emeronTI7

yTsaRsclTpSarGnrCat ngyTsaRsrmshkar

Market Entry Mode and Strategic Alliances

eKalbMNgénemeron

emeronTI 6)anBnül GBIvFsaRseRCIserIsTIpSarGnrCattamry³karvPaKeTAelImCÄmdan Macro, Micro énRbeTsnImy²EdlRkmhnmanbNgngcleTA. kgemeronbnabenHngBnül bEnmBIyTsaRsmycnnEdlRkmhnGnrCateRbR)askgkarcleTATIpSarGnrCatEdlmancncdc xageRkam³

-etRtveFIkarseRmccteRCIserIsTIpSarGnrCatmyNa? etRtvcleTAenAeBlNa?

-yTsaRsmycnnEdlRkmhnGnrCateRbR)askgkarcleTAkanTIpSarGnrCat

-GCayTsaRsrmshkar?

-ynkarénkarrmshkar.

Which foreign markets to enter?

karseRmccteRCIserIsTIpSarGnrCatNamyGaRsyeTAedaysarkarvaytémeTAelIskanBlén R)akceNjry³eBlyr. vamanktaEdleygRtvBcarNaCaeRcIndc)anerobrabkgemeronmn dcCa ktaneya)ay esdkc c,ab sgm ThTIpSar ngkarRbktRbECgCaedIm. PaBTakTaj énRbeTsEdlCaTIpSarskanBlsRmabGaCIvkmGnrCatGaRsyeTAelItlüPaBrvagGtRbeyaCn kar cNay edImTn nghanPyEdlTakTgeTAngkareFIGaCIvkmenATenaH. PaBTakTajbpténTIpSar GnrCatK PaBnknrénneya)ay ngCaTIpSarkgRbeTskBgGPvDÄnngmankarelIkTkctceBaH vneyaKdcCaRbBnTIpSaresrICaedIm. kgenaHktaBakBndéTeTotGacRtv)anBcarNapgEdrdcCa PaBTakTgénTIpSarrbsRbeTscnenARtgThTIpSarF.

Timing of entry:

enAeBlTIpSarRtv)aneRCIserIsGkBaNCIkmGnrCatRtvkarBcarNaeTAelIeBlevlaénkarcl eTATIpSarenaH. manKNsm,tCaeRcInEdlTakTgeTAngkarcleTATIpSarGnrCat)anmnKrRbkt RbECgdcCakarkNtTIpSareKaledA)anmnmanRbBnGneRKaHBIrdaP)alCaGkkNtsgda]sSahkm)anmn ksagekreQaH)anmn .l. KNsm,tenHehAfa “first mover advantages” . TngngenaH kGacmanKNvbtpgEdrTakTgeTAngPaBmnc,aslasénTIpSarkarcNayeTAelIkar RsavRCavCaedIm. KNvbtenHehAfa “first mover disadvantages”.

Introduction and Basic Entry Decisions

manvFIsaRsmycnnRkmhnGacBcarNakgkarseRmcctc l eTATpSarGnrCatdcCaexporting, licensing or franchising to host country firms, setting up a joint venture with a host country firm, or setting up a wholly owned subsidiary. bEnkareRCIserIsvFIsaRsnImy²GaRsyeTAe lIsanPaB ngmanKINsm,tngKNvbtxs²Ka. eB l xHRkmhnRtveRCIserIsmeFIa)ay Exporting or joint venture edaysarmanr)agnanaB Host Country mnGnBaateGayRkmhnGnrCatvneyaKpa l b ThTpSarenAmanThtcEd l mnGaccNaye lkarsagsgeragcRkenATenaHpa l)an.

The various modes of entry are:

- **Exporting**
- **Licensing**
- **Franchising**
- **Joint ventures**
- **Wholly owned subsidiaries**

-karnaMec j **Exporting**:

nymny

sedAeTAe lRkmhneFkarp l tp l tp l rbsxnenATtagmyehybBanp l tp l TagenaHeTA l kkg TpSarénRbeTsdéT. “Manufacturing in existing locations and transporting into new markets is called Exporting.”. manRkmhnp l tkmmycnn)ancabepImBaNCkmGnrCatrbsxnedayedIrtCa Gknaec j CatbgngCabnabngeFkarpasbryTsaRsTagenaHenAeB l eRkayGaRsye lkarERbRb l éntRmvkar.

sanPaB³

-mankarra l ragBTpSarGnrCatceBaHkarvneyaKpa l BIbreTs (Restriction on FDI)

-karsak l ,gTpSarrbs Investor (Market testing from Investor)

-TpSarenAtc (Market size still small)

-karcNayvneyaKpa l xs (Cost of wholly own is high)

KINsm,t

-mncNaye lkarbegtRkmhn beragcRkenATenaHpa l

Avoid costs of investing in new location.

