B.COM LL.B VI SEM

Subject - International Marketing

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INTERNATIONAL MARKETING ENTRY DECISIONS

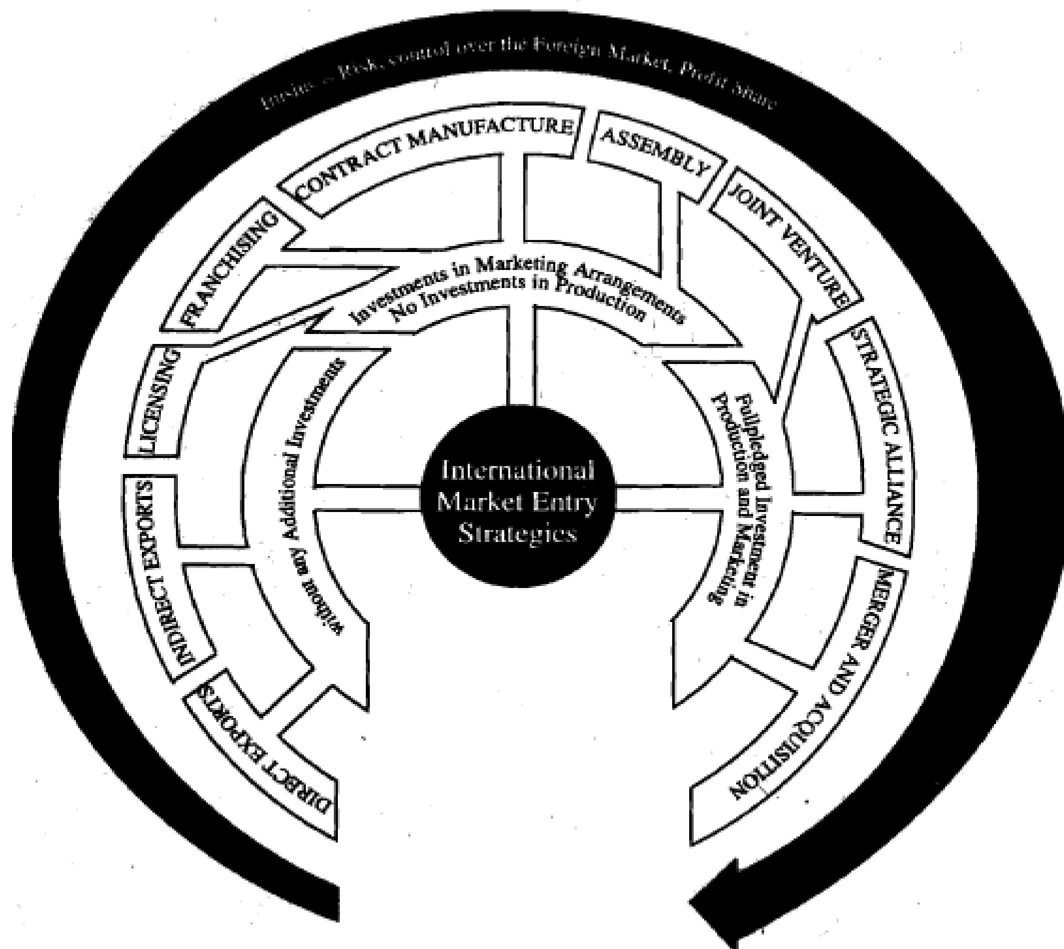
INTRODUCTION

Companies intending to undertake international business must determine the type presence they desire to maintain in every market where they would like to operate. One major choice concerns the technique of market entry. A company may want to produce in its home country and export to the overseas market or alternatively it may prefer to produce oversea and sell it there. A second major choice involves the extent of direct ownership desired should the company strive for full ownership of it local operations or should it associate a local firm with its operations These initial decisions on market entry have short term, medium term and long term implications, leaving little room for change once a commitment has been made. Therefore, it is important that these decisions are taken with utmost care.

ENTRY MODES

One of the critical decisions in international marketing is the mode of entering the foreign market. At one extreme, a company may decide to produce the product domestically and export it to the foreign market. In this case the company need not make any investment overseas. On the other extreme, the company may establish manufacturing facilities in the foreign country to sell the product

there. This strategy requires direct foreign investment by the company. In between these two extremes, there are several options each of which demand different levels of foreign investment. No matter how mighty your company may be it is not a practical strategy to enter to all markets with a single entry method with all its power, even a largest company may have to formulate different entry strategies to different countries. You may opt for one entry strategy in one market and another strategy in another market, because one entry strategy may not suit all the countries.



