

# The foreign market entry modes marketing essay



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In today's volatile and continuously changing environment the decision regarding a firm's future growth path is one that requires an in-depth analysis of the various environmental elements. Identifying the competitive context, firm's resources and specific capabilities are crucial in choosing the right entry mode to ensure future continuous profitability and prosperity of any firm therefore the decision to go international must be made carefully.

In order a company to export its product abroad should take into consideration the economic, cultural, political-legal and other environmental factors because in this way it can make adjustments in the marketing mix and define the size and nature of the prospective target market. Another important factor for the company is to examine carefully the economic and commercial infrastructure of the market in order to design its strategies against its rivals.

In the current project will analyze the entry modes of a company into a foreign market in order to understand what the best entry mode is for a company with a specific product/service.

## **FOREIGN MARKET-ENTRY MODES**

A company in order to enter in a market should take into consideration some specific criteria as well such as the company size; the product aspects; foreign competition; and the desired involvement in order to select its appropriate entry method.

In the below assignment, is referring to the modes of entry into International Markets:

## **Exporting:**

Exporting means when the company produces its good in one country to other countries. There are two types of exporting: direct and indirect as well direct competition and indirect competition:

### Direct export

Is when a company wants to have a better control over distribution? For example:

Ford cars are able to sell its cars either via overseas agents who will get commission or by using distributors who gain ownership. In that case, Ford focuses mainly on distribution. Furthermore, Ford could export its cars to Japan using its own marketing subsidiary by sending its expert marketing people to organize the selling of a new car model to the Japanese market. One possible advantage encountered by using this method has to do with the contract manufacturing. Firstly, Ford has the benefit of the elimination of plant investment especially when political risk is high. On the other hand, this method has disadvantages. Firstly, the potential profits from manufacturing will go to the local partner rather than to the firm. Secondly, Ford has to face difficulties in finding a satisfactory production partner in the Japanese market because that person should be reliable and trustworthy and decent in order not to cheat the firm. What is more, the firm might face possible quality control problems because production is out of the firm.

### Indirect exports

An indirect export occurs when a manufacturer get his product into an overseas market, he passes the duty for the selling job to some other company. (<http://www.citeman.com/2637-indirect-exporting.html>). To sum up, is when the firm works through an independent marketing intermediary and does not require a foreign organization. For example, selling Greek domestic cosmetics in a foreign country via an intermediary. This method has less expenses and less risk

In reference of the Ford's example, Ford can sell its products in the domestic market and then resold them abroad. In that case, Ford has to know the local demand and whether is good or bad it will resell its goods to the Japanese market. Also, it could act as an export department company for the firm (and others) at a commission. Furthermore, Ford, can sell its cars to the Japanese market using the distribution system of another producer. By using the indirect exporting, Ford will have low risk and low commitments but it will remain passive waiting for others to come and purchase products from the firm.

## **Direct competition**

As the Italian market is concerned, the retail stores promote various types and brands of cheese which can be considered the direct competition for Pitta's Halloumi in the Italian market. Some of the major brands which have established their cheese-type products in the Italian food industry, and are popular among the Italians, are the Belgioioso Cheese Inc., the Treasure Cave, the Caso Blanco Fresco, the Sargento, the Leprino Foods and the Capiello. All of the preceding firms offer a variety of cheese styles such as Mozzarella, Parmezana, Ricotta, Mascarpone and more.

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## **Indirect competition**

The Italian production of cheese is extended as it currently produces many different kinds of cheese. Apart from the ones imported, the Italian dairy industry has approximately 35 styles of cheese which are under the PDO (Protected Destination of Origin). The most popular PDO Italian cheese is the Grana Padano, which is produced by 200 different manufacturers, is made with skim milk, is high in protein and low in fat. It has a low price and its flavour is mild and its touch soft. Another famous cheese is the Parmigiano-Reggiano with 524 producers, made with skim and whole milk. It has a strong flavour and it is mostly acknowledged for its prestige and value. Other cheeses include the Montasio, Mozzarella, Raschera, Taleggio. All these styles of cheese are used in the preparation of meals, as a complementary, or can be consumed without any complementary food.

