Factors Affecting the Selection of International Market Entry Mode

Dr. Vankadari Gupta
Associate Professor, Masters In Business Administration (General Management), Presidency University, Bangalore, India,
Email Id-chithambargupta@presidencyuniversity.in

ABSTRACT:

The selection of an appropriate market entry mode is a crucial decision for businesses seeking to expand into international markets. This chapter provides a concise overview of the factors that influence the selection of international market entry modes. It explores the significance of factors such as market size, cultural distance, regulatory environment, resource availability, and competitive landscape. The chapter also highlights the various market entry modes available, including exporting, licensing, franchising, joint ventures, and direct investment. By understanding and considering these factors, businesses can make informed decisions regarding the most suitable market entry mode, leading to successful market entry and long-term growth in international markets.

KEYWORDS:

Competitive Environment, Cultural Differences, Entry Barriers, Exporting, Foreign Direct Investment (FDI), Government Regulations, Joint Ventures.

I. INTRODUCTION

In this technique of entry, the domestic firm pays a foreign company to utilise its intellectual property, such as its technology, work methods, patents, copy rights, brand names, trademarks, etc. Manufacturers in other countries are referred to as licensees, whereas local manufacturers are referred to as licensors [1], [2]. The domestic business may choose any foreign site and reap the rewards without piling on extra financial, management, and ownership obligations. Asahi Breweries Ltd. of Japan, for instance, entered into a licencing deal with the Canadian Molson Brewery in 1994 to get access to the US market. According to the agreement, Molson had to produce Asahi Super Dry for distribution throughout all of North America.

The Benefits of Licencing

1. Obtaining a licence offers new foreign entrants a variety of benefits.
2. With the proper partners lined up, licencing is a quick entry approach that enables nearly immediate access to the market.
3. In terms of assets and capital investment, licencing carries little risk. In most cases, the licensee will provide the bulk of the infrastructure.
4. Localisation is a complicated legal matter, and licencing is a simple way to get over the majority of entry-level legal obstacles.

For foreign entrants, language and cultural differences pose serious obstacles. As the licensee has connections in the area, is fluent in the language, and has a comprehensive awareness of the local market, licencing offers crucial resources in this respect.

Issues with Licencing

1. Loss of control is a significant quality control disadvantage in a licencing environment. The licencing of a brand name is especially important since any problems with quality control on the part of the licensee would affect the parent brand of the licensor.
2. Relying on a foreign partner also has inherent dangers for that company's development. Licencing takes research into which company to partner with, much like investing in a company on the stock market.
3. Another significant drawback of this strategy is that it generates lower income since it depends on a third party.

Franchising

1. Franchising is a kind of company where the creator of a product, service, or technique gets distribution through partners.
2. A franchise is an arrangement or licence that grants: 2. A person or group of persons the right to sell a product or service using the trademark or trade name of another company; and 3.
3. The franchisee has the authority to promote a product or service utilising the franchisor's operational procedures.
4. The franchisee must pay the franchisor fees in exchange for these rights.
5. The franchisor has a duty to provide franchisees access to resources and assistance so they can run their businesses.

A franchise offers a well-known item or service that may already have a well-known brand name. As a result, the franchisee has access to a client base that would often take years to build up. By partnering with tried-and-true items and business practises, a franchise boosts your chances of company success.

Negative Aspects of Franchising

The franchisee is not entirely self-sufficient. The processes and limitations outlined by the franchisor in the franchise agreement must be followed by franchisees while operating their enterprises. These limitations often include the range of goods and services that may be provided, the cost, and the geographical area. This may be the most significant drawback of owning a franchise for some individuals [3], [4].

1. Franchisees must pay continuing royalties and advertising expenses in addition to the initial franchise price.
2. Franchisees need to be cautious to strike a balance between the franchisor's requirements and available assistance and their own capacity to run their firm.
3. If other franchisees perform badly or the franchisor encounters an unanticipated issue, a tarnished, system-wide image may follow.
4. A franchise agreement often has a set duration, and the conditions of termination may not be entirely in the franchisee's control.

