business approach. Empirically, a number of foreign firms have employed this mode. For instance, Nike International ltd licensed

Sierra Industrial Enterprises Ltd in 1995, while General Electric (GE) which is US base multinational has licensed its patented technology to the a small scale unit in India (Jobber 2002).

In summary Tait (2007) states that there are two main advantages of direct exporting as a market strategy entry mode to organizations. First and foremost, the use of intermediaries located in the foreign market facilitates more control over the marketing effort of the organization. And secondly, direct exporting provides the exporter first-hand knowledge of the foreign market which the organization intends to enter. On the dark side of it, ? foreign distributor may represent competing brands without prior knowledge of the organization that paralyses the gains of the firm. It may prove to be costly and complicated since it requires some knowledge of the foreign market to hire appropriate distributors.

#### MANUFACTURING AS MARKET ENTRY STRATEGY

In attempt to enter into a foreign market many firms become involved in foreign manufacturing strategies. These manufacturing strategies are necessary since firms are usually under pressure to demonstrate their commitment to regional market, hence necessitates organization's direct involvement. Manufacturing in foreign markets is aimed at localizing the production of the products to be owned and exhibited by the locals who are the target market for the firms. The importance of manufacturing strategies as entry mode to foreign markets as highlighted by Doole and Lowe (2001) is to gain new business in the sense that the localized production has ability to persuade countries customers to change suppliers and is a strong

mechanism to demonstrate a strong commitment of the organization to the region or the market.

This strategy is important in countries where importing companies are subject to restrictions as sales increase; therefore, foreign manufacturing location enhances local investment to defend existing business (Collis 2006: 329). Other cost related reasons are part of many reasons that can be used in augment for foreign manufacturing. For instance, by locating production in a foreign market it leads to significant reduction of labour, transport and raw materials costs. But, on the other hand it is costly to the organization to transfer technology, knowledge and skills. For an organization entering a foreign market through foreign manufacturing, it shall avoid trade restrictions and policies unfavorable to exporters like tariffs or quotas that are usually enforced to limit importation of certain goods (Davidson and Lawrence, 2006; Hellenes, 2008). The two main modes of assembling and contract manufacturing are going to be discussed in relation to foreign manufacturing.

### Assembly

In regard to Assembling, Collis (2006) refers to it establishing manufacturing plants in foreign markets for the purpose to assemble components manufactured in the home market by the organisation. Assembling mode of the as an entry mode to foreign market usually attract certain business engaged in manufacturing, since importing raw materials or components to use in assembling of the products attract low tariffs or charges barriers as opposed to already assembled or finished products, hence cutting down the

production costs for the firm. This strategy use by firms who wish to enter foreign market should be involved in relatively technical business like of aircraft, automobile and ship manufacturing whereby these products in assembled form are bulky and large that involve high transportation cost.

Additionally, the assembling plants established can handle local management, development support and engineering skills that reduces the burden and administration cost to the organization. The assembling plant in foreign country can be actively involved in investment, development and production skills (Tait, 2007) that can lead to the company gaining profits form economies of scale. However, in the past decades many organizations have been constructing assembling plants with long term vision which should be revisited by placing a safe exit strategy should businessenvironmentchange in unfavorable manner. There is usually a barrier to assembling mode approach to the businesses, since most governments feel it is not possible to gain the local economy in the long term unless the components are manufactured locally. Typical examples industries where there is extensive usage of the assembling as a market strategy entry mode are automobile companies. For example, the GM (General Motors) company is one of the firms that have successfully utilized the assembling strategy to gain its powerful growth. (Indicated in the table below)

Table1. GM global operation

Design:	Germany (by Opel	Brakes:
France, U. S.		

Sheet steel:		Japan		S.
Korea				
Stamping of body parts:		S. Korea	Tires:	S.
Korea				
Engines:	1. 6 liter	S. Korea	Windshield:	S.
Korea				
2. 0 liter	Australia	Battery:	S. Korea	
Fuel injection:		U. S.	Wiring harness:	S.
Korea				
Fuel pump:		U. S.	Radio:	Singapore
Transmission:		Canada ; U. S.	Assembly:	
S. Korea				
Rear axle:		U. S.	Marketing ;	
Steering:		U. S.	distribution:	N. America

Source: Godiwalla, M. ; Cavusgil, S. (2006) ' Decision making for international marketing: A comparative review', Management Decision, 20: 4

### Contract manufacturing

In using contract manufacturing approach to market entry strategy, a firm arranges to have its products manufactured by an independent local company on a contractual basis. The entry mode v= can either include or involve the contract with a foreign firm to manufacture parts or finished, or assemble parts into finished products. After the local firm manufactures

parts or finished product, or assemble parts into finished products, the international company assumes back the marketing responsibilities for the product sales, promotion and distribution in the foreign market (Chan 2004: 302). In other words the international organization rents the local firm its capacity to produce products in a convenient way to avoid trade or manufacturing related barriers that are put in place to prevent the import of its products.

There is usually confusion in relation to licensing, but, Alexander, Charles (2002) puts clear that licensing differ from contract manufacturing in terms of legal relationship between the firms that are involved. The contracted local manufacturer production capacity is based on the international firm's order it places to be produced. The international firm places order by setting the production volume and guarantees purchase for that order. The proponents of this mode advocate it for its Lower labor costs, total cover against hostile foreign trade policies in some countries an overcoming of the protectionism policies.

It should be noted however that most firms may not venture into contract manufacturing as an entry mode not because they need to enter the market but to protect their products that they have already exported, while entering into new market is secondary. For instance, The Japanese car manufacturers in 1980s were subjected to an import limitation of assembled cars imported from Japan to US. In reaction for protecting their car brands already exported in the US, these firms began to build factories in United States in order to



protect their market share (Jean-Pierre, 2008; 295) in automobile industry globally. (table1)

## Conclusion

To sum up the paper, the paper has basically based on the international market entry strategies for the manufacturing firms to use in entering international market. In drawing the options in manufacturing firms, the paper has compared entry modes for production in home country and then marketing the products and localizing production in a foreign market region. However, it is important to note that the entry strategy selected should be in accordance with objectives, cost of operating the business and the sustainability of global market share. Therefore, the paper concludes that each of the method has special circumstances where it applies in today's diverse, competitive and dynamic markets.

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