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International Market Entry Strategies

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Abstract *On a market where consumers are assaulted by an abundance of products and services are offered, promoting the company requires a permanent search for new variants that attract attention and differentiate the company's products from those of its competitors. The decision to enter international new markets will be based on an assessment of the means to export, an investigation of the industry and the marketplace, marketing and cultural aspects, legal and political conditions, currency exchange issues and sources of financing. When a firm decides to enter a specific country, it has to define the best mode to do so and is has a large number of market entry strategies that are available such as direct exporting, indirect exporting, joint ventures, direct investment or M&A.*

Key words Market strategies, international, market entry, strategy, risks

JEL Codes: L14, P45

1. Introduction

When operating internationally, the company should consider its mission, like what it wants to do and become in the long term, its objectives, such as performance targets to be achieved in order to accomplish its mission and the strategy, for instance the means by which objectives are achieved. Typically, higher sales mean higher profits if we start from the assumption that each unit sold is operated the same price increase. So the biggest sales are a key reason for expanding an international company. Almost half of the sales of many of the world's largest companies are made outside the countries of origin. Since economic growth has different growth rates in different markets, diversification of entry methods into new markets can allow a company to take advantage of a significant growth in a market to offset lower growth rates on another.

International transactions are one of the fastest ways to improve a commercial and strategic position of any company on a new market. Market entry methods have become, in the last period, an essential element of corporate strategy. These are a popular form of growth and completion of the capacity gap, simply because they can be easily assimilated by the parties involved. The battle for growth and competitive advantage is actually a race to see which companies can add capabilities or who can access new markets in a fast, not just internal style - a process sometimes slow enough for competitive markets - but also through the creation of external relations.

2. Literature review

The strategic options for entering the foreign markets and their concrete forms are presented in the literature and in the practice of companies with international activity in relatively different perspectives.

Whenever there are several companies selling or buying on the market, a certain rivalry will emerge between them (Gherasim, 1995). Among companies that are disputing the same market, there are several sources of competition or increase in competition, according to Gherasim (1995): the lack of firms that want to enter the market, the ability of suppliers to influence the competitive struggle, the power of customers in negotiations or the existence of substitutes on the market. It can be said that this is a reformulation of the model of the five competitive forces proposed by Michael Porter (1980), namely: the existing rivalry between firms with the same activity profile, the threat created by the penetration of new competitors on the market, the threat created by substitute products or services, the negotiating power of suppliers and the negotiating power of buyers (consumers).

Knowing actual and potential competitors as well as strategic groups (made up of several companies operating in the same sector) is very important to understanding their strategies. In 1994, Kotler and Armstrong (2001) grouped a company's strategic options according to its market share. Kotler (2001) shares the companies with the role they play on the target market, namely, driving, provoking, tracking or serving niche markets, where a firm may be: the market leader, the challenger, the pursuer or the niche player.

3. Methods to entry international markets

Nowadays, regardless of the size and the field of activity of a company, its involvement in the international business development process becomes a condition not only for the increase of the profit but also for the existence of the respective company. At the same time, the involvement of a company in the business of international transactions involves assuming some inherent expenses and risks, which must be carefully analysed by the management of the company, which is launching in such an activity, by reference to the expected benefits. The costs relate mainly to the production costs necessary to adapt the products to the requirements of the international market, to the organizational expenses imposed by the creation within the company of some departments specialized in the foreign trade activity Many companies tend to prefer a particular way of entering the foreign market.

The strategic options are categorized and analysed according to the categories of penetration strategies on the international market based on the principle of the simple to complex approach and on the essential criteria that define each strategic alternative. These criteria are: degree of involvement, presumed risk, degree of control and profit.

Source: The author

Figure 1. Strategic options to enter new markets

3.1. Direct export

Direct export is that operation whereby the manufacturer concludes and executes the international sales contract by establishing direct relations with the external customer. This form is characterized by the fact that the exporter (manufacturer) has a well-organized organizational structure, such as subsidiaries, branch offices, and representation offices and is in a position to control the entire contracting and marketing process.

Among the benefits of this operation, we mention: the producer's ability to promote its products, the factory brand, the fact that the producers maintain direct contact with the foreign market and offer the possibility for the producers to participate directly in the acquisition of the commercial profit (Popa, 2008).

Generally, companies with a low ownership level either do not enter foreign markets or use low risk entry modes - such as exports. Direct exports allow a high operational control of management but do not provide much control over marketing because the exporter is farther away from the final consumer and often has to deal with independent foreign distributors who control many of the marketing functions. Among the risks that may arise we can enumerate the handling of all the transaction logistics, it takes more money, more time and more energy, the vendor is held responsible for all that happens with the merchandises.