## **Licensing**

Is when a firm enters into an agreement with license in a foreign market and follows letter by letter the conditions and rules of the company. A licensor usually awards a license to a foreign manufacturer to use the trademark or other value. The licensor earnings usually take forms of one time payments, technical fees and royalty payments usually calculated as a percentage of sales. Licensing disadvantage is that it can be challenging to implement proprieties in rising countries. In addition, if the licensee becomes successful in establishing a market, the licensor can end up losing important profit and control and maybe end up competing with its creation. To succeed a licensing agreement, knowledge of local trade practices, language, culture behavior remains an issue.

For example the fashion brand name Luis Vuitton. A company in Cyprus takes the rights/resources (trademarks, managerial skills, technology, etc) in order to sell the products of that brand name in Cyprus and taking earnings based on the sales percentage. Also, Disney, that operates in France and called Euro Disney.

Another example of licensing is that Ford has the advantage of immediate and eases access to Japanese market and has market knowledge about Japan. Also, maybe there is a lack of expropriation risk because it is favor by Japanese government. As for the disadvantages, Ford has to face the possibility to lose Japanese market if agreement with license terminates. Also, the licensing fees may not be large enough to cover the effort in the Japanese market or may have to alleviate difficulties in controlling the product quality, marketing effort and territorial rights.

## **Joint Venture**

Is when a company joins forces with foreign investors to create a local business in which they share joint partnership, management. They can share the development and the risk of the company. Therefore there is a lack of control over technology and on management. There are various reasons why companies choose Joint Ventures to assist them to enter a new foreign market:

Entree to technology, principal competences or management skills. For example, Honda's relationship with Rover in the 1980's.

To take as an advance the entry to a foreign market. For example, Ford may have the advantage of greater control on the manufacturing and marketing in the Japanese market.

To take the risk/rewards together

To take together the technology

Setting up a joint venture can also reduce automatically the time it will take to bring a product into a new market overseas because the burden of marketing and sales is shared with another company already operating in the foreign market. Joint venture may mean trust, reliability and good, effective co-operation.

## **Franchising**

Franchising operates a little bit like licensing except that it requires long-term commitments and promises. The franchising can be defined as a big brand name company that is abroad, and provide the opportunity to the franchisees to pay fees and royalties of that company in order to become identified with its trademark.

As per the website of Wikipedia, franchising advantages and disadvantages are:

Low political risk

Low cost

Allows simultaneous expansion into different regions of the world

Disadvantages:

Franchisees may turn into future competitors

Demand of franchisees may be scarce when starting to franchise company, which can lead to making agreements with the wrong candidates

A wrong franchisee may collapse the company's reputation in the market.

An example of two companies that using the franchising method are McDonalds and Fridays. Both companies set down taught rules for the franchisees to operate their restaurants. The rules extend to cooking methods, staffing policy-rules and conditions, use of technology equipment, design of the restaurants and etc. Franchising means using the same strategic of management.

## **Management Contracting**

Is when the domestic firm supplies management skills to a foreign company that supplies capital. The domestic is exporting management services rather than the products. (Lecture notes)

For example a shipping company gives the authority of management to other company. That means the vessel is managed from the authorized management company. The management company is responsible for hiring, training and operating the crew/staff, for the payroll and pays the relevant parties.



## **Wholly Owned Subsidiaries**

As per Speiser (2003), " Wholly owned subsidiaries can be established in a foreign country in two ways: a) a firm can set up new operations in the foreign country or b) it can acquire a firm and promote its products through that firm".

Advantages: Safety of technology. Giving the facility to find out the location and experience economies

Disadvantages: High rates and risks. Too much opening may give problems.