Joint Enterprise

A joint venture is created when two or more businesses collaborate to form a new business entity. In this kind of partnership, the firms share ownership and their key skills. Joint ventures may be encouraged by environmental variables such as the social, technical, economic, and political settings. Five goals are shared by all joint ventures:

1. Market entrance.
2. Sharing of risks and rewards
3. Sharing technology.
4. Cooperative product development.
5. Obeying governmental restrictions.

For instance, Microsoft Corporation and General Electric created a joint venture in December 2011 that is a unique health IT company. Their shared goal was to provide the health systems with the necessary system wide data and intelligence in order to enhance the patient experience and the economics of health and wellness [5], [6]. The Caradigm joint venture intends to combine technology and clinical applications to create intelligence that can be used by healthcare professionals. Because Microsoft and GE wanted a paradigm change in the way healthcare is delivered, the words care and paradigm were combined to form the moniker Caradigm.

Benefits of a Joint Venture

Increased finance and other resources are available because two or more businesses join forces to establish a joint venture. The goods and services may be promoted abroad by working with a foreign partner. One partner can possess the more advanced technology but lack the necessary funding. Although another partner could have resources like finance, they lack the necessary technology. Joint ventures may bring huge resources and fresh, enhanced technologies to such causes. Improved foreign technology may be accessed from its overseas collaborator by enlisting a foreign partner [7], [8]. It is feasible to use the current marketing agreements or the current distribution network of one of the parties. Through joint venture company, it is possible to have access to better resources like skilled technicians, skilled personnel, more capacity, and financial resources, among others. Companies who sign up in a joint venture might offer their current product for sale via the partner's network and split the profits. The JV partners may each act similarly. They may broaden their product offering, sell it to their current consumers, and boost their profit by exchanging goods and services with the partner[9], [10].

Joint Venture Disadvantages

1. Building the appropriate relationships requires time and effort.
2. Each couple may have different goals. All parties engaged must be informed of the goals, which must be outlined in detail.
3. An uneven distribution of resources such as cash, knowledge, investments, etc., might lead to conflict between the partners.
4. Poor cooperation results from cultural and business style differences.
5. The failure of the firm might result from the partners' failure to take responsibility.
6. The firm may suffer from a lack of communication between the partners.

Turnkey Operations International business often involves the supply, installation, and commissioning of facilities via turnkey operations. Turnkey operations are a kind of partnership where one business hires another to construct finished, operational facilities. Construction and the manufacture of industrial equipment are the two main industries that do turnkey operations. Government agencies often serve as the client for turnkey operations.

Gains from Turnkey Projects

Turnkey projects are a means to make significant financial gains from the expertise needed to set up and manage a technologically complicated operation. When the political and economic climate is such that a longer-term investment might subject the company to unaccepted political and/or economic risk, turnkey projects make sense.

Issues with Turnkey Projects

1. The company that engages into a turnkey contract will, by definition, have no long-term stake in the foreign nation.
2. The company that takes on a turnkey project risk creating a rival.
3. If a company's process technology provides a source of competitive advantage, offering that technology via a turnkey project also provides a competitive advantage to future and/or present rivals.

Management Agreements

One of the most valuable resources at a company's disposal is managerial skills, which it may transfer to both its own overseas investments and other foreign enterprises in order to penetrate the international market. A management contract is an arrangement between project owners or investors and a management firm hired to monitor and coordinate the contract. For a price, the business offers its customer assistance for a certain amount of time. When a firm thinks a foreign company can manage its new or current activity more effectively, a management contract is often entered into. For instance, due to its strong airport management abilities, the British Airport Authority has contracts to operate airports in Indianapolis, Naples, and Melbourne.

Benefits of Management Agreements

1. It allows a company to take advantage of an international commercial opportunity without having to significantly risk its own physical assets.
2. The government may contract with businesses to oversee the operation and improvement of public utilities.
3. The government employs management contracts to train local managers and employees.

