

“International business strategies”

Lecture 2

Market entry modes for international business

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Key points

- Discuss how firms analyze foreign markets
- Outline the process by which firms choose their mode of entry into a foreign market
- Characterize modes of entry, discuss their advantages and disadvantages



Foreign Market Analysis

Assess alternative markets



Evaluate the respective costs, benefits, and risks of entering each



Select those that hold the most potential for entry or expansion

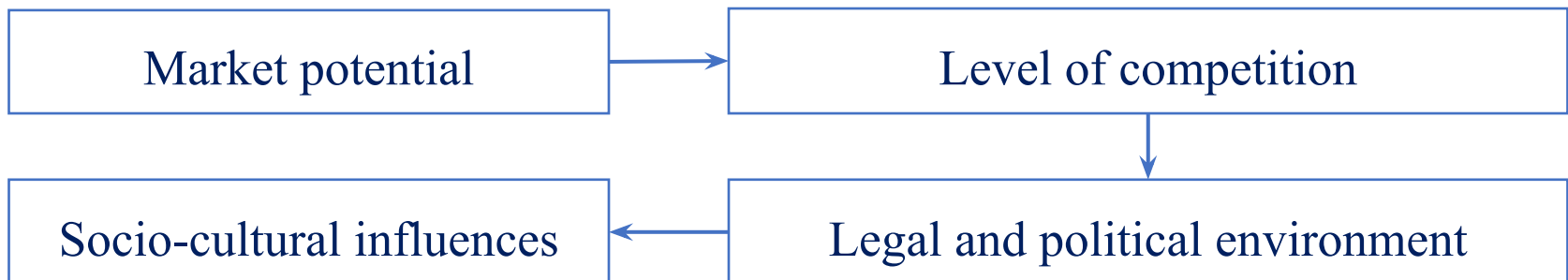


(1/3) Assess New Market Opportunities

Factors

- Product-market dimensions
- Major product-market differences
- Structural characteristics of national market
- Competitor analysis
- Potential target markets
- Relevant trends
- Explanation of change
- Success factors
- Strategic options

Steps





(2/3) Evaluate the respective costs, benefits, and risks of entering each

- **Costs:** *Direct costs and opportunity costs*
- **Benefits:** *Expected sales and profits from the markets. Lower acquisition and manufacturing costs, foreclosing of markets to competitors, competitive advantage, access to new technology, and the opportunity to achieve synergy with other operations.*
- **Risks:** *Risk of exchange rate fluctuation, additional operating complexity, direct financial losses*



(3/3) Choose a Mode of Entry

Select those that hold the most potential for entry or expansion

ENTRY STRATEGIES

Exporting

Foreign Production

Ownership

Decision Factors:

- Ownership advantages
- Location advantages
- Internalization advantages
- Other factors
 - Need for control
 - Resource availability
 - Global strategy



Exporting

International Licensing

International Franchising

Specialized Modes

Foreign Direct Investment



1. Exporting

Motivations

Proactive

Reactive

Advantages & Disadvantages

- Relatively low financial exposure
- Permit gradual market entry
- Acquire knowledge about local market
- Avoid restrictions on foreign investment
- Vulnerability to tariffs and NTBs
- Logistical complexities
- Potential conflicts with distributors



