

The
internationalisation
process marketing
essay



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The increasing needs for new customers globally together with limited resources in certain areas necessitated some people's outsourcing of the deficit from other countries (Morgan & Katsikeas, 1998). Goods and services were imported for the purpose of covering the gap, those who supplies goods and services were then regarded as exporters. Anciently it started as a barter trade through exchange of goods until when the exchange medium emerged. Since then export transactions has been increased tremendously due to increased level of technology. Before firms enter export business they should have a better understanding of the objectives of participating in export business as well as laying down strategies of export. This will mitigate risks associated with export business.

The essay will describe the meaning of business internationalisation and gives the possible reasons for a firm to decide to go international. Different types of internationalization will be discussed as well as different modes of entry into foreign market. The essay will discuss different export strategies that are available to a firm internationalising for the first time. The essay will also analyse advantages and disadvantages as well as giving specific examples. The literature for the essay was obtained from journals, papers, articles and various books on International business and international marketing.

The Internationalisation Process

In order to better define the Internationalisation process, reference must be made to the Nordic model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlme, 1977) which views internatinalisation process as a linear,

gradual sequential build up of events over time. Johanson and Mattsson (1988) refined the model by identifying the following three processes of internationalization. First, the internationalisation theory presumes that the Firm has built up a source of competitive advantage in its local market. Failure to exploit efficiently this advantage within the local market with no unnecessary transaction costs, the Firm will then seek out to exploit its sources of advantage elsewhere outside that market. Second, the Uppsala internationalization model which defines as a process of increased commitment to international sales and production. It perceives the internationalization process as a sequential learning as the Firm passes through number of stages. Finally, the network approach, the relationship between Firms is major focus of this approach. In order to facilitate its operations, a Firm builds a number of relationships and networks. The quality of established networks plays a vital role in the whole internationalization process.

Generally when the firm moves its operations beyond the domestic country's borders, it is performing an internationalization process. There are theories that analyse factors that will enable the firm to be successfully in the international market and stages the firm will pass through during the internationalization process. DeoSharma and Blomstermo (2003) developed a model for firm internationalisation called the Uppsala model. In this model the internationalization process is considered to be progressively and sequentially developing. As the firm becomes more involved on international markets, the internationalisation process develops. The Uppsala model assumes that the firm's participation in international markets starts by the

approach of using traditional export methods to the markets closer to the domestic market. This is by considering the perspective of cultural and geographical closeness. After developing intricate ways of operations, the firm can then export to the more distant countries. Different kinds of methods can be used for penetrating the foreign market. The main obstacle for a firm to be successful in the internationalization process is the lack of knowledge as well as information about the foreign markets. Researching the abnormalities of the targeted markets is the solution to this obstacle (Porter, 1990). The risk associated with going to the foreign market is lowered as the firm gets more information about that particular market.

Why firms internationalise

The main reason for firms to go international is obvious as it is for the decision to do any business that is determination as well as commitment to succeed (Johnson & Turner, 2003). There are several motivations that drive firms to go international; the motivations are of two types which are proactive and reactive one.

Proactive type of motives normally originates from firm's planned vision. It represents stimulus to attempt strategic transformation. In this type of motives firm's decision to go into international business relies on firm's wishes, firms may decide not to go into foreign market. The following are proactive reasons for a firm to decide to go international: the emergency of unique opportunity in a foreign market; exploitation of firm's unique competence due to newly observed opportunity in a foreign market; increasing firm's profitability in foreign market after observing opportunity to

increase firm's sales by selling in foreign market; enhancing the competitive advantage of the firm (Daniels et al, 2009).

Reactive types of motives are those beyond firm's direct control. Firms that are influenced by reactive motives are those responsive to environmental changes. In this type of motives firms have to go international whether they want or not due to reactive reasons. The following reactive motivations could force the firm to go international: firm receives unsolicited inquiries from customers in foreign country; there is demand saturation in domestic market; your competitors are selling abroad and you are aiming at coping with them; you want to spread the risk associated with your business (Daniels et al, 2009); extending the life cycle of firm's product.

Generally proactive motives are initiated by the management of the firm based on perceived firm's advantages on profit, technology, product and exclusive information about the market. Reactive motives are the reaction of firm's management to environmental transformations. More often reactive motives are over-production, decreasing of local sales and pressures from competitors. Firms that enter into foreign markets by being mainly stimulated by proactive motivations are more likely to be successfully in foreign market.

