

# [Ib assignment](https://assignbuster.com/ib-assignment/)

By studying a real world case, this assignment is designed to help you consolidate your understanding on entry modes, the environment analysis associated with entry modes, and the strategic consideration behind entry mode choices. This activity also aims to sharpen your analytical skills and abilities for problem analysis and solving. Procedures and questions: 1 . Choose a real company from an automobile (car) industry which is involved in international business. 2. Identify an entry mode that has been used by the selected company when expanding its car business to a foreign market location.

The identified case should be from 1990 and onward. 3. Answer all of the following questions: Question 1) Is this entry mode appropriate for the target foreign market? Why? Answer this question by analyzing: Strategic Consideration: a) Is this entry mode in line with the company’s then strategic direction? Why? ; b) Do you think the level of control, risks, return and integration associated with the entry mode is appropriate for the company’s strategy? Environmental factors: PESTLE Analysis of the foreign market location.

You only need to analyses any 3 PESTLE factors that you think are most related to your case. Note you must analyses how the entry mode suits these 3 PESTLE factors. Whether the timing of entry and the scale of the entry are appropriate? Why Question 2) Based on above analyses, what recommendations would you make to improve this entry? Format This assessment task should include the following sections: Title page (title of your report, your name, student number and word count – References are excluded from the word counts) Introduction Answer question 1 in this section.

You need to design a heading for this section and can make your own sub-headings. Answer question 2 in this section. You need to design a heading for this section and can make your own sub-headings. Conclusion Reference List (is excluded from word counts) Guidelines 1 . The core of this assignment is to assess your level of mastery of the subject matters and your analytical skills in relation to market entry modes. Being descriptive is NOT appropriate for this assignment. 2. Keep the Introduction and Conclusion short (maximum 200 words each) and focus on the analysis.

Other requirements A minimum of six (6) academic journal articles must be read and cited. The assignment must be well-structured and well-presented. The clarity of expressions together with the appropriate use of grammar, spelling ND punctuations are important to maintain. Any use of comments, information, data or quotations from others (books, journals, newspapers, web etc. ) must be cited using Harvard referencing style. The 12 point font in Times New Roman should be used throughout. Appropriate spacing (1. Lines) and margins on all sides (at least 2 CM) need to be maintained. Number each page. Assessment Criteria Level of mastery of the subject matters Quality of analysis and justification Academic writing clarity, logic and skills Quality, relevance and sufficiency of references Format Presentation Introduction Internationalization is defined as “ the process of increasing involvement in international operations” (Buckley & Gharry 1999). Over the past decades, there are increasing numbers of organizations expanding their operations internationally.

With advance technologies, improved communications and transportation, as well as low entries barrier to international trade and finance (Fraction 2011), organizations are more then willing to expand their operations in foreign countries for various reasons like attaining tax benefits, economies of scale or due to competitive pressures. Foreign Direct Investment (FED) is a function of internationalization process for organizations. It takes place when an organization invests directly in facilities to produce or market a product in a foreign country. Foreign Direct Investment (FED) takes on two main forms.

One is the Greenfield investment and the other is acquisition and merging. However, when deciding to enter a foreign market, the organization faces a considerable amount of uncertainty. In the context of this report, will seek to provide an analysis on why Haunted Motor Company (HEM) choose and enter the India automobile market with justification of the most appropriate choice of entry mode based on a spectrum of pertinent factors. Overview of Haunted Motor company (HEM) Haunted Motor Company (HEM) is a South Korea multinational automaker established in the 1967.

As the domestic market matures, Haunted Motor Company focused on developing in foreign market so as to sustain growth. Ham’s strategic direction was capacity expansion under the lead of the then Chairman, Mr.. Chunk Juju-young. In the sass, Haunted began to explore strategies to enter foreign markets. Their strategies of internationalization were to develop mint ventures with advanced foreign carmakers that would allow them to develop world market sales, exportation, forming strategic alliance. Gradually, the HEM became the leading automobile company in Korea and is ranked as one of the world’s largest automaker.

The company currently has seven overseas plants in the following countries: Korea, United States, India, China, Brazil, Turkey and Russia.. Haunted enters Indian Market Globalization has become an imperative strategy for many multinational corporations. Nevertheless, it added another level of complexity to the reparation’s strategies when it decided to internationalist (Poet 2004). Hence, it is required to identify the initial motivating factor for Haunted to enter the India market. In the initial years after independence of India, the Indian automobile industry was regulated by the hostile government policies known as License Raja.