Forms of Exporting

Direct exporting



Indirect exporting



Intracorporate transfers



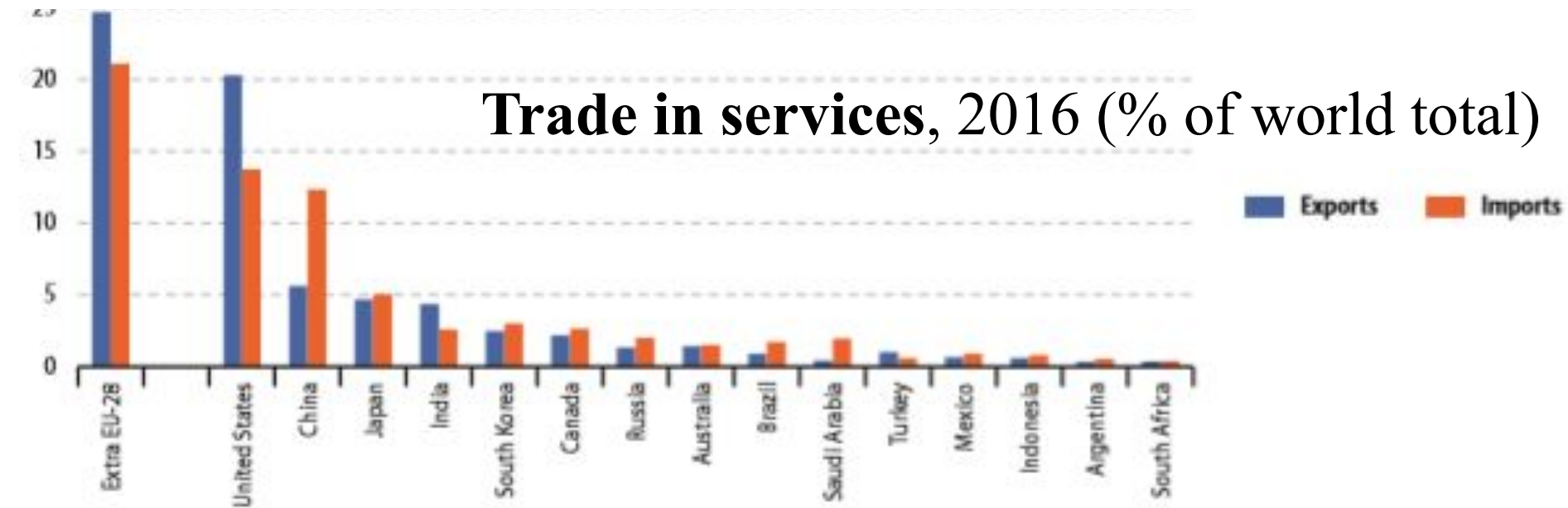


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Trade in goods, 2016 (% of world total)



Trade in services, 2016 (% of world total)