Modes of entry into international market

According to Anderson and Gatignon (1986) after the decision to enter into international market has been made by the firm, choosing the modes of entry will follow at some stage. Wind and Perlmutter (1977) suggested that choosing a perfect mode of entry plays a big role on firm's performance in <https://assignbuster.com/the-internationalisation-process-marketing-essay/>

foreign market. There are varieties of ways firms can enter into the foreign markets. Three major ways of entry are exporting directly, exporting indirectly and producing firm's products in foreign country via contractual modes for example franchising and licensing or via direct investments in foreign country for example joint ventures (Root, 1987).

Approaches to Exporting (Export Strategies)

Choice on how to export products has significant effect on firm's exporting plan as well as its marketing strategies. According to Anderson and Coughlan (1987) export strategies can be grouped into two categories which are Direct versus Indirect strategies and Going alone versus Co-operation strategies

Going alone strategies (Direct Strategies)

Going alone strategies are strategies firms use when they decide to export products on its own. Under this category all activities associated with exporting is done by the exporter. Going alone strategies includes Foreign retailers, direct selling, selling using distributors, selling using agents, selling using subsidiary and selling using Government agencies.

Using foreign retailers is a kind of strategy where a firm sells directly to retailers in the foreign country. Firm's representatives will be travelling to make directly contact with retailers in that country, though direct mailing, use of brochures and others might give better results.

Under direct selling strategy an exporting firm sells its products straightforwardly to end users residing in the foreign country. In direct selling

the export firm is responsible for collecting payment and shipping of products.

Selling using a foreign distributor is a situation when a merchant in a foreign country purchases products from the exporting firm at a considerable discount for the purpose of reselling them in order to get profit. The distributor will be responsible for providing product's services and other supports hence relieving the export firm from this kind of responsibilities. Foreign distributors resell the products to retailers who sell them to end users. The contract between an exporting firm and a distributor will be established whereby terms of association between them will be clearly stated.

Selling using sales representatives is a kind of strategy where sales representatives present the product to prospective buyers. They normally work on commission basis; they presume no risk in selling the products. Under this strategy there will be a contract between the two parties which will define terms of engagement

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Selling using Government agencies is observed in Zimbabwe where only the Grain Marketing Board which is the Government agency has permission to export maize. Another example can be observed in Tanzania where only the Tanzania Pyrethrum Board has permission to export Pyrethrum products.

The co-operation strategies/ indirect export strategies

With indirect export strategies, a firm uses an intermediary firm to find markets in foreign country. The indirect export strategies include the use of <https://assignbuster.com/the-internationalisation-process-marketing-essay/>

Export Management Companies (EMCs), the use of Export Trading Companies (ETCs) and the use of international trading consultants. These intermediaries give exporters good access to entrenched knowledge and contacts. The co-operation strategy is when two or more exporters join their power in conducting foreign business. Terpstra (1987) suggested that when firms join their power they are most likely to be successful in the world market. The co-operation strategies include strategic alliance, joint venture, contract manufacturing, licensing and franchising.

Strategic alliance co-operation strategy occurs when two or more firms join together their efforts in weakening customers' bargaining power which results into improved profitability. In this strategy the important feature is that each firm has to maintain the competitive advantage it possesses. The disadvantages associated with strategic alliance are conflict among partners which may cause difficulties in managing the business and lack of synergy because of partners' maintenance of its competitive advantage.

Consequently, many strategic alliances are very successful at the beginning but end up in collapsing for example British Petroleum and American Oil Company (BPAMOCO); Honda and Rover. Another good example of strategic alliance strategy is Sony-Ericsson who joined with the aim of maximizing their strategic advantages utilization in a foreign market.

