A mode of entry into an international market

A mode of entry into an international market is the channel which your organization employs to gain entry to a new international market. This Article we shall consider modes of entry into international markets such as the Internet, Exporting, Licensing, International Agents, International Distributors, Strategic Alliances, Joint Ventures, Overseas Manufacture and International Sales Subsidiaries. Finally we consider the Stages of Internationalization.

The Internet

The Internet is a new channel for some organizations and the sole channel for a large number of innovative new organizations. The eMarketing space consists of new Internet companies that have emerged as the Internet has developed, as well as those pre-existing companies that now employ eMarketing approaches as part of their overall marketing plan. For some companies the Internet is an additional channel that enhances or replaces their traditional channel(s). For others the Internet has provided the opportunity for a new online company.

New Internet companies :

These companies only trade on the Internet.

- New online retail brand e. g. Amazon, Lastminute. com – Essentially these companies could not have been conceived without the creation of the Internet. New companies sprang up as the Internet began to be adopted. Entrepreneurs were investing heavily in all sorts of start-ups. Some were successes, most were not.
- New online manufacturer brand e. g. Dell. com – Entrepreneurs saw opportunities for developing online manufacturers' brands that took

advantage of online technologies that enabled innovative new products to be adapted to customer preferences, and by using IT to enable efficient and effective operations such as assembly and logistics.

- Online Auction e. g. eBay. In common with new online retail brands, before the emergence of Internet technologies, this concept was not possible. Essentially eBay is a Consumer-to-Consumer (C2C) business.

Pre-existing companies that have adopted eMarketing.

These are traditional companies that trade on the Internet.

- Banking and financial Services e. g. HSBC Bank. Banks and financial services have benefited tremendously from the popularity of Internet usage. There is a mixture of new online banks and traditional banks, both offering online banking services. Essentially banks no longer need to invest in high cost, high street selling units i. e. old fashioned town-based banks. Labor costs have also been reduced since much of the traditional banking bureaucracy is done using IT, and the use of overseas call centers has meant that salaries are much lower. Software also means that customers can be retained by using Customer Relationship Management (CRM) eMarketing approaches.
- Existing online retail brand e. g. Wal-Mart, took advantage of this new mode of distribution by extending products and services to consumers via the medium of the Internet. eMarketing enhances their traditional marketing.
- Direct distribution channel e. g. New York Yankees’ shop. Organizations have access to consumers worldwide. So brand loyal consumers such as sports fans are now able to buy directly from their preferred club,

which pockets the entire profit without having to give a cut to intermediaries.

- Wholesalers e. g. C and S wholesale Grocers. IT allows retailers to order directly from their wholesale partners via their website. Retailers can check stocks and look at current promotions. This approach is more effective than depending entirely on merchandisers.
- Agents e. g. Avon Representatives. There are a number of different types of agents. One well known example is that of Avon cosmetics and their workforce of extremely loyal representatives. The representatives are in reality agents. eMarketing allows customers to choose between the services of their traditional Avon rep or the Avon Online Shop i. e. using an agent or going direct.
- Franchises e. g. KFC. There are many examples of franchises. The online equivalent of a franchise is an affiliation or ‘ affiliate.’ This gives the franchise owner the opportunity to develop a network of affiliates that display goods, services or solutions on the affiliate website. A commonly cited example is that of Amazon. com. So if you are a golf enthusiast, and you have developed a site that give tips on how to play better golf, then you can apply to Amazon. com for an affiliation that allows you to place tailored Amazon ad boxes on your site. They can be adapted to sell golfing books, and you as the site owner can adapt the ads to match the feel of your site. For every golf book sale that your leads generate, you are paid a commission.
- Vending and automated retailers e. g. Coke machines. Vending is very much based upon the physical location of machines near to where they are most likely to sell product. However, vending machines can use IT

and the Internet to communicate with a central server, giving information on what is currently selling well, or what might need replacing.

Exporting

Exporting is the marketing and direct sale of domestically-produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. Since exporting does not require that the goods be produced in the target country, no investment in foreign production facilities is required. Most of the costs associated with exporting take the form of marketing expenses.

Exporting commonly requires coordination among four players:

- Exporter
- Importer
- Transport provider
- Government

There are direct and indirect approaches to exporting to other nations. Direct exporting is straightforward. Essentially the organization makes a commitment to market overseas on its own behalf. This gives it greater control over its brand and operations overseas, over an above indirect exporting. On the other hand, if you were to employ a home country agency (i. e. an exporting company from your country – which handles exporting on your behalf) to get your product into an overseas market then you would be exporting indirectly. Examples of indirect exporting include:

- Piggybacking whereby your new product uses the existing distribution and logistics of another business.
- Export Management Houses (EMHs) that act as a bolt on export department for your company. They offer a whole range of bespoke or a la carte services to exporting organizations.
- Consortia are groups of small or medium-sized organizations that group together to market related, or sometimes unrelated products in international markets.
- Trading companies were started when some nations decided that they wished to have overseas colonies. They date back to an imperialist past that some nations might prefer to forget e. g. the British, French, Spanish and Portuguese colonies. Today they exist as mainstream businesses that use traditional business relationships as part of their competitive advantage.

Licensing

Licensing essentially permits a company in the target country to use the property of the licensor. Such property usually is intangible, such as trademarks, patents, and production techniques. The licensee pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance.

However, because the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

Licensing includes franchising, Turnkey contracts and contract manufacturing.

- Licensing is where your own organization charges a fee and/or royalty for the use of its technology, brand and/or expertise.
- Franchising involves the organization (franchiser) providing branding, concepts, expertise, and in fact most facets that are needed to operate in an overseas market, to the franchisee. Management tends to be controlled by the franchiser. Examples include Dominos Pizza, Coffee Republic and McDonald’s Restaurants.
- Turnkey contracts are major strategies to build large plants. They often include a the training and development of key employees where skills are sparse – for example, Toyota’s car plant in Adapazari, Turkey. You would not own the plant once it is handed over.