-hanPyTab (Low Risk)

-ceN j xsedaysarp l teRcInkgkEngEtmyEt l kecjenAkEnøgeRcIn (More Produce less production cost)

KINvbt

-cNaydkCBanxsGaceFeGaykarnaec j mnsvmanRbsTPaB

High transport costs can make exporting uneconomical

-karp l tpa l Gackatbnyc Naypl tkm

new locations may have lower manufacturing costs

-Bnnac l xsGaceFeGayGRtaceNj tcngmanhanPyxs

Tariff and non-tariff barriers by the host country government can make it risky and costly

-Gknac l mnGaceF)an l dcRkmhnsgÄmTk

Agents in the foreign country may not act in exporter's best interest.

Licensing:

niymny

Licensing agreement KCakcRBmeRBogEd l erobceLgedaymas License p l sTeTA GkTT l License kgkareRbR)asrbmn beckeTs paksBaa eQaHp l tp l Caedm (patents, inventions, formulations, processes, designs, copyrights and trademarks) kgry³eB l Namy Cak l akedm,)anmkv j nvkarbgtémkareRbR)assTenaH. "Licensing agreement is an arrangement whereby a licensor grants the rights to intangible property to the licensee for specified time in exchange for royalties".

eg- Originally, Fuji-Xerox joint venture started as licensing agreement with Xerox. Licensed its xerographic know-how to Fuji-Xerox. In return, Fuji-Xerox paid Xerox a royalty fee equal to 5 percent of the net sales revenue that Fuji-Xerox earned from the sales of photocopiers based on Xerox's patented know-how.

sanPaB

-mankarra l ragBTpSarGnrCatceBaHkarvneyaKpa l BbreTs (Restriction on FDI)

-karcNayvneyaKpa l xs (Cost of wholly own is high)

-hanPyxsedaymnsvy l BsanPaBTpSar (High Risk with not familiar with foreign market)

KNsm,t

-mncNaye l karvneyaK RbsnebRkmhnKan l TPaBbmanhanPyxseBk "The firm does not have to bear the costs and risks of investment, it is an attractive option for firms lacking capital to develop operations overseas."

-GaceCosvagBbBaaneya)aybesdkcmnngnr bkarXatXagrbsRbeTsenaH

"Avoid political/economic problems or restrictions in a country. This is used when a firm wishes to participate in a foreign market but is prohibited from doing so by barriers to investment."

KNvbt

-mnGacp l l TPaBeGayRkmhnRKbRKgRbtbtkarGaCvkmenaH)aneB j e l j "Licensing does not give a firm tight control over manufacturing, marketing and strategy that is required for realizing experience curve and location economies. Loss of control over operations (marketing, manufacturing, strategy)"

-mnGaceRbR)asbTBesaFnrbsxn)an “Unable to realize experience curve and locational economies”

-)atbgnvbeckeTsbrbmnEdlRkmhnman “Loss of technological know-how”

-karGnvtyTsaRskgkarRbktRbECgmankrt “Limited in coordinating international strategy against competitors”

Franchising:

niymny

Franchising KCaTrgCaklakén Licensing EdlGkpl franchise (franchiser) mnRtmEtlk RTBüGrbrbsxn (patents, inventions, formulations, processes, designs, copyrights trademarks and brandname) eTAGkTTl franchise beNaHeTEtEfmTagclrmCyKaRTplbTBesaFn Knteyabl dlGkTTl franchise EfmeTotpg edaY)anRtLbmkvjnvPaKryénR)akceNj rbsRkmhnTTl franchise.

