Foreign Market Entry Strategies

Mrs. Nisha
Assistant Professor of commerce (Govt. College Bhiwani)

ABSTRACT

Foreign market entry strategy is an important strategic decision for international business units. The choice of foreign market entry strategy is to be made very cautiously as it has long-term implications and it cannot be easily reversed. The future growth of international business unit depends upon the right mode of entry into foreign market. There are three main modes of entry into foreign market viz. trade mode, investment mode and contractual entry mode. In trade route, the entry in foreign market is made through exports. In investment mode, the subsidiary units are set up in the foreign market. This mode is also called foreign direct investment mode. In contractual entry mode, technological collaboration agreements are made with the business units of host nation. In this mode, technical skills/managerial skills are provided by business unit in parent country to business units in host country. Besides these three main strategies for entry into foreign market, there are various other strategies to take entry in foreign markets. The choice of the appropriate strategy depends upon various factors like availability of resources, level of risk, tariff and non-tariff barriers imposed by other nations, transportation cost, infrastructure facilities, vision of management, restrictions on inflow/outflow of foreign investment, etc.

Keywords: Foreign market, Strategic, International business, investment mode.

INTRODUCTION

One of the most important strategic decisions in international business is the mode of entering the foreign market. On the one extreme, a company may do the complete manufacturing of the product domestically and export it to the foreign market. On the other extreme, a company may do the complete manufacturing of the product to be marketed in the foreign market itself. There are several alternatives in between these two extremes. The choice of the most suitable alternative is based on the relevant factors related to the company and the foreign market. In some cases, the alternatives available may also be limited. For example, the policy of some governments may not be very positive towards foreign investments. Several governmental definite preference for joint ventures over complete foreign ownership. In some cases, the governments may prefer foreign investment leading to import substitution to perpetual import of a product. Thus, in some cases, government policies may rule out the best alternative if the environment were free.

Important Foreign Market Entry Strategies Are The Following.

1. Exporting
2. Licensing/franchising
3. Contract manufacturing
4. Management contract
5. Assembly operations
6. Fully owned manufacturing facilities
7. Joint venturing
8. Countertrade
9. Mergers and acquisitions
10. Strategic alliance
11. Third country location

Choosing the Mode of Entry

Decision Criteria for Mode of Entry:

- Market Size and Growth
- Risk
- Government Regulations
Objective of the Study

1. To know the foreign market entry strategies
2. To know the different modes in foreign market
3. To know the foreign market entry strategies of Indian company.

RESEARCH METHODOLOGY

The present study is descriptive and information has been sources various books, trade journals, publication and internet sites etc.

Foreign Market Entry Strategies/ Strategies of Globalisation

Different companies grow globally by adopting different types of strategies of entering into foreign markets. Some companies even adopt different strategies for different nations. Various strategies of entering into foreign markets are discussed as follows:

(1) **Exporting:** Exporting is the most traditional way of entering into foreign market. Initially, a domestic business unit starts its international business by exporting to one nation. Gradually, it expands its exports to various nations. Exporting is very useful when a country has surplus production capacity i.e., its domestic consumption is less than its production capacity.

(2) **licensing and Franchising:** In licensing business unit of one country (Licensor) allows the business unit of other country (Licensee) to use its technical know-how (patents, trademarks, copyrights, etc.). For this, licensor charges royalty from license for a stipulated period of time. In most of the nations, the rate of royalty ranges from 5 per cent to 8 per cent of sales. Licensing agreements enable the licensor to make maximum utilization of its intellectual property. Licensee, too, can avail the benefits of modern technology by entering into licensing agreement. Under franchising, business unit of one nation (Franchiser) grants right to do business in a particular manner to the business unit of other nation (Franchisee). This right can be with regard to selling the goods under the brand name of franchiser. In some cases, the key components are provided by franchiser to franchisee. In another form of franchising, the manufacturer may appoint dealers in other nations. For example, soft drink manufacturers like Pepsi and Coca-Cola provide the key part of their product, i.e. syrup to their franchisee in other nations. The franchisees have their own bottling plants where they make soft drinks but they sell the same under the brand name of franchiser.

