Strategies of Entering New Markets

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Entering new foreign markets may be achieved in a variety of ways. Each of these ways places its unique demands on the company in terms of organizational and financial resources. Most of the times, entering international markets is not a matter of choice but of necessity to remain competitive in new or established markets. Our paper is going to analyze the possibilities that a company has when entering a foreign market, decision that is very important and which involves market assessment and analysis.
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The decision to go international represents an important commitment to go into a new line of activity, this being the reason why it should be taken step by step: obtaining information, analyzing them, formulating alternative action plans. (Tookey, 1975)

Current literature provides us several approaches regarding the internationalization process.

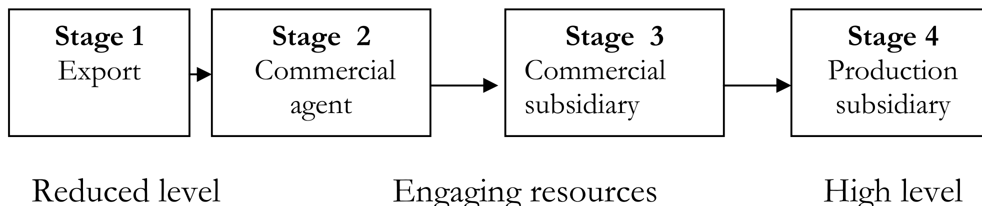
Dunning's eclectic paradigm (1988, 1998) represents an important point of reference in analyzing the advantages resulting from the process. Dunning identifies three types of advantages: specific advantages (economies of scale, diversification), localisation advantages (market dimension, infrastructure) and internationalisation advantages (maintaining the quality of the products, reducing the operating costs on a

certain market). The developed model is focused on the advantages determined by the internationalisation process and less on the development process of the internationalisation of companies.

A model that is focusing on the dynamics of the internationalisation process is The Uppsala Model, also called the „U Model". The main scope to be obtained by applying the Uppsala Model is predicting the company's evolution on foreign markets. Two elements are at the basis of the model: the notion of secventiality attributed to the process and the notion of physical distance.

The internationalisation of a multinational company takes place step by step, according to the Uppsala Model, which minimises the risks regarding the new market (Johanson; Wiedersheim-Paul, 1975). Therefore, the company is being involved gradually (investments, control and profit), getting to the point of creating a production subsidiary which ensures also the selling of the products on the new market. The stages of the internationalisation process are presented in Figure 1.

Figure 1. The stages of the internationalisation process



Reduced level　　Engaging resources　　High level

Source: Johanson; Wiedersheim-Paul, 1975

The concept of physical distance, the second element the Upssala Model is based upon determines the companies to select, in a first stage, the neighbour countries in order to reduce the cultural, economical, political differences. According to this approach, the bigger the

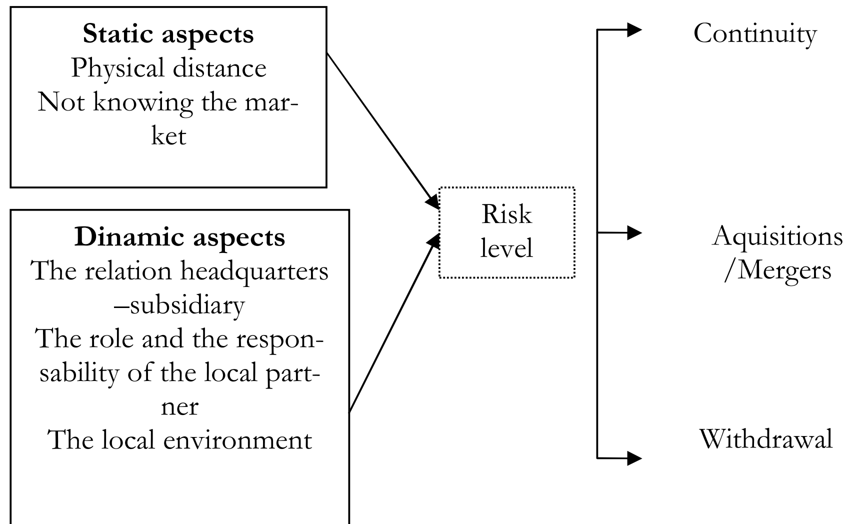
physical distance, the bigger is the incertitude about the new market and bigger the risks associated to this market. In the view of the globalisation phenomena, there are numerous criticisms about the „physical distance" notion.