International Agents and International Distributors

Agents are often an early step into international marketing. Put simply, agents are individuals or organizations that are contracted to your business, and market on your behalf in a particular country. They rarely take ownership of products, and more commonly take a commission on goods sold. Agents usually represent more than one organization. Agents are a low-cost, but low-control option. If you intend to globalize, make sure that your contract allows you to regain direct control of product. Of course you need to set targets since you never know the level of commitment of your agent. Agents might also represent your competitors – so beware conflicts of interest. They tend to be expensive to recruit, retain and train. Distributors are similar to agents, with the main difference that distributors take ownership of the goods. Therefore they have an incentive to market products

and to make a profit from them. Otherwise pros and cons are similar to those of international agents.

Strategic Alliances (SA)

Strategic alliances is a term that describes a whole series of different relationships between companies that market internationally. Sometimes the relationships are between competitors. There are many examples including:

- Shared manufacturing e. g. Toyota Ayago is also marketed as a Citroen and a Peugeot.
- Research and Development (R&D) arrangements.
- Distribution alliances e. g. iPhone was initially marketed by O2 in the United Kingdom.
- Marketing agreements.

Essentially, Strategic Alliances are non-equity based agreements i. e. companies remain independent and separate.

Joint Ventures (JV)

Joint Ventures tend to be equity-based i. e. a new company is set up with parties owning a proportion of the new business There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations. Other benefits include political connections and distribution channel access that may depend on relationships.

Such alliances often are favorable when:

- the partners' strategic goals converge while their competitive goals diverge;

- the partners' size, market power, and resources are small compared to the industry leaders; and
- partners' are able to learn from one another while limiting access to their own proprietary skills.

The key issues to consider in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions.

Potential problems include:

- conflict over asymmetric new investments
- mistrust over proprietary knowledge
- performance ambiguity – how to split the pie
- lack of parent firm support
- cultural clashes
- if, how, and when to terminate the relationship

Joint ventures have conflicting pressures to cooperate and compete:

- Strategic imperative: the partners want to maximize the advantage gained for the joint venture, but they also want to maximize their own competitive position.
- The joint venture attempts to develop shared resources, but each firm wants to develop and protect its own proprietary resources.
- The joint venture is controlled through negotiations and coordination processes, while each firm would like to have hierarchical control.

reasons why companies set up Joint Ventures to assist them to enter a new international market:

- Access to technology, core competences or management skills. For example, Honda’s relationship with Rover in the 1980’s.
- To gain entry to a foreign market. For example, any business wishing to enter China needs to source local Chinese partners.
- Access to distribution channels, manufacturing and R&D are most common forms of Joint Venture.

I personally am working in a Joint Venture Company that is Legal And General Gulf Takaful , which in a UK based insurance company that has expanded abroad the entire nation using the (JV) Technique , LnG is a 50% Joint venture with Ahli United Bank Bahrain (Main Branch in GCC region) And is expanding in the rest of GGC region .

In India LnG is a (J V) with India First Insurance company .

Overseas Manufacture or International Sales Subsidiary

A business may decide that none of the other options are as viable as actually owning an overseas manufacturing plant i. e. the organization invests in plant, machinery and labor in the overseas market. This is also known as Foreign Direct Investment (FDI). This can be a new-build, or the company might acquire a current business that has suitable plant etc. Of course you could assemble products in the new plant, and simply export components from the home market (or another country). The key benefit is that your business becomes localized – you manufacture for customers in the market in which you are trading. You also will gain local market knowledge and be able to adapt products and services to the needs of local consumers. The downside is that you take on the risk associated with the local domestic market. An International Sales Subsidiary would be similar, reducing the

element of risk, and have the same key benefit of course. However, it acts more like a distributor that is owned by your own company.

Internationalization Stages

So having considered the key modes of entry into international markets, we conclude by considering the Stages of Internationalization. Some companies will never trade overseas and so do not go through a single stage. Others will start at a later or even final stage. Of course some will go through each stage as summarized now:

- Indirect exporting or licensing
- Direct exporting via a local distributor
- Your own foreign presences
- Home manufacture, and foreign assembly
- Foreign manufacture

Entry Modes For International Markets: Case Study Of Huawei, A Chinese Technology Enterprise, in

European market : Huawei co-operate with Marconi in product development and marketing. Marconi helps Huawei to sell products in Europe using their channels. At the same time, Huawei helps selling Marconi’s product in China and Asia markets. Early to 2002, Huawei has cooperated with Motorola in Mobile network infrastructure area using the OEM method. To develop the market of data communication in North American and other international markets, Huawei set up joint venture: Huawei-3Com

with 3com, the main player in data communication market. In this method, Huawei takes the advantage of R&D ability and the 3Com's international market resource.

Huawei often uses join-venture and export methods. In the products without advantages, for instance in 2G mobile networks, Huawei cooperates with Giants of this area. For the products with technological advantage and without market resource, it uses the modes of joint venture, franchising or co-research.

although Huawei's WCDMA 3G solutions has not been applied in domestic market, up till 2005, Huawei has got 11 WCDMA commercial contracts from overseas; the countries include Holland, United Arab Emirates Malaysia and so on (Li, W. 2005).

The development of modern international market is reflected in the following ways:• Deploying a great deal of agents in the host market that to help foreign enterprises overcome the shortness of marketing experience.

- Promoting technological cooperation and alliance in the international market to help enterprises speed up the process of internationalization.
- Enhancing global communication to stimulate the fast growth of international human resource, which helps enterprises enter international market without worrying about shortness of international professionals