Foreign Market Entry Modes

There are many forms of international business:

(1) Exporting,
(2) Turnkey projects,
(3) licensing,
(4) Franchising,
(5) Joint ventures, and
(6) Wholly owned subsidiary,
(7) Merger and acquisition
(8) Contract Manufacturing
(9) Assembly

Each of these forms has advantages and limitations. Managers, therefore, are advised to consider these
carefully when deciding which of the form to use. Let us discuss these forms one by one.

Exporting

Many manufacturing firms begin their global expansion as exporters and only later switch to another mode for serving a foreign market. Exporting has two distinct advantages. First, it avoids the costs of establishing manufacturing operations in the host country. Second, exporting may help a firm achieve experience curve and location economies. By manufacturing the product in a centralised location and exporting it to other national markets, the firm may realise substantial scale economies from its global sales volume. This is how Sony came to dominate the global TV market, Matsushita (Panasonic brand) came to dominate VCR market, and Samsung gained market share in computer chips.

A firm has the following two basic options in carrying out its export operations:

(1) direct exporting
(2) Indirect exporting.

(1) direct exporting

When a manufacturing firm itself performs the task of selling goods abroad rather than entrusting it to any outside agency it is called direct exporting. Usually a home based export/ international marketing department in the firm is given responsibility for selling abroad. The exporting firm may also establish its own sales subsidiary as an alternative mode. When a manufacturer engages in direct export, he takes more risks but gets more returns. More than anything else, direct export means more involvement for the manufacturer, more control and more expertise within the firm.

A company can carry direct export in many ways:

(a) Domestic based export department or division: An export sales manager, supporting sales staff, with some clerical assistants carry on actual selling and draw on marketing assistance as needed. It might evolve into a self-contained export department or sales subsidiary carrying out all the activities involved in export and possibly operating as a profit centre.

(b) Travelling Export Sales Representatives: The company can send home-based sales representatives abroad at certain times to find and promote business.

(c) Foreign based Sales Branch or Subsidiary: An overseas sales branch allows the manufacturer to achieve greater presence and programmed control in the foreign market. The sales branch handles sales distribution and may handle warehousing and promotion as well. It also serves as a display and customer service centre.

(d) Foreign Based Distributor or Agents: Foreign based distributor would buy and own the goods. Foreign-based agent would sell the goods on behalf of the company. They may be given exclusive right to represent the company in that country or only general rights.

(2) Indirect Exporting

When a firm delegates the task of selling goods abroad to an outside agency, it is called indirect exporting. Markets can be contacted through a domestically located middleman (located in the exporter country of operation). Several types of middlemen located in the domestic market assists a manufacturer in contacting foreign buyers. The major advantage of using a middleman lies in the middleman's knowledge of foreign market conditions and avoidance of problems connected with export procedures and documentation or leaving the manufacturer to concentrate on production. For small companies with little or no experience in exporting, the use of a domestic middleman readily provides expertise. The most common types of middlemen are merchant exporter, export house, trading house, and buying house of overseas firms located in the manufacturer's country.

In the case of indirect exporting, a firm can use a variety of middlemen who operate in the international markets.

(a) Domestic Based Export Merchant: The middlemen buy the manufacturer’s product and sell it abroad on his own account.

(b) Domestic Based Export Agent: The agent simple agrees to seek and negotiates with foreign buyers for a commission. He may also

render certain services but does not take title to the product. Trading companies are also included in this group.

(c) Resident Agent/ Representatives of Foreign Buyers: Who buys in the exporting country on behalf of importers abroad.

(d) Co- operative Marketing Organisation: A cooperative organization carries on the exporting activities of its members and may be partly under their control. This form is used usually by producers of primary products, fruits, vegetables, nuts, and so on.

(e) Combination Export Manager: Who acts as an overseas selling agent for a number of companies and practically acts as the "Export Department" for the firms it represents.

(f) Export Management Companies: These types of companies manage a company's export activities for a fee.

Note – Remaining Forms of International Business Will Be Discuss in Upcoming Material.