Management Contracts' Drawbacks

The ability of the company's managers to run its activities in nations that are experiencing political or social instability may be threatened. Expertise providers might provide a new danger of competition to the neighbourhood market.

Direct Foreign Investment

Direct ownership of facilities in the target nation is referred to as foreign direct investment. It entails the transfer of resources like money, know-how, and labour. The development of a new business or the purchase of an existing one are both acceptable methods of making direct foreign investment. Direct ownership offers a high level of operational control and the chance to get to know your customers and the market more intimately. However, it necessitates a significant investment of time and money. Large corporations often branch out and invest money in businesses in other nations as a result of greater corporate globalisation. These businesses could be establishing new manufacturing facilities because labour, production, and taxes are less expensive in another

nation. For instance, beginning more than ten years ago, General Motors and Volkswagen spent billions of dollars in China. Ford is stepping up production and growing its dealer network in China in an effort to catch up. Ford and Chang'an Ford Mazda Automobile, its joint-venture partner, intend to begin manufacturing the next-generation Ford Focus vehicles at a new $490 million facility in Chongqing in 2012.

Foreign Direct Investment Benefits

Investments boost production and add employment.

1. Inflows of capital may be used to fund a current account deficit.
2. Long-term capital inflows outperform short-term portfolio inflows in terms of sustainability. Banks, for instance, may readily remove portfolio investments during a credit crisis, whereas capital investments are less likely to see a rapid withdrawal.
3. The recipient nation may gain from more international multinational knowledge and skills.
4. Foreign investment may result in greater salaries and better working conditions, particularly if multinational corporations are mindful of how their public image of working conditions in emerging nations.

Foreign Direct Investment Drawbacks

1. Grants transnational corporations authority over domestic affairs in other nations. Those who disagree claim wealthy MNCs may influence local politicians to pass advantageous legislation and regulations.
2. FDI might be a practical strategy to avoid local environmental regulations.
3. laws. Developing nations could be persuaded to compete by lowering environmental regulations in order to get the required FDI.
4. Because it allows foreign multinational corporations to profit from ownership of raw commodities with little indication of income being spread across society, FDI does not necessarily help recipient nations.
5. Multinational corporations have come under fire for the poor working conditions in overseas industries.

II. DISCUSSION

For businesses, choosing the best entrance strategy for a certain overseas market is a crucial choice. They must comprehend the different elements that may influence their choice of admission and decision. Here, some of the crucial elements influencing the company's choice are covered.

Industry Size

One of the most important elements an international marketer must consider when choosing an entrance strategy is the market's size. Countries with sizable markets might justify entrance strategies demanding larger levels of investment over the long term, including completely owned subsidiaries or equity involvement.

Market Expansion

Consumer products like vehicles and consumer electronics have mostly reached a stage of saturation in the majority of the main, established markets, like the US, Europe, and Japan. As a result, these nations' markets are growing at a slower rate. As a result, from the standpoint of long-term development, businesses devote greater resources to areas with strong growth prospects.

Governmental Rules

The foreign market's legal system has a significant impact on the choice of a market entrance method. The majority of the Gulf states have mandated that all international businesses have a local partner. For instance, the UAE is a rich market for Indian businesses, yet the majority of those businesses work with local partners there.

Degree of Opposition

Another important consideration when choosing an entrance strategy is the presence of rivals and the extent of their activity in a foreign market in order to successfully react to competitive market dynamics. This is one of the main motives for automakers establishing operations in India and other developing nations, in order to successfully combat global competition.

Physical Facilities

For a corporation to devote greater resources to an international market, the physical infrastructure, including roads, trains, telecommunications, financial institutions, and marketing channels, must be at a certain degree of development. Major investments in Singapore, Dubai, and Hong Kong have been made as a result of the infrastructure development levels. As a consequence, these locations have evolved into Asian marketing centres on a global scale.

Amount of Risk

From the perspective of choosing an entrance method, a business should assess the following risks:

Political Danger

Political unrest and volatility deter businesses from investing more in a market.