Joint venture is the situation when a foreign firm has a co-operation with a firm residing in the target market country. In this strategy the foreign firm has sufficient equity to enable them to have a say in managing the business though not absolutely. An example of a joint venture strategy was observed in 1980 when TRW, a firm residing in United States of America based in data

process maintenance and Fujitsu Ltd., which was Japanese largest computer manufacturer, formed a joint venture. After Fujitsu found that it was difficult to enter into competitive market in United States of America by itself, it therefore formed a joint venture with TRW to acquire the marketing knowledge and assistance in distribution of its products. Another successful joint venture example is the one between General Motors and Toyota. They formed joint venture with the name NUMMI (New United Motor Manufacturing, Inc.) which emerged as one of the successful business. The joint venture benefited the partners in the way that it reduced substantially resources that each partner should provide, the business benefited GM to replace its outdated model Chevette with cars manufactured by the joint venture like Nova, Pontiac Vibe, Toyota Tacoma and Toyota Voltz, in this joint venture GM obtained advantages by cutting the time requirements to half and by cutting the cost to 10% of the cost it would have incurred if it did run the business alone. Since Toyota has high quality reputation, GM uses it as an advantage together with low prices to attract new buyers. The joint venture benefited Toyota in number of ways. Toyota had a vision of manufacturing cars in United States basing on desirable economic consideration; therefore it took this joint venture advantageous for assessing its vision and took it as a low risk to start a business in United States and use GM's well established name to market its cars in United States. Apart from advantages, there are disadvantages associated with the joint venture between GM and Toyota. It is the culture of Japanese companies to re-invest the profits while United States firms prefers in paying dividends quarterly. Generally other advantages firms can get when joint venture strategy is applied includes better market information due to good feedback from the

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market, firms can have better management of production as well as marketing functions and the expropriation danger will be reduced. The disadvantages associated with joint venture strategy include the conflict of interest which might occur among partners, proportionate sharing of profits.

Contract manufacturing is another co-operation strategy whereby a contract is made between a firm residing in domestic targeted market and the firm which aims to export. The contract covers only the manufacturing process of the products. The firm residing in the target market does all the manufacturing activities while the whole marketing of the products is done by the firm that intended to export. Advantages when contract manufacturing strategy is used include the protection of the business from political uncertainties, the manufacturing risks will be reduced, and manufactured products will be advertised similar to those locally manufactured. The disadvantages of applying this strategy include difficulties in spotting appropriate manufacturer in the foreign market, the firm doing manufacturing will receive all the manufacturing profits not the firm that do the exports and there might be a problem on quality control because the exporting firm is not participating in the manufacturing process.

Under licensing strategy, the firm intending to export (licensor) granted the patent rights, copyrights and trade marks to another firm residing in the targeted market (licensee) (Daniels et al, 2009). The licensee is responsible on manufacturing, marketing and selling the products in the domestic area. The Licensee will be liable to pay the licensor a proportionate amount of sales volume as agreed. Advantages of using this type of strategy include accessing the target market will be done easily using the licensee, reduced

costs of investment due to absence of variable costs, reduced risks of investments and there will be low costs of administration. The disadvantages of using licensing are the firm might be creating its own competitor; taxation of manufactured products on the basis of royalties leads to reduced profit and confidentiality of information is reduced. An example of licensing strategy is when the Japanese car manufacturer Toyota granted a South African based company South Africa Motors the rights to manufacture and sell Saloon cars with a Toyota brand name in African market.

In franchising strategy, the exporter agreed with a firm in the target market that the exporter also known as franchiser to be providing ingredients to the local firm also known as franchisee which will be manufacturer or producer in the targeted local market. In this strategy the franchiser will also be responsible for controlling standard packaging, marketing structure and management operations. The franchiser will also allow its trademarks to be used in the business (Daniels et al, 2009). The franchisee will be responsible for providing information about the target market, some capital for business establishment and participation in management activities. Advantages associated with using this type of strategy include the low cost of investment, the risk associated with the business is low and the franchisor can easily get the information about the foreign market easily through the franchisee. The disadvantages include the difficulties in controlling business confidentiality. A good example of franchising is observed when Coca Cola Company provides the concentrates to a lot of franchisee in many countries for producing soft drinks. The franchisee has no knowledge of manufacturing the Coca cola concentrates. The chemical formula of manufacturing Coca

cola concentrates is a company's competitive advantage which is well patented.

Conclusion

Choosing an export strategy is inevitable for a firm with a desire of expanding its business abroad. Depth understanding of business environment and market information are the key factors of success in export business. For a firm to survive in export business, it must cope with the dynamism of that business. Before the exporter chooses suitable export strategy, the objectives of the business must be well known. Selecting a proper export strategy is very important for a better performance of the business. Flip-flop type of strategy might cause the business to be unsuccessful (Porter, 1990). After strategy selection it is important to review it constantly to make sure that it fits the business environment.