3.2. Indirect export

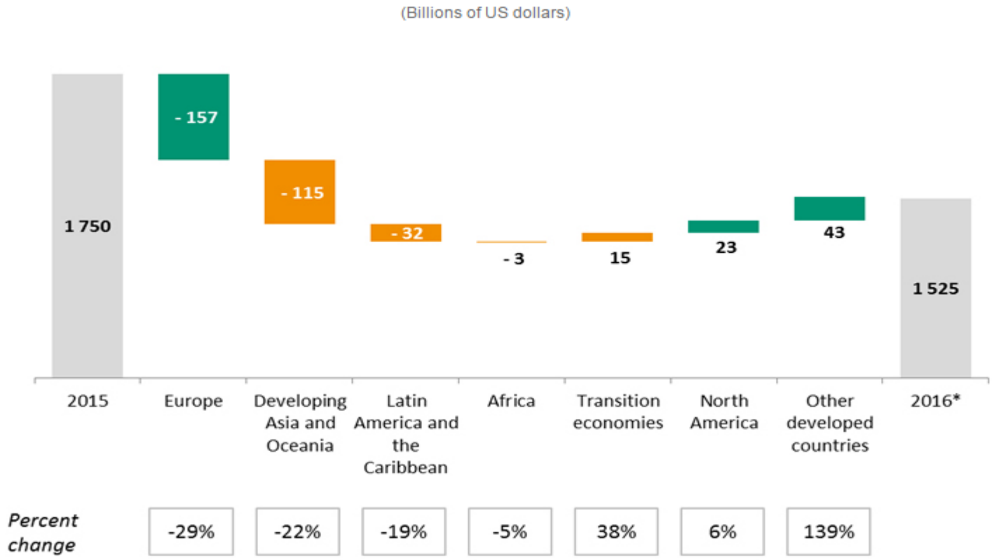
Indirect exporting refers to selling to an intermediate, which in turn trades the products either directly to customers or to importing traders. The easiest way of indirect trading is to vend to an intermediary in the companies' country. Selling by this technique, firms normally are not accountable for gathering payment from the overseas customer, or for organizing the shipping logistics.

Indirect export has two advantages: to begin with, it implicates less investment – the company does is not required to develop an export department, an abroad sales force, or a set of overseas associates; also, it involves and a smaller amount of risk. Because global intermediaries bring services and know-how to the partnership, the vendor will generally make fewer errors.

The core drawback of the indirect way of exporting is that the expansion on the foreign market is influenced by a very large amount on traders and not on the company goods. Also, by using an intermediary, the indirect exporter might lose brand acknowledgment and faithfulness in global markets, hence leaving this opportunity and area to bigger enterprises.

3.3. Foreign direct investment

Foreign direct investment represents financial and resource flows that cross the legal and economic borders of states, they represent financial flows, scientific, technological, informational, equipment and machinery, managerial and organizational experience, which are placed by investors in different countries, known as investment receivers. Thus, direct foreign investment is a lasting investment relationship between a resident entity and a non-resident entity. As a rule, involves the exercise by the investor of significant managerial influence in the undertaking in which he invested.



Source: http://unctad.org/en/pages/newsdetails.aspx

Figure 2. Regional contribution to global FDI flows, 2015–2016

Worldwide FDI flows increased with 13 % in 2016, attaining an estimated 1.52 trillion$, in a setting of weak international economic evolution and a dull rise in the volume of world trade. The value of greenfield projects statements reached a projected rise of 810 billion $ – 5 % from the prior year, still, this was mainly as a result of a number of very large projects announced in a some countries. The disadvantages of FDI are: rather high costs, it can have negative impact on the country's investment because of the rules of foreign exchange rates, political changes may affect the investment.

3.4. Joint ventures

Joint ventures with foreign participation are a consequence of internationalization of businesses. Their spreading has been stimulated by at least two trends: the first, of an economic nature, aims at enhancing the competitive capacity by capitalizing the geographic areas with rich and cheap resources and the second, more recent, results from the synergy of factors with the globalization trend of the world economy.

Certain types of companies agree the idea of a joint venture more than others. Such companies are new entrants to foreign markets or those where decision-making is decentralized. As these companies are accustomed to expanding their control over the organizations they make, it will be easy for them to do so internationally.