(3) **Contract Manufacturing:** In this agreement, business unit of one nation enters into agreement with manufacturers of other nations to allow them to manufacture the goods at their own, but right to market these goods is retained by the parent foreign enterprise. Under such agreement, the parent foreign enterprise
can expand its business to other nations without setting up its own manufacturing plant in other nations. If the parent enterprise feels that marketing in a particular nation is not much profitable, it can have easy exit from that nation as it has not set up its own production plant in other nation.

(4) **Joint Ventures:** It is a common strategy for getting an entry into foreign market. In joint venture, foreign partner makes an arrangement with local unit of other country in which ownership and management are shared by local unit and foreign partner. Local unit has thorough knowledge of domestic conditions and it has its local set-up and infrastructure like manufacturing unit, distribution network, service centres, etc.

(5) **Management Contracting:** In this arrangement, parent enterprise of one nation sets up management agencies. Through these management agencies, business units of other nations are managed without any stake in ownership/capital. It means the parent enterprise simply provides its managerial expertise to business units of other nations. For this, some fees in the form of percentage of profit or lump sum fee is charged by parent enterprise.

(6) **Wholly Owned Subsidiaries:** Some companies open wholly owned manufacturing units in other nations. These subsidiary companies are wholly owned by their parent company. MNCs prefer this route for globalization when they want to have complete control over manufacturing activities in other nations. Instead of entering into joint ventures, licensing, franchising, exporting, etc., they set up their own subsidiary units in different nations. MNCs have full ownership and control over these subsidiary units. For example, LG Electronics has set up LG India as its wholly owned manufacturing subsidiary unit.

(7) **Assembly Contracts:** In this strategy of entering into foreign markets, foreign partner provides key components and parts which are assembled in another nation. Usually business unit of developed nation provides key components, while these are assembled in developing nation. These contracts are entered into so as to avail the benefit of cheap labour available in developing nations. The products so assembled are marketed under the brand name of foreign parent company.

(8) **Cross-border Mergers and Acquisitions:** Such mergers and acquisitions take place between business units of different nations. In merger, business units usually operating at same level, having same type of business join hands to avoid competition and to enhance their long-term competitive strength.

(9) **Third Country Route Location:** This strategy of taking entry into foreign markets is used to take advantage of friendly relations between two nations. In this case, one country does not make direct investment in another nation, rather investment is made in third nation. Through this third nation, the investment is routed to destination country.

(10) **Strategic Alliance:** Strategic alliance is entered between two business units for achieving a specific goal e.g., setting up common research and development unit for developing new technology, providing training to employees of both units.

(11) **Turnkey Projects:** In turnkey project agreements, business unit of one nation agrees to construct entire plant for the business unit of other country. The business unit which agrees to construct a plant is known as licensor and the business unit to whom the completed project is handed over after completion is known as licensee. When initial construction phase of the project is more complex than the routine operational part, then turnkey projects are common.

**Foreign Market Entry Strategies of Indian Company**

LG Electronics has set up LG India as its wholly owned manufacturing subsidiary unit in India. It has its own manufacturing and marketing set-up in India. The brand name of parent company is extended to Indian subsidiary company. Tata Steel (Indian company) acquired Corus Steel (European company). Similarly, Bharti Airtel acquired Lain's Telecom Operations in Africa. In this way, through cross-border mergers and acquisitions, tile business units expand their business activities to other nations. This strategy of globalisation also provides instant access to manufacturing and marketing set-up in other nation. India has tax-concession treaty with Mauritius, i.e., if any investment is made in India through Mauritius, it will get tax concession. To take advantage of this treaty, some foreign investors of other nations like Japan, UK and USA who intend to invest in India, instead of directly; investing in India, route their investment through Mauritius to avail tax concessions.

**CONCLUSION**

There are a number of foreign market entry strategies for going global. The choice of the most suitable alternative is based on the relevant factors related to the company and the environments of the domestic and foreign markets. Global marketers have to make a multitude of decisions regarding the entry mode which may include:

1. The target product/market
2. The goals of the target markets
(3) The mode of entry
(4) The time of entry
(5) A marketing-mix plan
(6) A control system to check the performance in the entered markets

REFERENCES