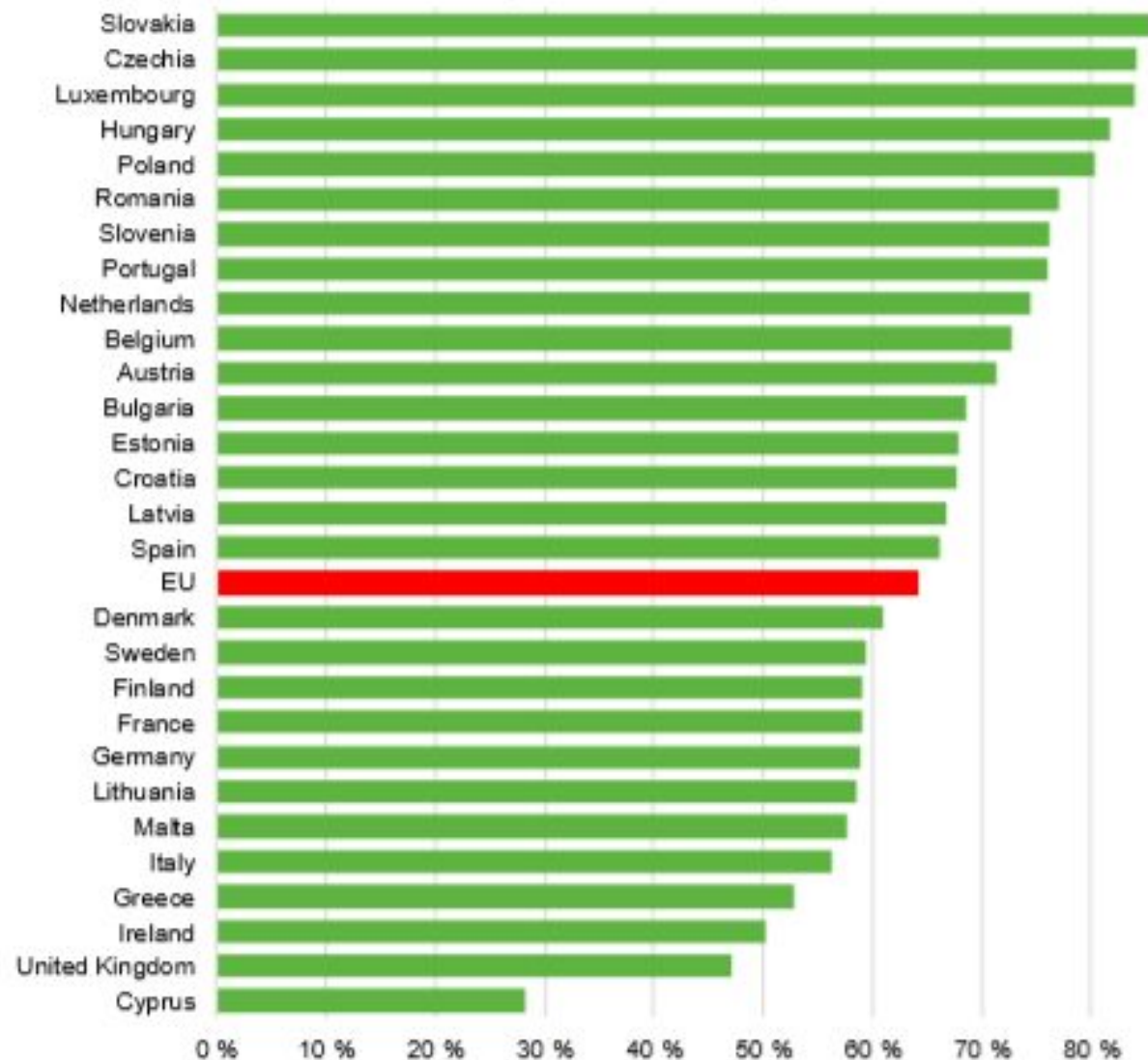




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Share of intra-EU exports, 2018 (based on trade value)

- ✓ In 2018, the *28 EU* Member States *exported* a total of *€5 474 bn of goods*, of which *64%* (€3 518 bn) were *destined for another* Member State of the EU (**intra-EU trade**).
- ✓ *Intra-EU exports prevail* in all Member States apart from Cyprus and the United Kingdom