In addition, Ford was able to acquire Japanese market knowledge and contacts due to physical presence of the firm there. One other advantage is the potential for more sales and profits due to direct involvement in the Japanese market. As regards the disadvantages of joint venture by using the direct method, Ford had greater requirements in financial or managerial resources in the Japanese market. Furthermore, there was always a potential of conflict between local partners and the firm on the market coverage, the product line and about profits. Also, the local partner might want to get much more that he/she offers in the venture.

Regarding Ford's example, Ford has the advantage of greater control on the manufacturing and marketing in the Japanese market. In addition, one other advantage is the potential for more sales and profits due to direct involvement in the Japanese market. As regards the disadvantages of joint venture by using the direct method, Ford has greater requirements in financial or managerial resources in the Japanese market. Furthermore, there is always a potential of conflict between local partners and the firm on the

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Apart from the above, Ford has to consider the advantages and disadvantages of wholly-owned production by using the direct method. The positive issue here is the fact that all profits will remain to the firm eliminating the possibility of injustice by the partner. Also, Ford can acquire more experience in the Japanese operations and market contact with Japanese people.

To conclude, a mode of entry into a foreign market is the channel which your company employs to gain entry to a new international market. When a company wants to export should bear in mind which modes of entry should like to follow in order to be successful and to continue to have a strong trademark even to the international market.

## **Operating decisions**

The operating decisions or the international operations international management are the transformation-related activities of an international firm. Also are long term and short term decisions that should be taken in order to see which added value services to customers must be made. In addition if the company has choose to made good operating decisions in reference of the needs of wants of the customers, its prospects for long term survival like the company's name and profits, are greatly enriched.

The director of a company after choosing the appropriate entry mode in reference of his/her product then should decide how will operate it. In this part, I will analyze three operating decisions that are important

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## **Distribution**

An example of distribution is Pittas Halloumi that wants to join Italy's market.

The method that can use for the distribution of the products will be the physical distribution. Even though physical distribution expenses are normally very high, with the free movement of goods across Europe they will be reduced radically.

International shipping is the cheapest way for distributing Pitta's product to Italy, but certain procedures should be followed, in order to prevent problems caused by lower or higher temperatures and other issues which may arise.

The main objectives of advertising is to make people aware of the product, get their attention, provide information, increase demand, and create brand awareness and brand loyalty. It is very important though that the right message is communicated to the right audience through the right media. The following paragraphs are suggestions of how the promotion can take place in the Italian market, as Pittas will not be responsible for that, as the selling will be conducted through supermarkets and grocery retails stores.

Due to the fact that Italy is a developed European country, the most applicable method for reaching the public directly is through TV. Nowadays, watching TV is one of the most common modern leisure activities and this makes television advertising a very powerful tool. Although it is a costly medium, it is the only one that reaches such a wide audience and it does so during a short period of time. Additionally, it gives you the opportunity to

convey your message with sight, sound, and motion, in order to be more credible and convincing.

## **Location Decisions**

Location decisions affect a company's efficiency and effectiveness.

Proximity to sources of supply: as per Cateora (1999), " companies that process bulk raw materials usually locate close to the source of supply to reduce transportation costs".

Labor factors: As per research made, the location depends from the labor factor, as the labor is important factor.

Community Factors: Community behavior might play a role in a company's location decision. Communities sometimes may not live the companies to be located in their area as they think that will bring noise, pollution, traffic and etc. For example, an industry company if located near a resident area may affect them in health issues.

Also the company should take into consideration government policies, in order not to over the limits of the country's rules.

## **Technology decisions**

The company has to decide which technology equipment should use in order to be efficiency

The main advantage is that the technology has been upgraded and helps the companies to produce more with less cost and quickly in reference of the product that provides. The disadvantage is that the advanced equipment

cost more and depreciated easily. Also a bad purchase of technology equipment may affect the production and profits of the company.

One company that produce manufactures machinery for the construction industries is the famous Deere & Co. The company gives the opportunity to keep its technology profits under control so it can weather the expected declines in demand for its product.