# Deciding how to enter the market

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# INTRODUCTION

An international market is a global market that is beyond the boarders of any country (i. e. market across national frontier). It provides a platform where goods and services can be sold or bought across nations. A lot of organizations and company desired to operate in the international market for the various reasons for example to increase market share, to create a forum for global impact, to increase firm and principally to maximize profit. This article will consider the various international market entry strategies and also analyze the commonly held belief that there is no single market entry strategy which is appropriate in all circumstances.

1. Deciding How To Enter The Market

According to Cateora et al (2007), when a company or an organisation thinks of going international, it has to decide on the entry strategy first. This decision should reflect an analysis of market characteristics ( like strategic relevance, potential sales, strengths of local resources, cultural differences, and countries registration) and company capabilities and characteristics, coupled with the extent of near market knowledge, market involvement and commitment that management is prepared to make.

Companies entering international markets for the first time normally have the challenge of choosing the right country or countries to enter and also the best mode of entry into the markets . It is advisable to collect data to assess the potential available in the market and investment climate in all countries that are to be considered. It is also advisable to pay close consideration to risks involved and the cost of operating on the countries or places chosen. So

the first challenge in international market entry in bewildering array of countries and market that can be entered and this can be solved by establishing screening procedures that will help in the selection process for further investigation.

Some firms already have international operations and so for them the screening exercise and criteria are already established and routinized. The experienced gained by operating in other country environment gives them experiences and how they can access a new country environment. Thos country that similar environment to were the firm already exist becomes an attractive option of prospects. In the other case, secondary data maybe used for the evaluation. The secoundary data helps in making out a list of the best prospects countries and also indicate if there is any need for further investigation. (Craig and Douglas, 2005).

Furthermore, Jeannet and Hennessey (2006) advocates that companies pursuing an international market strategy must determine the type of presence they expect to build in every market where they intend to compete. This goes to say that a company’s decision determines they method of entry into any selected market. In support of this statement, Root (1994) added that the choice of market entry mode is one of the most critical strategic decisions a company will make because it affects the future decisions and performance in the Global market and that it requires a level of resource commitment which is difficult to transfer from one to another especially from high level to low level.

## Foreign Market Entry Modes

When a company decides to target a particular country, it has to determine the best mode of entry. According to Crateora and Graham (2007) a company has four major different modes of foreign market entry from which to select. These modes are:

Exporting

Contractual agreements

Strategic International alliances

Foreign direct investment

However, these different modes can be further be classified on the basis of the equality or non equity requirement. The amount of equity needed by the company to use different modes affect the risk , return and control that it will have in each mode.

## Exporting As an Entry Option

Exporting is the selling or marketing of goods produces domestically in another country. This is the old and traditional way of reaching foreign market. (http://www. quickmba . com/strategy/global/market entry). " Exporting to a foreign market is a strategy many companies follow for at least some of their market. Many countries do not offer enough opportunity to justify local production, so exporting allows a company to manufacture it products centrally for the several markets and, therefore, to achieve economies of scale. Furthermore, exports add volume to an already existing

production operation located elsewhere so the marginal profitability of such exports tends to be high". (Jeannet and Harnessey, p. 290).

However the option has a number of concerns. This concerns shows that it might not be appropriate in all circumstances. Gottorna and walters(2005) claims that in the first place export has appeal for companies confronted with low volume opportunities and who desire to utilize it without making major commitments of fixed and current assets. Secondly, the unpredictability of future volume growth.