License Raja is an elaborated system of licenses, regulations and accompanying red tape that were required to set up and run businesses in India between the 1947 and 1990. At that time, two players, Fiat and Hindustan Motors dominated the market. The automobile manufacturer market is very small in India. Until the abolishment of the License Raja in 1991 the liberalizing of foreign investment allowed foreign automobile manufacturers to enter the India market. Haunted entered the India market by founding its wholly owned subsidiary Haunted Motor India Limited (HEMI) and built its own production plant near Achaean, India, in 1996.

Within a year of launching its own manufactured car in India, HEMI became the largest automobile company in India. Factors influencing the choice of entry Mode Economic India economy is ranked the 10th largest in the world according to the nominal GAP and is also the 3rd largest with regards to purchasing power parity. It is one of the major emerging nations in BRICKS (Brazil, Russia, India, China and South Africa) with the fastest expanding economies in the world. The Indian automobile industry underwent a change in 1991 with the deliquescing of the sector and gradually exposes itself to 100 percent FED.

The Government of India relaxes the licensing rule, reduced tariff rates, and removed restrictions on import. Since then, most of the major global players started to set up their facilities in India. The automobile industry has blossomed at a spectacular average rate of 17% with the production level rising from 2 million to 9. 7 million. This suggest that the purchasing power of common masses heightened and thus flourishing he automobile market. Since 1990, Indian’s economic growth rate has an average of 5. 7% p. A. Reflecting a strong domestic economy.

As Haunted wanted to build own reputable brand, increasing their brand image as middle-end class car, it will be easier and attractive to invest in India that is close in economic distance as the transferring of knowledge is easier. Due to close economic development, hey have similar market segments that have the affordability to consume similar types of products. The physical infrastructures of the India are also quite similar thus allowing them to enjoy efficiencies in operation and thus lowering undesirable cost.

As major automobile manufacturers continue to engage in national and cross-border FED activity in achieving a better position in the international market. Transaction activity has been especially strong in emerging markets as companies look to expand into these markets, capitalizing on demand generated by increasing population and rising wages. India has a good arrest size and growth potential in the automobile industry as statistic report by Government of India has shown FED in the transportation sector as the 4th largest sector in India, totaling $3. Billion form 1991 through 2006. The linkage between FED and national investors increase the pool of investment capital inside the national economy. Essentially, making it one of the factors that Haunted decided to take the risk in looking into the India market. Socio-cultural According to Dee Mooing (2004), underlying cultural dimensions of the society have an effect on the consumption pattern beyond the predicted economic saws. The buyers are not only driven by the economic consideration. Culture is defined as shared values and meanings of the members of a society.

Other than the underlying behavior pattern of consumers in a market, the execution and implementation of marketing and strategies management are affected (Gout and Sings 1988). As the cultural distance is greater, the company will have greater difference in marketing the perceived goods in the foreign market. Cultural distance has an affect on the effectiveness of the entry. One of the factor that Haunted chose India as a market might due to cultural distance. First of al, India is the second most populous country in the world, with a population of 900 000 people to 1. 2 million people (1991 to 2014). India is the 7th largest country in the world. As mention above, FED leads to fast emerging middle class consumers and the number of such consumers will keep growing. Generally, FED leads to more job opportunities thus increasing the number of women working from the earning members in a family. Due to the geographical proximity and culture of India, car became a common type of transportation for the Indians. Heavy rain and poor road condition resulted in Indian drivers to enjoy driving t short distance and at a low average speed.

These changing lifestyles indicate that consumers would therefore appreciate cars that are affordable and of good durable quality and providing after sale services. With the understanding of that, Haunted established a wholly owned subsidiary, HEMI, to find suppliers to supply them at low costs and building its own car in India itself to cut any other irrelevant costs. With HEMI, the company is able to protect its technology from the competitors, enabling them to be competitive with others who are also trying to enter the Indian market. Political Indian government plays an important role in flourishing the Indian automobile industry.

India is considered as a country with great democracy. They have transformed from being a controlling agent to a facilitator who focus primly on providing better infrastructure, growth oriented economic policies and right environment to attract investments. Subsequently, the government took steps to liberalize the policies. With the relaxation of foreign exchange and equity regulations, reduction of tariffs on imports, and refining the banking policies leads to the thriving of automobile industry. The government also institutionalized the automobile financing to ensure long-term sustainability growth in this industry.