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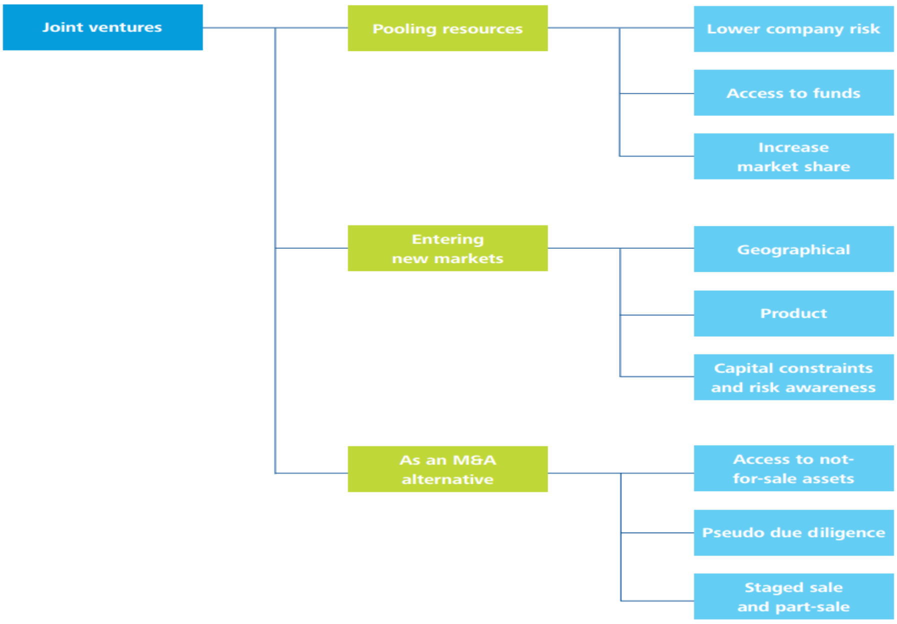
It can also be said that a joint venture is a partnership arrangement where two firms contribute with capital to a newly created body that they operate either together or through a distinct management structure which is accountable to the parent establishments, or where an international company and a local firm enter into a common partnership arrangement and run the joint venture as a partnership. One of the utmost benefits of partnering with an indigenous company is that it can balance the other's firm abilities so that each company has its attention on what knows and does best. Resident partners are also capable to offer local expertise, network and insight contacts which will help the business to succeed on the new marketplace. There are several diverse forms of partnership arrangements which the enterprise may want to consider. If a company is not ready to participate in a joint venture it may consider another method, such as licensing or franchising.

Partnering with a new company can be difficult. It takes effort and time to form the right business association. Disadvantages that are probable to arise can be: increased risk, responsibility, and exposure for both partners, the partners may not have the same objectives, issues of bribery and corruption, power supply problems and security, the partners can have different management styles and cultures, the political, economic and social environment, the availability and high cost of construction materials.



Source: https://www2.deloitte.com/content/dam/Deloitte/fr /Publications/Etude_Joint_Venture_juillet%202010.pdf

Figure 3. Reasons why a company pursue a joint venture strategy

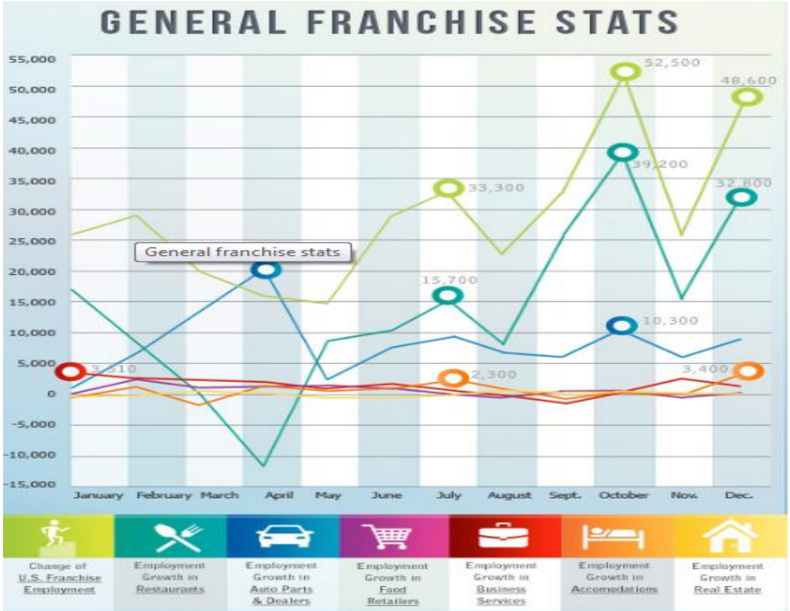
3.5. Franchising

Franchises are a specialized licensing form, and the franchisor not only sells to an independent franchise the right to use an intangible property (usually a registered trademark), which is essential to the company that takes over, but also offers ongoing business support to the business , through sales or training promotions. Purchasing a franchise can be a rapid method to set up a business without starting from scratch.