Many papers have developed the subject of the company's internationalisation; a special place holds J. Birkinshaw who analysed the problems regarding the role of the subsidiaries and the evolution of the mandated in the internationalisation process at the multinational's level. Therefore, the papers elaborated by Birkinshaw and Hoods (1998) have shown that creating a subsidiary can be explained on the basis of the interactions between the decisions of the mother-company, the initiatives of the subsidiary and the specific conditions existing on the new market.

The model developed by Birkinshaw (1997) is based on three variables: the relation headquarters – subsidiary; the subsidiary's initiatives and the local environment.

O synthesis presentation of the two theories - the Uppsala Model and the Birkinshaw Model– is illustrated in figure 2.

Figure 2



Regarding the internationalisation process, the company has more options (see figure 3): the first choice is represented by the development of the existing markets and it is being used by companies that are acting on highly competitive markets; the second choice – the company can choose to develop its activity on new markets, similar to the ones they are already acting on – in this case, they are usually choosing to export their products; the third strategy is developing a new line of products similar to the ones they already have and which will be sold on similar markets- in this case the company can choose between strategic alliances: creating a joint venture or licensing .

Figure 3. Foreign market entry methods

Market development ↑

Distant markets	Strategic alliances	Aquisitions – Foreign Direct Investments	Aquisitions – Foreign Direct Investments
Similar markets	Export	Strategic alliances	Aquisitions – Foreign Direct Investments
Existing markets	Development of existing product marktes	Developing new products	Strategic alliances
Market / Product	**Existing products**	**Similar products**	**New products**

Product development

Source: version after Roberts, E.B.; Berry, C.A. (1985), „Entering new business: selecting strategies for success”, Sloan Management Review, Spring, 5-6

Exporting and commitment to internationalization

The export represents the easiest way for entering foreign markets. Management's involvement in export operations is different, as we talk about *passive exporters* (when selling abroad is induced by the demand existing on the foreign market, meaning that the business is initiated by the importer) or *active exporters* (when the operation is initiated by the seller, which has an export strategy and a suitable business plan (Popa, 2006).

From the operational point of view, exporters can be *indirect exporters* (with the participation of trading houses), when it isn't necessary to create an organizational structure specific to the export activity or *direct exporters*, which is made by the producer, which is creating services or departments for international business.

The determinants of export behaviour are experience and uncertainty effects; behavioural and firm-specific influences and strategic influences.

1. Experience and uncertainty effects

Knowledge and learning regarding the exporting activity may be possessed or accumulated by the company in time. Experience has a key role, as firm's involvement in international markets is most of the time a gradual process. During the early stages of exporting, firms have a more concentrated foreign market focus, while increased involvement in foreign market encourages diversification to a wider range of markets. As a firm's knowledge of an export market increases, the uncertainty factor diminishes. This knowledge allows the identification of concrete opportunities, as distinct from theoretical that may be apparent from objective knowledge.