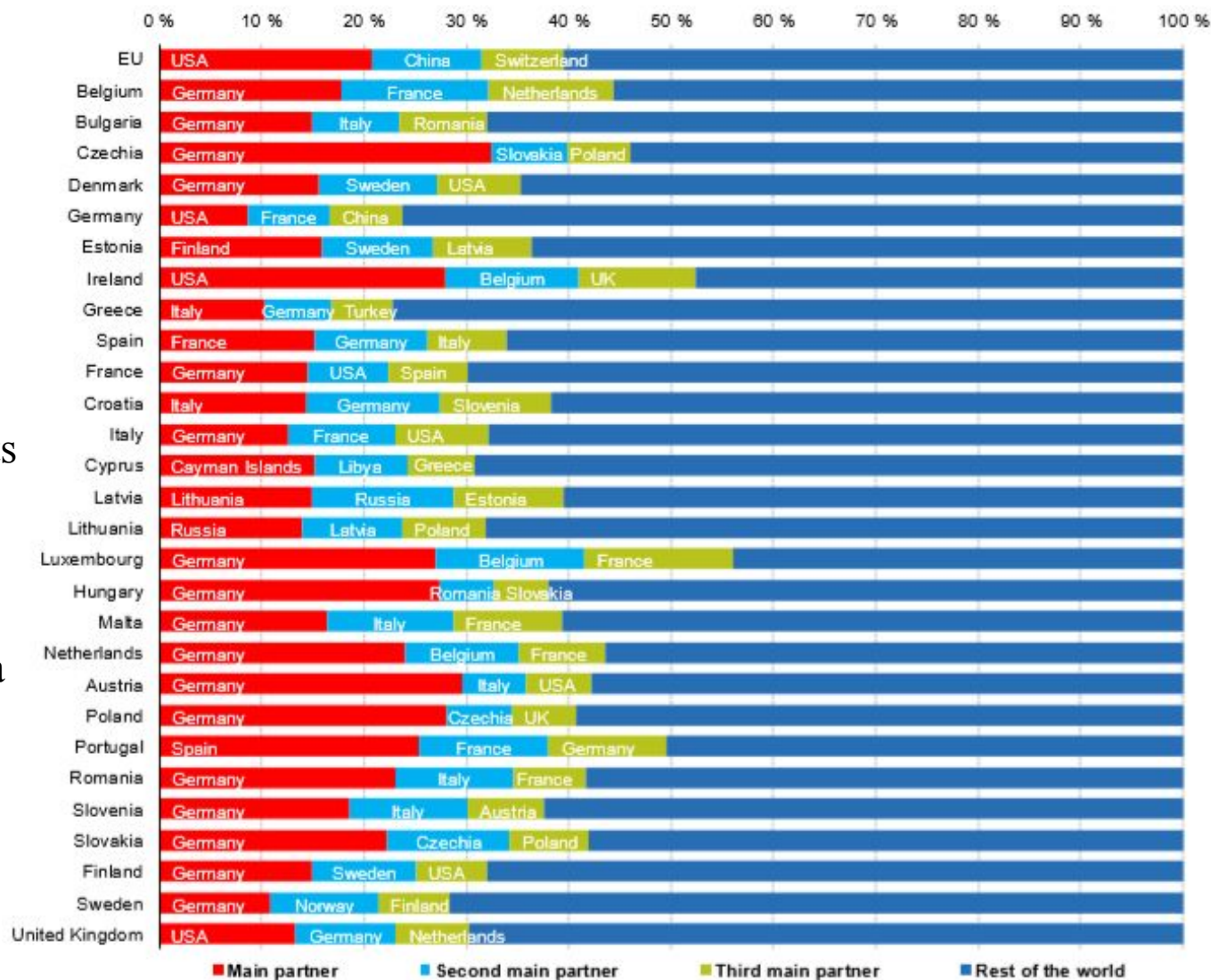




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Exports of goods of EU: top 3 partners, 2018 (based on trade value)

- ✓ In almost all EU, *the main partner* for exports of goods was *another member* of the EU
- ✓ *Germany* is the *main export destination* for a majority of Member States

