International entry options for horizontal growth

When a firm grows internationally it is positively associated with profitability of the firm. There are several options to choose from when entering a foreign market or establishing manufacturing facilities in another country; from simple exporting to acquisitions to management contracts. Some of the most popular options for international entry are as follows: * Exporting: Exporting is the shipping of goods produced in the company's home country to other countries for marketing. This offers a good way to minimize risk and experiment with a specific product.

Critical functions can either be handled by the company or be contracted to an export management company; it is the choice of the company. Due to the internet, fax machines, toll-free numbers and overnight express services, which reduce the once-formidable costs of going international, exporting has become increasingly popular for small businesses. * Licensing: Under a licensing agreement, the licensing firm grants rights to another firm in the host country to produce and/or sell a product. The licensee pays compensation to the licensing firm in return for technical expertise.

If trademark or brand name is well known but the company does not have sufficient funds to finance its entering the country directly, then licensing would be a very useful strategy. * Franchising: The franchiser, under a franchising agreement, grants rights to another company to open a retail store using the franchiser's name and operating system. The franchisee would then pay the franchiser in exchange, a percentage of its sales as a royalty. This provides an opportunity for a firm to establish a presence in countries where population spending does not promote the need to expand majorly.

Joint Ventures: The most popular strategy used to enter a new country is forming a joint venture between a foreign corporation and a domestic company. A joint venture may be an association between a company and a firm in the host country or a government agency in that country. Joint Ventures are a quick method of; obtaining local management, reducing the risks of expropriation and harassment by host country officials, enabling a firm to enter a country that restricts foreign ownership. * Acquisitions: This is a relatively quick way to enter international territory.

The purchase of another company that exists in operations in the area is known as acquisitions. Synergistic benefits can result if the company acquires a firm with strong complementary product lines and a good distribution network. Research shows that wholly owned subsidiaries are more successful in international undertaking than are strategic alliances, such as joint ventures. * Green-Field Development: If a company does not want to purchase another company's problems along with its assets, it may choose green-field development and build its own manufacturing plant and distribution system.

Research indicates that firms possessing high levels of technology, multinational experience, and diverse product lines prefer green-field development to acquisitions. Even though this is far more complicated and expensive of an operation than acquisitions, it allows a company more freedom in designing the plant, choosing suppliers and hiring a workforce. * Production Sharing: Peter Drucker termed production sharing as the process of combining the higher labor skills and technology available in developed countries with the lower-cost labor available in developing countries.

Also called outsourcing. * Turnkey Operations: These are typically contracts for the construction of operating facilities in exchange for a fee. The facilities are transferred to the host country or firm when they are complete. The customer is usually a government agency of, for example, a Middle Eastern country that has decreed that a particular product must be produced locally and under its control. * BOT Concept: The BOT (Build, Operate, Transfer) Concept is a variation of the Turnkey operation.

Instead of turning the facility, which is usually a power plant or toll road over to the host country when completed, the company operates the facility for a fixed period of time during which it earns back its investment plus a profit. Then the facility is turned over to the government at little or no cost to the host country. * Management Contracts: These offer a means through which a corporation can use some of its personnel to assist a firm in a host country for a specified fee and period of time.

Management contracts are common when a host government expropriates part or all of a foreign-owned company’s holdings in its country. The contracts allow the firm to continue to earn some income from its investment and until local management is trained, keep the operations going. Corporate Parenting views a corporation in terms of resources and capabilities that can be used to build business unit value as well as generate synergies across business units.

It generates corporate strategy by focusing on the core competencies of the parent corporation and on the value created from the relationship between the parent and its businesses. Portfolio analysis examines the attractiveness

of various industries and by managing business units for cash flow, that is, by using cash generated from mature units to build new product lines. They view matters financially, regarding business units and product lines as separate and independent investments.

It however fails to deal with the question of what industries a corporation should enter or with how a corporation can attain synergy among its product lines and business units. Portfolio Analysis and Corporate Parenting are alike in terms of being strategies that view corporations/companies in order to build business unit value. Corporate Parenting is a useful concept not only in deciding what new businesses to acquire but also in choosing how each existing business unit should be best managed.