There are two types of exporting:

Direct exporting

Indirect exporting

a. Direct exporting:-This is when a company export through intermediaries located in the foreign market. Many foreign contacts, either one or more for each country the company plans to enter. This exporting operation requires strong expertise, and provides the company with a higher degree of control over distribution channels than the case of indirect exporting. It depends on the relationship between the exporting firm and local distributor or importer. (Jeannet and Hennessey, 2006).

b. Indirect exporting:-This exporting operation requires little investment. It involves domestic intermediaries with specialist market knowledge who offer market maker/merchant specialism companies who have neither knowledge nor expertise to under take operations in a market. The process involves taking title to the product they are established and sell the product on into

the markets in which they are established. (Gattorna and Walters, 2005). The major advantage for using a domestic intermediaries is based on the individual's knowledge of foreign market conditions especially for companies with out much experience in exporting. They provide new exporters with the requisite experience. (Jeannet and Hennesy, 2006).

## Contractual Agreement

This is a long term, non equity association between a company and another in a foreign market. It involves the transfer of technology, processes, trademarks, or human skills. Example of contractual agreement is licensing and franchising (Cateora and Graham, 2007).

## Licensing

Licensing is another easy way of entry into a foreign market. The whole process involves a licensee and a licensor were the licensor issues a license to a foreign company to use their manufacturing process, trade mark, patent, trade secret, or other item of value for a fee or royalty. With this agreement or contract, the licensor gains entry at little risk. The licensee also gains production expertise or a well known product or brand name ( Kotler and Keller, 2006).

Licensing is not very appropriate market entry strategy for every business because it has some potential disadvantages. For example, the licensor has less control over the licensee than it does in its own business or production and sales facilities. Also if the licensee is very successful, the firm has given up profits; and if for any reason the contract comes to an end, the company might have created a major competitor. Company like coca cola is a good

example of licensing and they go about this possible challenge by supplying some proprietary ingredients or components needed in the product. Another solution to this challenge is the licensor leading in the innovation so as to endear the licensee to depend on it.

## Franchising

This is another form of licensing, here a company also known as the franchiser puts together some of their packages standards of products , systems and management services that made them successful as a company in their home country and then franchise this package to an overseas investor. The franchisee provides market, knowledge, capital and personal involvement in management. Example of franchising is McDonalds (http://www. leanmarketing. net/international%20marketing%20entry. htm).

3. Strategic Alliances (SIA)

This is a business relationship setup by two or more companies to cooperate out of the mutual need and to share the risk in achieving a common objective. SIA is a way of eliminating a company’s weakness in exchange for an increased competitive strength i. e. it gives room for rapid coorperate expansion into new markets, access to new technology, more efficient production and innovation. Example of SIA are seen more within airline industry like America airlines, British airways etc (Cateora and Graham, 2007).

## 4. Foreign Direct Investment

This is a direct ownership of facilities in the target country. It requires a lot of commitment to match competition of resources which includes capital,

technology and personnel. This can be achieved by setup a new enterprise or acquisition of existing entity (http://www. quickmba. com/strategy/global/marketentry/)

## 5. Other Entry Modes

a. The Internet: – in the past, the internet was used more for domestic market but now it has become important as a foreign market entry. Companies now receive orders abroad from different customers via the international internet marketing (IMM)

. Example of companies using the internet as an entry mode is Amazon. com (Cateora and Graham, 2007). The full impact of internet on IMM is yet to be determined, this is a limitation and most service delivery firms might not be able to fit into this entry mode.

b. Contracting:-This form of market entry in to foreign country involves the exchange of ideas. In this case the manufacturer of a product contracts out the production to another company abroad to do the production on their behalf in other to save cost. This also saves the company exporting to the foreign market (http://www. leanmarketing. net/international%20marketing %htm20entry).

c. Manufacturing Abroad: – This is when the government of a country gives an organization some form of tax advantage to attract inward investment to help create employment for their economy (http://www. leanmarketing. net/international%20marketing%htm20entry).

## Conclusion

From these explanations given above about the various single market entry strategies it is obvious that there is no single entry strategy that is appropriate in all circumstances. Although some like exporting, internet can favour most company. It all depends on the industry, product, goods and services offered by the company.