“franchising is a specialized form of licensing in which the franchiser not only sells intangible property to the franchisee (normally trademark) but also insists that the franchisee agree to abide strict rules as to how to do the business. The franchiser will assist the franchisee to run the business on an ongoing basis. The franchiser in turn receives a royalty payment, which amounts to some percentage of the franchise’s revenues.”

sanPaB

-mankarralragBTpSarGnrCatceBaHkarvneyaKpalBbreTs (Restriction on FDI)

-karcNayvneyaKpalxs (Cost of wholly own is high)

-hanPyxsedaymnsvylBsanPaBTpSar (High Risk with not familiar with foreign market)

KNsm,t

-mncNayelkarvneyaKRbsnebRkmhnKanlTPaBbmanhanPyxseBk

“Franchisor do not bear the costs and risks of investment”

-GaceCosvagBbBaaneya)aybesdkcmnngnrbkarXatXagrbsRbeTsenaH

“Avoid political/ economic problems and restrictions in a country”

-BRgkTpSarGnrCat)anelOn “Quicker international expansion possible”

KNvbt

-karGnvtyTsaRskgkarRbktRbECgmankrt “Limited in coordinating international strategy against competitors”

-mnGacRKbRKgKNPaBngesvkm)aneBjelj “Loss of control over quality and service”

-)atbgekreQaHRbsnebGkTTlGnvtmn)anl.

karrmshkar **“Joint Ventures”**

niymny

CakarbegIteLIgnvRkmhnfmyEdl ekItecjBIc lrmshkarrvagRkmhn2beRcInCagenHedIm, Ta jykKNsm,tBIKaeTAv jeTAmk. KNsm,tTagenaHGacmanCaceNHdg beckeTs smtPaB CIna jnana hrBavt \TB lenAkgTIpSarCaedIm.

“A joint venture is an establishment of a firm that is jointly owned by two or more otherwise independent firms. Work with a local partner and share in the costs/profits of an operation. The most typical joint venture is a 50/50 venture, in which there are tow parties, each of which holds a 50 percent ownership stake and contributes a team of managers to share operating control, however, there are joint ventures in which tone from has a majority share and thus tighter control.”

sIanPaB

-mankarra lragBTIpSarGnrCatceBaHkarvneyaKpa lBIbreTsTagRsg (Restriction on FDI)

-mnman lTPaBe lIcNayvneyaKTagRsg (Cost of wholly own is high)

-mnmansmtPaBbbeckeTs (lack of ability and technology)

-mnsvy lBIsanPaBTIpSar (not familiar with foreign market)

KINsm,t

-GacTa jGtRbeyaCnBIceNHdg \TB lrbsRkmhnkgRsk “Benefit from local firm’s knowledge about the host country’s competitive conditions, culture, language, political systems and business systems. “

-EckrE lknvkarcNayvneyaK nghanPy “shared costs/risks of development”

-ktararagEpkneya)aycBaHCeRmIsnana “political constraints on other options”

KINvibt

- Loss of control over technology to its partner.
- JVs do not give the firm the tight control over subsidiaries that it might need to relisse experience curve or location economies. Limited ability to realize experience curve and location economies
- limited ability to coordinate international strategy against competitors
- conflicts between partners over goals and objectives of the JV.

karkanpa l;rbs;vineyaKGn;rCati **“Wholly Owned Subsidiaries”**

niymny

CakarkankabkarRbtbtkarGaCIvkmenATIpSarGnrCatmyryPaKryedayGkvneyaKbreTs. karkanpa lrbsvneyaKGnrCatGaceFeLIgtamrbPaBBIrK³ RkmhnRtvbegIteragcRkedaypa lenA TIenaH bT jkankabRkmhnenATIenaHEtmg.

“In wholly owned subsidiary, the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary in a foreign market can be done in two ways. The firm can either set up a new operation in that country or it can acquire an established firm and use that firm to promote its products in the country's market."

sßanPaB

-krtceN j xsedaysarTpSarmanThF

-cnaydkCBanxsB)akRbktRbECg

-manRbBnGneRKaHxsBrdaP)a l

-GeNaypl BEpkc,ab esdkc .l.

KNsm,t

- Control over technological know-how ensured, especially when a firm' competitive advantage is based on technological competence. Many high tech firms prefer this entry mode for overseas expansion.(firms in semiconductor, electronics and pharmaceuticals).
- control over ability to coordinate international strategy
- ability to realize location and experience economies
- ability to coordinate with other subsidiaries

KNvibt

- Most costly method of serving a foreign market.
- The firm entering through this mode must bear the full costs and risks of setting up overseas operations.

A brief summary of the advantages and disadvantages of each of the modes is shown.