Financial Risk

Economic risk may be brought on by currency exchange rate volatility in the target market, changes in the balance of payments that may have an impact on the price of other manufacturing inputs, and marketing initiatives in foreign markets. International businesses find it challenging to run their operations in areas with sky-high inflation rates.

Risk Operational

If a foreign market's marketing system is comparable to that of the company's home nation, the company will have a better knowledge of any operational issues there.

Costs of Manufacturing and Shipping

Markets with high transportation costs, such as those for low-value, high-volume commodities, may cause the cost of logistics to rise.

Lower Production Costs

It could also be a major determinant in business decisions to locate manufacturing facilities abroad.

Corporate Goals

Foreign markets are often entered by domestically focused businesses with modest objectives as a consequence of a reactive response to worldwide marketing prospects. In these situations, businesses strive to meet unsolicited export orders they get from friends, businesses, and family who are located overseas.

Access to Company Resources

International market entrance requires a significant investment of both financial and human resources, hence the choice of entry method is influenced by the firm's financial stability. It is clear that financially sound Indian companies have successfully entered foreign markets via either equity involvement or entirely owned subsidiaries.

Degree of Dedication

The company's desire to invest resources in a certain market also affects the entry method decision in light of the market potential. To allocate limited resources, businesses must assess several investment options. However, the company's willingness to identify and react to competitive factors also affects the commitment of resources in a given market.

International Travel

When deciding whether to enter foreign markets using a highly intensive method of entry, such as joint ventures and totally owned subsidiaries, a firm that is well exposed to the dynamics of the worldwide marketing environment would feel at peace.

Flexibility

Exit barriers are another factor that businesses should consider when stepping into foreign markets. In the following, let's say, ten years, a market that now seems promising could not necessarily stay that way. It could be

brought on by modifications to the political and legal system, adjustments to consumer preferences, the formation of new market sectors, or adjustments to the level of market competition, which varies depending on the degree of risk and resource commitment. The unit also covers the variables affecting entry mode selection. When choosing a certain means of entrance, the companies must take their resources into consideration. Due to the opportunity for development present in other areas, businesses are drawn to the global market. In terms of demand for a certain commodity, many industrialised nations have reached a saturation point. The businesses are always looking for new markets to compete in. The choice of a certain form of entrance is influenced by a number of variables, including market size, market expansion, cheap manufacturing costs, favourable legislation, etc. The section also highlights the benefits and difficulties of different entrance points.

A management contract is a legal arrangement that gives a different organisation operational authority over a business project. The managing team completes the required activities in return for a price that has been agreed upon. The completion of company duties under management contracts may also include their outsourcing to other parties. These duties might include bookkeeping, marketing, sales training, human resources management, and technical assistance. Economic Risk: An investment, often one made in a foreign nation, may be affected by macroeconomic factors like currency rates, governmental regulations, or political stability.

A multinational firm is one that has locations and other resources in at least one nation other than its own. These businesses often have a centralised head office where they coordinate worldwide management while having offices and/or factories spread throughout several nations. A corporate strategy known as diversification involves entering a new market or industry that the company is not already involved in while simultaneously developing a new product for that market.

III. CONCLUSION

The choice of an effective market entrance strategy is a difficult choice that has a big influence on how successful a company is in global marketplaces. The choice of market entrance technique is influenced by a number of important elements, and organisations must carefully weigh these factors to make wise choices. The possible consumer base and market demand are determined by the market size, which is an important factor. Smaller markets could be more suited for licencing agreements or exporting, whereas larger markets might be more justifiable for greater levels of investment, such as creating a wholly-owned subsidiary or entering via a joint venture. Another aspect to take into account is the cultural gap between the target market and the home nation. Language, cultural norms, consumer behaviour, and business practises may all have an impact on the manner of entrance into a market. Partnering with a local business via joint ventures or franchising may assist reduce cultural barriers and obtain understanding of the local market in areas where there are major cultural differences.

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