## B. FRANCHISING

Franchise operations or franchising are a contractual agreement held between a franchisor and a franchisee where the franchisor gives the right to sell goods and / or services to a franchisee (Keegan w. j, 2002). According to Jeannette and Hennessey (2006), the franchiser makes available a total marketing program which includes its logo, product, and method of operation. This is why franchising is said to be a growing form of licensing (Ghauri and Cateora, 2006).

Prior to 1970, International franchising was not rampant in the global market especially among the members of International franchise association as their records only showed just 14 percent of its members firm franchise outside the united states, most of the firms in the Canada where not franchising. Today records show that more than 30, 000 franchises of U. S firms are located in different countries of the world. The franchises are found in different industries which include fast-food, automotive services, recreational services, soft drinks, motels and hotels. Here in the UK today, franchising encompasses products from pipes to pastries which include well known names like Body shop, Prontaprint, Kentucky, fried chicken, spud-U-Like. Others are KFC stores, McDonalds etc.

In spite of the setbacks during the global economic down turn of the millennium, it is envisaged that franchising will be the fastest growing market entry strategy (Cateora and Graham, 2007).

According to Ghauri and Cateora (2006), there are three types of franchising firms. These franchising agreement are

Master franchise

Joint ventures

Licensing

It is important to note that any one of these can have a country's government as partner. Further more; master franchise is the most inclusive agreement and the method used in more than half of international franchise. This is because it gives the franchisee the rights to a specific area (many are for the entire country) with the authority to sell or established sub franchises. For example, The McDonalds franchise in Moscow is a master agreement owned by a Canadian firm and its partner, the Moscow city council department of foods services.

## Features of Franchising and Operating Procedures

1. Franchise basically sells national or internationally recognized trade name, process, or business format to the franchisee.

2. It is subject to a contract binding both parties i. e. franchisor and franchisee.

3. The franchisor normally offers experts advice on, for example, location selection, capitalization, operation and marketing.

4. The franchisor normally provides initial and continuous training to the franchisee.

5. Most franchise systems operate a central purchasing system at the national or international level to enable cost savings to be made at the individual franchise level.

6. The contract normally requires the franchisee to pay a franchise fee and royalty fees, but the franchisee owns the business as opposed to being employed.

(Lancaster et al, 2002)

Furthermore, franchising has been known to have some special attraction for both the franchisees and franchisor. Lancaster et al (2002) have outlined this attraction as advantages shown below.

## Advantages for the franchisees

The franchisee enjoys the privilege of selling a product, brand or service that have been tested and is known to work and meet his aspirations.

The franchisee enjoys among other things access to knowledge, reliable experience, reputation and image of the franchisor. This makes the whole business much easier than starting off from the scratch.

The franchisee enjoys a high degree of guarantee of the success of the business because there is a lesser chance of business failure emanating from expensive business mistakes and steps.

Every successful business has a brand name and trademark. The franchisee enjoys freely the franchisors trade mark, market information and continuous research and development.

The business runs freely on the experience and procedures of the franchisor. These procedures include the management controls e. g. accountancy, sales and stock control procedures, etc.

The franchisee also enjoys all the motivation of an independent business even though it has the backing of the franchisor.

The franchisee gains from national and international advertisement which the franchisor makes to improve sales and market its product without necessarily contributing to it.

## Advantages for the franchisor

Franchising enhances rapid business growth and expansion at a minimum cost. The franchisor enjoys large distribution of his initiative with at little or no cost.

To the Franchisor, the franchisee is like a hired business manager with a greater propensity to perform better because of there motivations.

The franchisor secures the various outlets for his products, brand name and trademark.

The franchisor gains incomes and revenue from the franchise by way of franchise fees or royalty fee.

In most cases the terms of the franchise gives the franchisor substantial control on how the business should be operated and has the right to terminate the franchise contract if dissatisfied.

These advantages for both the franchisee and franchisor explain the reasons why there is a continuous increase in franchise business today It has also made franchising a major attraction for both parties.