Mode of Entry	**Advantages**	**Disadvantages**
Exporting	Economies of scale Lower foreign expenses	No low cost sales High transportation costs Potential tariffs
Turnkey Project	Access to closed markets	Competition from local client Loss of competitive advantage
Licensing	Quick expansion Lower expenses and risks Lower political risk	Loss of competitive advantage Limited ability to use profits in one country to increase competition in another country
Franchising	Quick expansion Lower development costs and risks Lower political risk	Loss of competitive advantage Potential quality control problems Limited ability to use profits in one country to increase competition in another country

Joint Venture	Knowledge of local markets Lower development costs and risk Access to closed markets	Potential for conflict of interest Loss of competitive advantage
Wholly Owned Subsidiary	Maximum control over proprietary knowledge / technology Greater strategic flexibility Efficiencies of global production system	Large capital outlay Lack of local knowledge Increased risk
Strategic Alliance	Access to closed markets Pooled resources increase partner's capabilities Complementary skills & assets	Loss of competitive advantage Potential overestimation of partner's capabilities

The optimal choice of entry mode for firms pursuing a multinational strategy depends to some degree on the nature of their core competency.

If a firm's competitive advantage (its core competence) is based upon control over proprietary technological know-how, licensing and joint venture arrangements should be avoided if possible in order to minimize the risk of losing control over that technology, unless the arrangement can be structured in a way where these risks can be reduced significantly.

When a firm perceives its technological advantage as being only transitory, or the firm may be able to establish its technology as the dominant design in the industry, then licensing may be appropriate even if it does involve the loss of know-how. By licensing its technology to competitors, a firm may also deter them from developing their own, possibly superior, technology.

The competitive advantage of many service firms is based upon management know-how. For such firms, the risk of loosing control over their management skills to franchisees or joint venture partners is not that great, and the benefits from getting greater use of their brand names can be significant.

The greater the pressures for cost reductions, the more likely it is that a firm will want to pursue some combination of exporting and wholly owned subsidiaries. This will allow it to achieve location and scale economies as well as retain some degree of control over its worldwide product manufacturing and distribution.

More Reading

Strategic Alliances
The term strategic alliances refers to cooperative agreements between potential or actual competitors

The advantages of alliances are that they facilitate entry into foreign markets, enable partners to share the fixed costs and risks associated with new products and processes, facilitate the transfer of complementary skills between companies, and help firms to establish technical standards.

The disadvantage of a strategic alliance is that the firm risks giving away technological know-how and market access to its alliance partner, while getting very little in return.

Making Alliances Work

When considering the selection of a partner, a firm must be certain that the partner is one that can help the firm achieve its goals, share the firm's vision for the purpose of the alliances, and not act opportunistically to exploit the alliance for purely its own ends. Partner selection can be critical to success, and requires a significant investment in researching the skills and traits of potential partners.

A firm should structure the alliance to avoid unintended transfers of know-how. This can be done by walling-off (wall-off) sensitive technologies, by writing contractual safeguards into alliance agreements, by agreeing in advance to engage in reciprocal swaps of technological know-how, and by seeking credible commitments from alliance partners.

Two of the keys to making alliances work seem to be (1) building trust and informal communications networks between partners, and (2) taking proactive steps to learn from alliance partners.

Overall, strategic alliances tend to have quite high failure rates. Many times this failure is a result of unrealistic expectations and conflicts between the partners. It should be noted, however, that just because an alliance is terminated it may not have necessarily failed -- some perfectly acceptable alliances can serve mutual interests for short periods of time where both parties benefit, and then end when the benefits no longer exceed the costs. You can draw analogies between alliances and the dating practices of people to help illustrate the benefits, costs, risks, as well as the long vs. short-term nature of the "alliances"!

EXPORTING, IMPORTING, AND COUNTERTRADE
Introduction

The previous chapter presented exporting as just one of a range of strategic options for profiting from international markets. This chapter looks more at how to export.

Exporting is not just an activity of large multinationals to obtain scale and location economies, but is also an activity for small firms. Almost all large multinationals today started their expansion overseas via exporting.

Exporting can be a very challenging activity for many firms -- unfortunately, it usually takes more effort than just placing goods in a box and slapping on foreign shipping label as we will see, although sometimes, it is almost that easy.
The Promise and Pitfalls of Exporting

The potential benefits from exporting can be great. Regardless of the country in which a firm has its base. The rest of the world is a much larger market than the domestic market. While larger firms may be proactive in seeking out new export opportunities, many smaller firms are reactive and only pursue international opportunities when the customer calls or knocks on the door.

Many new exporters have run into significant problems when first trying to do business abroad, souring them on following up on subsequent opportunities.

