

LEARNING OBJECTIVE 13.1 Describe factors that determine which markets companies are likely to enter.

Once firms decide to go abroad, they can determine where to go by using a PEST analysis to identify the opportunities and risks of entering a country based on its political, economic, social, and technological factors. However, firms may choose to enter a country because of other pressures, such as the liability of foreignness, the desire for first-mover advantages, or the need to follow customers into specific markets.

- An external analysis is an important first step in determining the attractiveness of foreign markets, and any such analysis likely includes a full PEST (political, economic, sociocultural, and technological) analysis
- **Liability of foreignness:** a liability foreign firms face as the geographic, economic, cultural, or administrative differences between the foreign market and the domestic market increase
 - **ethnocentrism bias:** a bias indicating that customers prefer local brands over foreign brands and are willing to pay more for local brands even when the quality is inferior
- **First-Mover Advantage:** the first entrant into a market captures a leadership position, enabling it to control critical resources such as distribution channels and to build up buyer-switching costs, particularly where network effects or branding are important.
- **Following Clients Globally:** companies may expand not because they necessarily want to, but because their customers pressure them

LEARNING OBJECTIVE 13.2 Explain the advantages and disadvantages of different entry modes.

After firms identify a foreign market to enter, they must choose the market entry mode best tailored to their abilities and strategic objectives. While all market entry modes have downsides and risks, non-equity modes such as exporting, turnkey operations, franchising, and licensing tend to have the lowest risk for the parent company; however, they also offer the least amount of control over the venture. By contrast, equity modes such as joint ventures and wholly owned subsidiaries offer the parent company more control but at the cost of higher risk.

Exporting: process of producing a good or service in one country and selling it in another country

Advantages	Disadvantages
<ul style="list-style-type: none">● associated low-cost of entering a foreign market● Reaching other markets via exporting is also getting easier● Flexibility● enables firms to move quickly down the learning curve and capture economies of	<ul style="list-style-type: none">● subject to import tariffs● the country where production occurs may have high relative costs, which can cause the product to be comparatively expensive—perhaps prohibitively expensive—in other markets● the time and money required to transport

scale	goods, especially if items are heavy or bulky, or if their sale is time-sensitive
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Turnkey operations: a company builds a facility in a foreign market for a client, makes it operational, and then hands over the “keys” to the client, which will own and operate the facility

- typically billion-dollar projects undertaken by governments collaborating with large multinational companies and use sophisticated technologies in industries into which governments are unwilling to let foreign companies enter directly.

Licensing: a contractual agreement between two parties, the licensor and the licensee, that grants the licensee certain rights, such as the right to produce or sell the licensor’s patented goods, display the licensor’s brand name or trademark, or use the licensor’s intellectual property.

Franchising: a unique form of licensing in which a partner, called the franchisee, is given the right to use the franchisor’s brand and other intellectual property, while the franchisor takes an active role in the ongoing operations of the firm, such as advertising, training staff, and managing inventory

Joint Ventures: a new legal entity created and owned by two or more existing companies from different countries.

- The parent companies can have very different degrees of ownership in the joint venture, ranging from a 50/50 split to a 99/1 ownership structure or anything in between, depending on their goals, their investments in the venture, and their resources and capabilities.

Wholly owned subsidiary: a new legal entity set up for operation in a foreign market that is legally a separate company but is fully owned by the parent firm

- Greenfield operation

LEARNING OBJECTIVE 13.3 Compare making, allying, and buying as entry tactics.

Once a firm chooses a market entry mode, it must then consider the objectives of its foreign expansion as well as its own capabilities and resources in order to select the best tactic for market entry. A firm that chooses the “make” tactic develops its own operations in the country. Through the “ally” tactic, a company partners with existing firms in the local market. The “buy” tactic means the firm will acquire another firm already operating in the local market.

Internationalization Entry Modes	Internationalization Entry Tactics		
	Make (Do it yourself)	Ally (Do it with a partner)	Buy (Acquire it)
Exporting	Export support functions (Trade, lobbying, shipping, sales etc)	Export partner/ be an OEM	Purchase distributors or marketing or sales channels
Turnkey	Build and deliver	Partner on development (Consortium)	
Licensing		Contracts with licensees	
Franchise	Develop franchise operations	Master licensor agreement	Buy franchise operations
Joint venture		JV partner(s)	Buy into an existing JV
Wholly owned	Greenfield		M&A/ Turnkey