Franchising is basically a relationship between two parties: a franchisor and a franchisee. In this business model, the franchisor offers the franchisee an advanced way of doing business, constant supervision, systems and support in return for periodic payments and fees created from the business.

An operation that takes the form of a contract by which a person named a franchisor grants it to another person, called beneficiary or franchisee, is called a franchise and the right to exploit a set of industrial or intellectual property rights for the purpose of the production or marketing of certain Types of products and / or services. Obtaining a franchise involves the payment of an entry fee, as well as annual fees, usually as a percentage of the turnover.

A franchise arrangement can have also disadvantages for both the franchisor and the franchisee. Potential risks for the partners to be aware of are: drawbacks to franchisors contain a deficiency of control over franchisees, reputational risks, and slow progress through franchising associated to M&A, disadvantages to franchisees contain high costs and fee payments, strict product guidelines, low support from impassive franchisors.



Source: http://www.franchisedirect.com/information/usfranchiseindustrystatistics/?r=5003

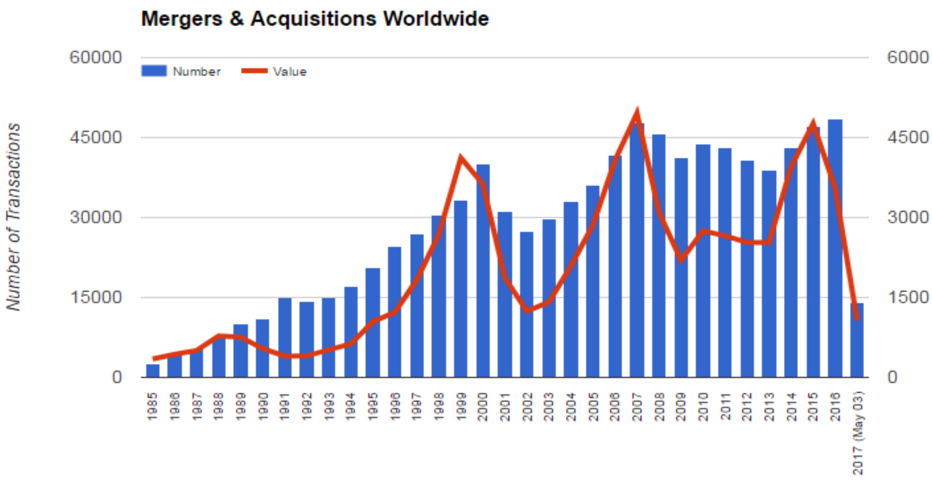
Figure 4. General statistics of franchises in the Unites Dates

The overall U.S. franchise industry is anticipated to increase by 1.6% in 2017, which is approximately identical to the 1.7% growth amount posted in 2016. If realized, the result will represent an increase of approximately 11500 establishments.

3.6. International acquisitions and mergers

From a technical point of view, the acquisition consists of taking over a company or an independent unit from another company in order to expand the assets of this economic entity. The international acquisition consists of taking over the assets and operations of a national company or subsidiaries implanted in the host country by a foreign company, the former becoming a subsidiary or subsidiary of the latter.

From a technical point of view, the merger consists of combining two or more companies with the aim of creating an economic entity by unifying the patrimony. From a legal point of view, the merger is the operation by which a concentration of commercial companies takes place and they can have the same legal form or different forms.



Source: https://imaa-institute.org/mergers-and-acquisitions-statistics/

Figure 5. The value of M&A worldwide

In 2015, corporations declared over 44000 transactions with a total value of over 4.5 trillion USD or 4.1 trillion USD. Compared to 2014, the sums of deals grew slightly by 2.7% while the value grew at 16%.

4. Conclusions

Between the main reasons why societies chose to internationalize their activity, we can mention the search of opportunities for development through market diversification. Considerable marketplace potential exists in the exterior of the home country and this is the way companies, large or small, create more than half of their sales from overseas markets. Numerous overseas markets might be underserved for example emerging markets; therefore they have great demand and less strong competitive pressures which involve higher margins and profits for the company.

A different reason for choosing a strategic option to enter new markets is that the company is capable to develop economies of scale in marketing, production, sourcing, and research and development .Also the enterprise will be nearer to supply sources, it can profit from international sourcing benefits, and obtain innovative ideas about business methods, products and services.

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