Common pitfalls include poor market analysis, poor understanding of competitive conditions, lack of customization for local markets, poor distribution arrangements, bad promotional campaigns, as well as a general underestimation of the differences and expertise required for foreign market penetration.

If basic business issues were not enough, the tremendous paperwork and formalities that must be dealt with can be overwhelming to small firms.

Improving Export Performance

National differences in the governmental and business infrastructure available for supporting exporting vary considerably. German and Japanese firms have relatively easy access to information and assistance. While US firms are not left totally to their own devices, the amount of direct and indirect assistance to them is much less developed.

One of the biggest impediments to exporting is ignorance of foreign market opportunities.
The best way of overcoming ignorance is to collect more information. In the USA, there are a number of institutions, most importantly the US Department of Commerce, which can assist firms in the information gathering and matchmaking process.

Business and trade associations can also provide valuable assistance to firms.

One way for first-time exporters to identify opportunities and help avoid pitfalls is to hire an Export Management Company. A good EMC will have a network of contacts in potential markets, will have multilingual employees, will have knowledge of different business mores, and will be fully conversant with the ins and outs of the exporting process and with local business regulations.

One drawback of relying on EMCs is that the company fails to develop its own exporting capabilities.

The probability of exporting successfully can be improved by utilizing an EMC or export consultants, focusing on only one or a few markets at first and get them working effectively, starting out on a small scale, having realistic expectations about the time and commitment required, developing good relations with local distributors, and hiring local personnel. The example of 3M helps illustrate one firm's approach.

Export and Import Financing: Procedure:

Firms engaged in international trade face a problem -- they have to trust someone who may be very difficult to track down if they default on an obligation.

Due to the **lack of trust**, each party to an international transaction has a different set of preferences regarding the configuration of the transaction.

Firms can solve the problems arising from a lack of trust between exporters and importers by using a third party who is trusted by both - normally a reputable bank.

A bank issues **a letter of credit, abbreviated as L/C** at the request of an importer. It states that the bank promises to pay a beneficiary, normally the exporter, upon presentation of documents specified in the letter of credit.

A draft (**bill of exchange**) is the instrument normally used in international commerce to effect payment. It is an order written by an exporter instructing an importer, or an importer's agent, to pay a specified amount of money at a specified time. Drafts fall into two categories -- sight drafts and time drafts. Time drafts are negotiable instruments.

The bill of lading is issued to the exporter by the common carrier transporting the merchandise. It serves three purposes; it is a receipt, a contract, and a document of title.

The entire 14-step process for conducting an export transaction is summarized. Take for example an Indian importer and US exporter.

Step1: The Indian importer places an order with the US exporter and asks the American if he would be willing to ship under a letter of credit.
Step 2: the US exporter agrees to ship under a letter of credit and specifies relevant information such as price and delivery terms.
Step 3: the Indian importer applies to (e.g.) State bank of India for a letter of credit to be issued in favor of the US exporter fro the merchandise the importer wishes to buy.
Step 4: the state bank of India issues a letter of credit in the Indian importer's favor and sends it to the US exporter's bank, the bank of New York.
Step 5: the bank of New York advices the US exporter of the opening of a letter of credit in his favour.
Step 6: the US exporter ships the goods to the Indian importer on a common carrier. An official of the carrier gives the exporter a bill of lading.
Step 7: the US exporter presents a 90 day-time draft (bill of exchange) drawn on the State Bank of India, in accordance with its letter of credit and the bill of lading to the bank of New York. The US exporter endorses the bill of lading so title of goods is transferred to the Bank of New York.
Step 8: the bank of New York sends the draft and the bill of lading to the State Bank of India. The State Bank of India accepts the draft, taking possession of the documents and promising to pay the now accepted draft in 90 days.
Step 9: State Bank of India returns the accepted draft to the bank of New York.
Step 10: the bank of New York tells the US exporter that it has received the accepted bank draft, which is payable in 90 days.
Step 11: the exporter sells the draft to the bank of New York at a discount from its face value and receives the discounted cash value of the daft in return.
Step 12: State Bank of India notifies the Indian importer of the arrival of the documents. He agrees to pay the State Bank of India in 90 days. State Bank of India releases the documents so the importer can take possessions of the shipment.
Step 13: in 90 days, the State Bank of India receives the importer's payment, so it has funds to pay the maturing draft.
Step 14: in 90 days the holder of the matured acceptance ie, bank of New York presents it to the State Bank of India fro payment. The State Bank of India pays.