2. Behavioural and firm-specific influences

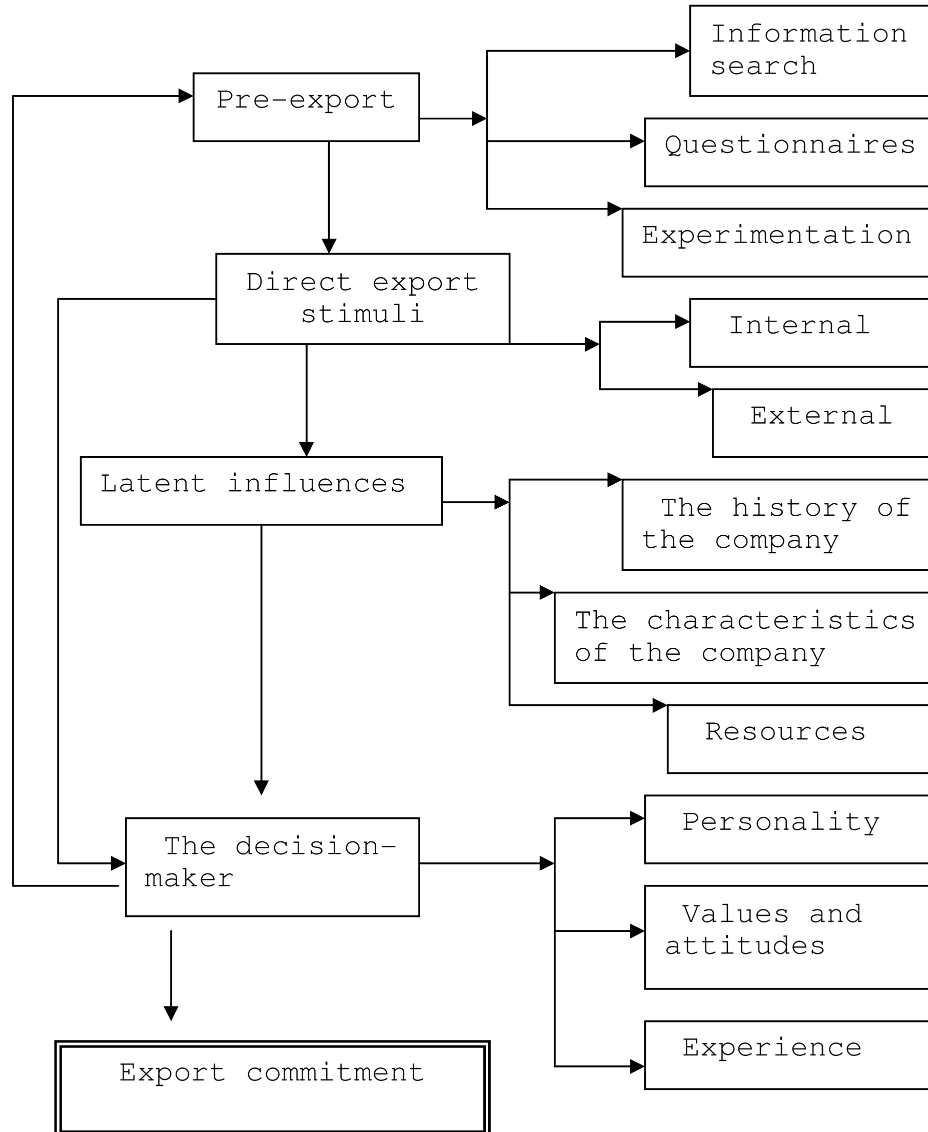
Recent theories of exporting are strongly influenced by the behavioural theory of the firm, which stresses decision-maker characteristics, organizational dynamics and constraints, ignorance and uncertainty as key variables in decision making. Exporting has been described as a development process based on a learning sequence involving six stages (Bilkey and Tesar, 1977):

- Stage 1: the firm is not interested in exporting
- Stage 2: the firm supplies unsolicited business, doesn't examine the feasibility of active exporting

- Stage 3: the firm examines the feasibility of exporting in an active way
- Stage 4: experimental exports on neighbour countries
- Stage 5: the firm becomes an experienced exporter
- Stage 6: the firm explores the feasibility of exporting to additional countries of greater business distance.

According to Welch (1982), the export commitment is influenced by four groups of factors (see figure 4): pre-export activities, direct export stimuli, latent influences on the firm and the role of the decision-maker.

Figure 4. Building commitment to exporting



Source: Welch, L. (1996), pag. 96

3. *Strategic influences*

The opinion among researchers and managers is divided on the issue of the relation between the firm size and export success. Still, the importance of a positive managerial attitude to exporting and the necessity of committing managerial and financial resources to the internationalization process are crucial to the success of the firm, irrespective of size.

Strategic alliances

As a mode of international market entry, strategic alliances allow the firm (Bradley, 2002):

- access to assets not readily available in the market
- access to technology and markets
- the smaller firms can have access to technology and new products
- the larger firms can have access to markets
- synergetic effects in the partner firms.

Choosing the way to enter a foreign market represents an important part of the foreign direct investment strategy. The companies should select the new market, decide upon the types of operations that are about to be developed on these markets and decide the type of entry – greenfield investments, acquisitions, joint ventures. No matter the way of entering a market, this will have important strategic consequences for the company.

The way to enter a foreign market can be explained by the transactional cost theory or by the cultural or national characteristics of the market. One of the most important concepts used by Coase is the *cost of presence* of a company on a certain market. This concept will be developed and became well known under the name of transactional costs. Oliver Williamson defines the transactional costs as ***ex-ante transactional costs***-

the ones for identifying the relevant prices, negotiating the contracts, publicity and ***ex- post transactional costs.***

Lately, the transactional costs theory – which considers the multinational corporations as efficient agents for resources transfer – was used to explain the degree of propriety rights (full vs. partial), but also the option greenfield investment versus acquisitions.

Choosing the way to enter a foreign market was also explained through cultural and national factors. Many studies have been concerned about this topic:

- Kogut and Singh (1988) after researches have concluded that a big cultural distance between the country of origin and the host country have as a result choosing joint ventures or greenfield investments.

- Gatignon and Anderson (1988) have shown that an important socio-cultural distance, measured with the help of the Index developed by Ronen and Shenkar (1985) - goes to the partial propriety right.