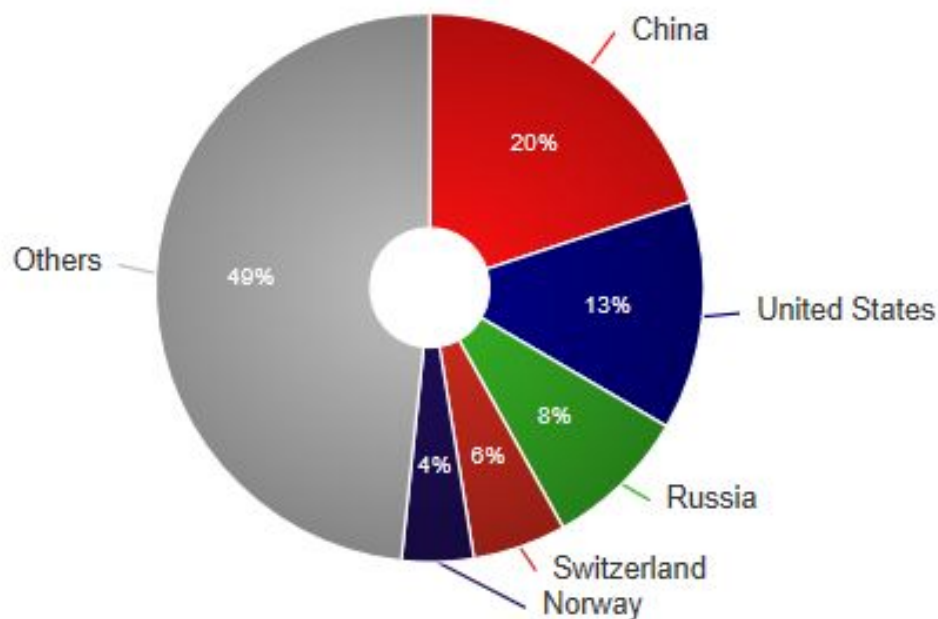




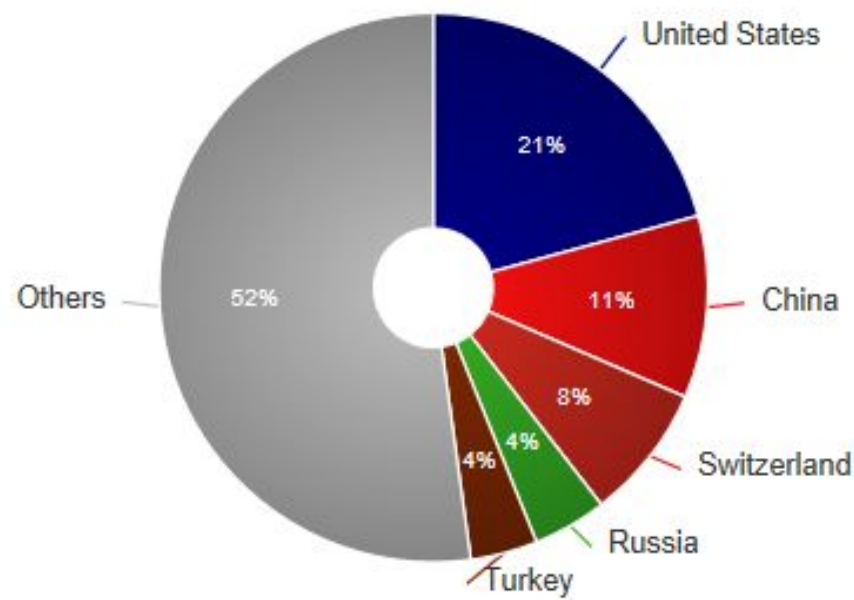
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International trade in goods in 2018: EU Trade in goods by top 5 partners (in %)