Political risk is a factor influencing the entry mode of Haunted. Political risk can lead to high transaction costs when partnering with a local company. Thus, this might be one of the reasons that Haunted prefer to invest through wholly owned subsidiary to avoid such costs. It is important to know such information of the country so as Haunted would know what and how to deal with problems in the host country when setting up its business in it. After the De-licensing of License Raja, many major automobile players are still in the exportation business. Haunted made a daring move to make a Greenfield investment in India unlike these players.

Due to Haunted being the pioneer entrant for setting a wholly owned subsidiary in India, the government indirectly supported the company. Scale and Time Even though Haunted Company is an experienced, knowledgeable and having great resources in the automobile industry, they were the first entrant in the India automobile industry. In my opinion, being in joint venture would be a better entry mode. As the parent company has already invested in automobile plant in Korea to manufacture their own-brand cars, Handmaid’s decision on mode of market entry was affected.

To protect their intellectual properties, engaging in global strategic coordination and having the ability to realize location and experience economics, Haunted wanted greater control over the company in host country thus choosing wholly own subsidiary as their entry mode. The role of market entry timing is an important factor in emerging markets (Pan and Chi 1999). Early entrant into international markets could favor or rut the company s success. Haunted was the first foreign company to enter the automobile industry in the sass using Greenfield investment.

Being the first, Haunted was able to access to distribution channels and key suppliers for manufacturing their cars. Next, they were given the opportunity to set a system of pattern for consumer preference in buying their cars, which may cause disadvantages to later entrants. Thirdly, Haunted benefited from being the pioneer entrant to enjoy government’s concessions and incentives that are used to attract more Fids (Pan and Chi 1999). Moreover, Haunted was able to exploit the “ strategic window’ of an expanding market and observe the market attributes for a longer period of time compared to the late entrants.

On the other hand, the risk of failing that Haunted faced as early entrant was of great amount too. Firstly, Haunted has no one to learn from in the host country as early entrants. They might not be aware of the pitfalls of the newly opened emerging market. Lastly, they have to risk that the returns might be too low compared to their investments as emerging market’s infrastructure for the automobile industry is not that fully developed. In my opinion, Haunted had gained great unifies from adopting the “ first entrant” strategy.

Its succession was mainly due to the research and studies it had done before deciding on which car to produce and sell. Risks India automobile industry is considered having high market potential with high investment risks. Handmaid’s WOOS mode of investment risk was partly reduced with the host government help. Financial risks are also reduced, as manufacturing input cost was decrease due to low labouringly cost in India. With the surplus of workers in India, many auto parts suppliers and great distribution channels, allowed Haunted to succeed in the WOOS entry.

Control Haunted is a strong company that wanted to build its brand image and produce their own cars. After a joint venture with Mediumistic, they were able to produce cars of the same technology. However, that was not enough for them to stay competitive in the automobile industry with other major players. Thus, they began to place emphasis on its research and development sector (R). It is one of the assets that make Haunted profitable in a long run. To protect their technology from other competitors, Handmaid’s WOOS offer highest level of control to minimize the release of confidential information of it.

Other than confidential information, with greater control, Haunted was able to market and distribute their cars in their own way without the hindrance of other partners. Integration Polytechnic staffing is used to strengthen the integration level in Haunted. Haunted should employ more of Indian’s expertise and talents to prevent problems like language barriers, premature return and costly business mistakes. Having employed the Indians, it helped lower the unemployment rate in the country. With integration, the suppliers would be competing to supply their parts to Haunted and resulted in lower cost supply.

WOOS helped Haunted to gain brand image and continued to build network in the industry and eventually gained market penetration. Recommendation and Conclusion After analyzing the internal and external factors’ effect on the choice of entry mode, external factors are relatively important for Haunted to enter India market using Greenfield investment. It is crucial that Haunted company analyze the external factor first-hand before choosing the appropriate market entry mode. In WOOS, Haunted was able to gain competitive advantage in exploiting the government policy and integration operation.

During the financial crisis in 1997, Haunted was able to withstand it was partly due to the blooming automobile industry in India. The success of Haunted was mainly due to their effortless study of India market, marketing research developed by the top officials and surveying from the local vendors, dealers, customers. However, I understand that Haunted was facing great risk being the first foreign company entering the Indian market. To greater reduce the operation and financial risk that they face, I would recommend that they should also enter the market using joint venture.