- Gatignon and Anderson (1988) have concluded that multinational companies avoid having 100% owned subsidiaries in high risk countries.

- Cho and Radmanabhan (1995) have shown that companies from Japan are not willing to make acquisitions in developing countries.

Choosing the joint venture as a mechanism to enter new markets (especially the developing countries and the ones with centralised economy) is usually a second-best option for the companies from developed countries. Still, the companies show through this the major interest for the local market; the participation in the joint-venture could be qualified as a foreign direct investment. Many times, this mechanism represents the only way to be present on a certain market.

Licensing in international markets

License is the purchase or sale by contract of product pr process technology, design and marketing expertise (Bradley, 2002). It involves the market contracting of knowledge and know-how. International licensing takes place when a company provides, for a certain fee-royalty, technology needed by another company in order to operate a business in a foreign market. Licensing of this firm involves one or more of these elements:

- a brand name
- operations expertise
- manufacturing process technology
- access to patents
- trade secrets.

Licensing may be attractive when host countries restrict imports or foreign direct investment, or when the market is small and when the prospects of technology feedback are high.

Advantages and disadvantages of licensing in international markets

Advantages of licensing:

- access to difficult markets
- low capital risk and low commitment of resources
- information on product performance and competitor activities in different markets at little cost
- improved delivery and service levels in local markets.

Disadvantages of licensing:

- disclosure of accumulated competitive knowledge and experience
- creates possible future competitors
- lack of control over licensee operations
- passive interaction with the market
- exclusion of some export markets
- organizing licensing operations: costs of adaptation, transfer and controlling.

Franchising to enter international markets

Franchising is a derivative of licensing. In franchising a business format is licensed, not a product or a technology. Trademarks, trade names, copyright, designs, patents, trade secrets and know-how may all be involved in different mixtures in the „package" to be licensed.

Franchising is a form of marketing and distribution in which the franchisor grants an individual or company, the franchisee, the right to do business in a prescribed manner over a certain period of time, in a specified place (Ayling, 1986).

A *franchise* is, according to International Franchise Association (IFA), the agreement or license between two legally independent parties which gives:

• a person or group of people (franchisee) the right to market a product or service using the trademark or trade name of another business (franchisor)

• the franchisee the right to market a product or service using the operating methods of the franchisor

• the franchisee the obligation to pay the franchisor fees for these rights

• the franchisor the obligation to provide rights and support to franchisees.

Types of Franchises

There are two main types of franchises: product distribution and business format.

Product distribution franchises simply sell the franchisor's products and are supplier-dealer relationships. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. The industries where you most often find this type of franchising are soft drink distributors, automobile dealers and gas stations.

Some familiar product distribution franchises include: Pepsi, Exxon, Ford Motor Company.

Although product distribution franchising represents the largest percentage of total retail sales, most franchises available today are business format opportunities. *Business format franchises*, on the other hand, not only use a franchisor's product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals. Business format franchises are the most common type of franchise.

USA Today reported that the 10 most popular franchising opportunities are in these industries: fast food, retail, service, automotive, restaurants, maintenance, building and construction, retail—food, business services, lodging.

The many advantages and disadvantages of owning a franchise should be carefully evaluated before deciding to purchase one.

Advantages:

- "Owning a franchise allows you to go into business for yourself, but not by yourself."
- A franchise provides franchisees with a certain level of independence where they can operate their business.
- A franchise provides an established product or service which already enjoys widespread brand name recognition. This gives the franchisee the benefits of customer awareness which would ordinarily take years to establish.
- A franchise increases your chances of business success because you are associating with proven products and methods.
- Franchises may offer consumers the attraction of a certain level of quality and consistency because it is mandated by the franchise agreement.
- Franchises offer important pre-opening support:
  - site selection
  - design and construction
  - financing (in some cases)
  - training
  - grand-opening program
- Franchises offer ongoing support
  - training
  - national and regional advertising
  - operating procedures and operational assistance
  - ongoing supervision and management support

• increased spending power and access to bulk purchasing (in some cases).

Disadvantages:

- The franchisee is not completely independent. Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchise agreement. These restrictions usually include the products or services which can be offered, pricing and geographic territory. For some people, this is the most serious disadvantage to becoming a franchisee.
- In addition to the initial franchise fee, franchisees must pay ongoing royalties and advertising fees.
- Franchisees must be careful to balance restrictions and support provided by the franchisor with their own ability to manage their business.
- A damaged, system-wide image can result if other franchisees are performing poorly or the franchisor runs into an unforeseen problem.
- The term (duration) of a franchise agreement is usually limited and the franchisee may have little or no say about the terms of a termination.

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