Imports



Exports

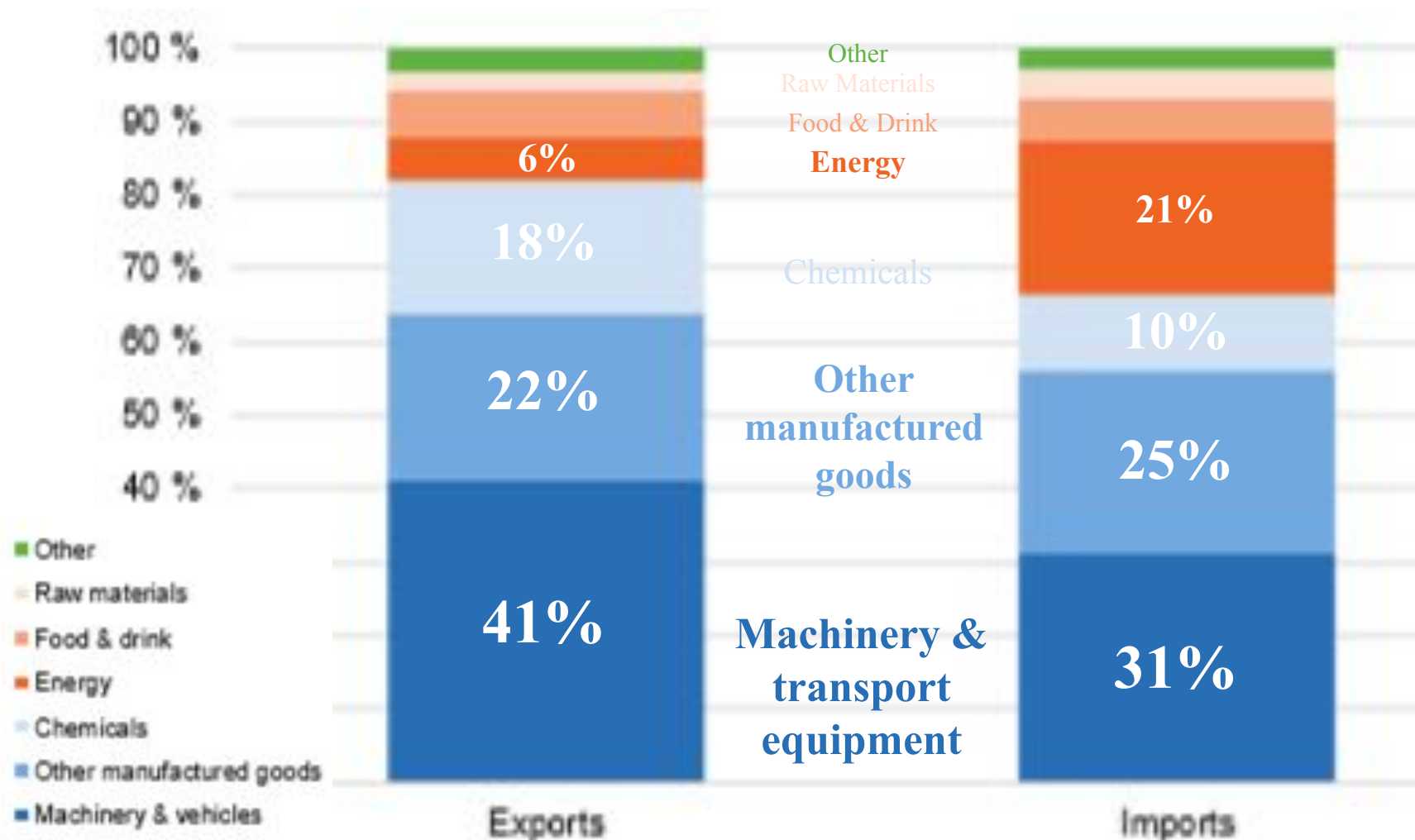




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Extra-EU trade by product group, 2018

(share of each product group in total extra-EU export and imports, based on trade value)





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Did you know?

... the **EU** imported 568 tons of human and animal hair for use in making wigs, of which over 50% from **Nigeria**?

... **Spain** exported 19 500 tons of **roasted almonds and pistachios** to 81 countries in the world?

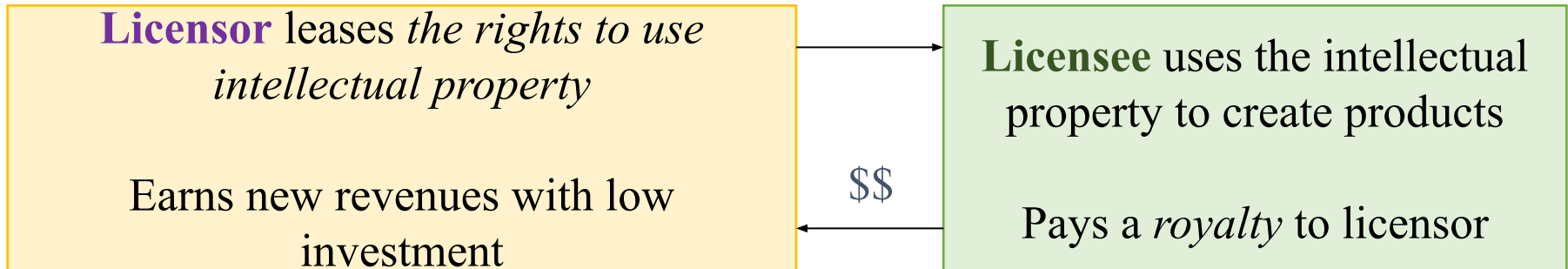
... the EU imported 2 345 **grand pianos** from **Japan**, of which 724 were dispatched to **Germany**?

... the **United States** accounted for 74 % of the EU's total imports of **peanut butter**, that is close to 7000 tons?

... the **EU** exported **retail sale dog and cat food** worth over €1.3 billion to the world, the three top destinations being **Russia** (15.3%), **Japan** (12.8%) and **Switzerland** (12.0%)?



2. Licensing



Advantages & Disadvantages

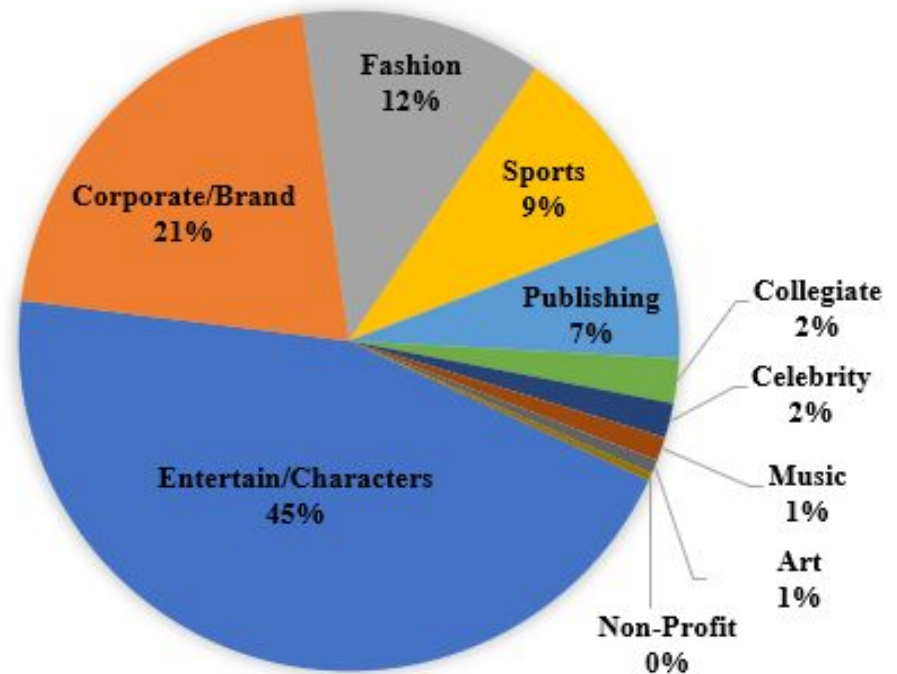
- Low financial risks
- Low-cost way to assess market potential
- Avoid tariffs, NTBs, restrictions on foreign investment
- Licensee provides knowledge of local markets
- Limited market opportunities/profits
- Dependence on licensee
- Potential conflicts with licensee
- Possibility of creating future competitor



Global Licensing

Licensable properties come from *a variety of sources*.

The definitions of various property types are *not always clear* and they often overlap. Although every licensing program is unique, different areas of the licensing business have specific patterns in terms of how they are organized and how business is done.



Estimated Global Licensing Revenues – 2016

Source: <https://www.licensing.org>



Global Licensing

49 INTERNATIONAL MERCHANDISING, PROMOTION & SERVICES (IMPS)

\$1.1B (PRIVATE)

Top 10 Global Licensors, 2017 (\$ Bln)

Rank	Ranking Company	Retail Sales
1	The Walt Disney Company	53
2	Meredith Corporation	23.2
3	PVH Corp.	18 (E)
4	Universal Brand Development	7.3
5	Hasbro	7.1
6	Iconix Brand Group	7
7	Warner Bros. Consumer Products	7
8	Major League Baseball	5.5 (E)
9	Nickelodeon	5.5
10	Authentic Brands Group	5.3



Top licensed property in 2017:

The Smurfs

The brand **partnered with:**

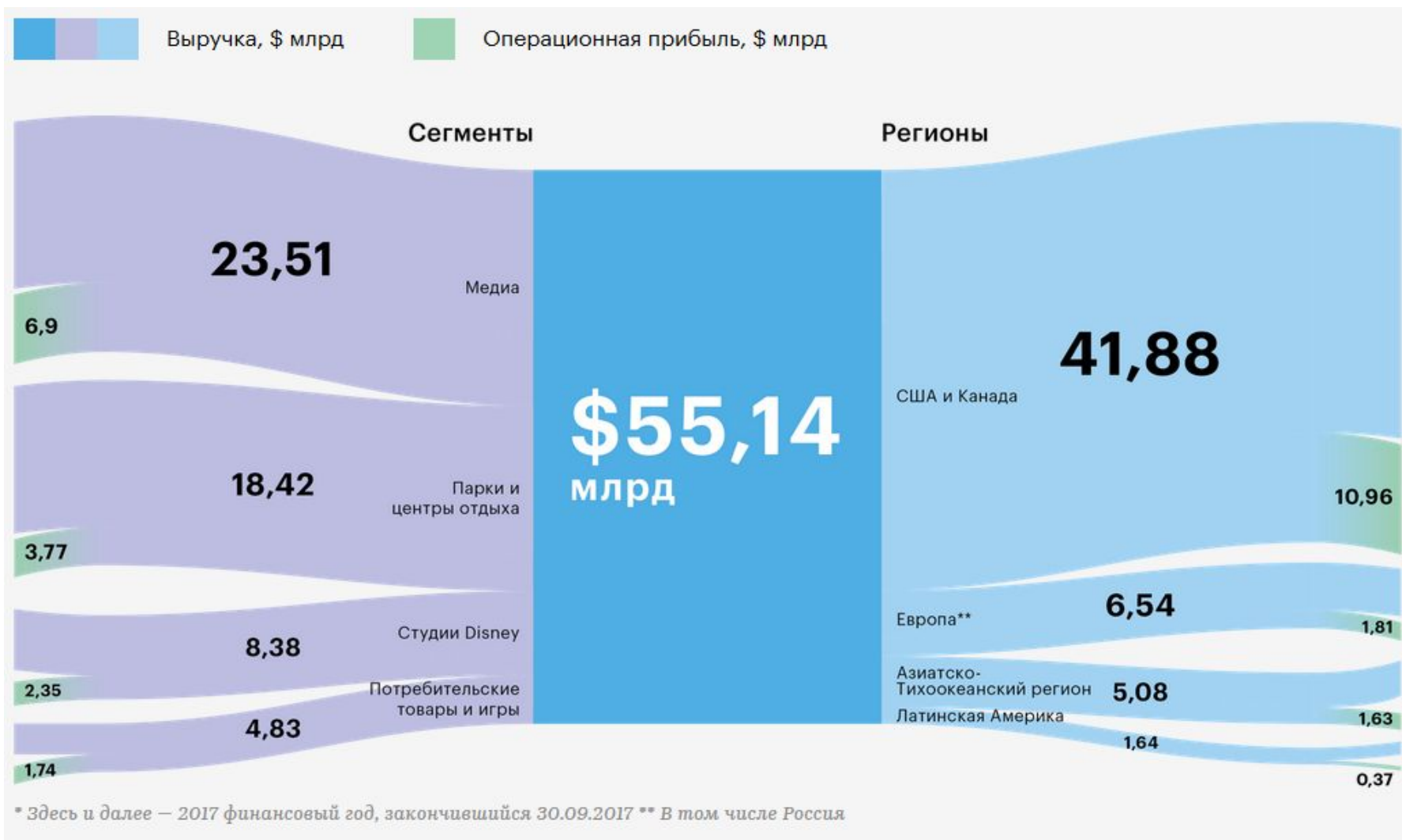
Haribo for *candy*, **Danone** for *dairy*, **Schleich** and **Funko** for *figurines*, **Brand Loyalty** for *loyalty programs*, **Ferrero** for *Kinder Eggs*, **Sony** for the film “Smurfs: The Lost Village”, **Millennium Entertainment International** for a Smurf-themed *stage show*; **Ubisoft** for “Smurfs Epic Run”, **Flash Man** for “The Smurf Village” *video game*.

Top retail partners:

Walmart in Central America, **Ahold** in Czechia, **Lidl** in Europe and North America, **Total** in Germany, **Mega Image** in Romania, **Dansk Supermarked** in Denmark, **BP** and **The Warehouse Company** in New Zealand, **Système U** in France, **Plus** in The Netherlands, **Auchan** in China



Global Licensing: The Walt Disney Company





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Global Licensing



95 in Top 150 Global Licensors
\$ 280 M (2017)



Won the Kidscreen Awards (**the cartoon world's Oscars**) for best animation (2015)

TOP-3 most favorite children's brand in Europe (2017)

"Antartica is probably the only place we don't air. Even viewers in North Africa know us"

Included in the list of **TOP 150 Global licensors 2015**, a *first time ever* when the *Russian brand* successfully launched a number of products in different categories in the EMEA

International licensing company and studio

- ✓ Creates the hit 3-D animated family show, **Masha and the Bear**, and *manages* the global distribution and promotion of so named brand
- ✓ Has *direct relationships* with such *major content distribution companies* as **Netflix, Google, Corus, NBCUniversal, Sony Pictures, Viacom18, RAI, France TV, TVE, Televisa, and SBT**
- ✓ Partners (*licensing and merchandising consumer products in various categories*) with global market leaders, such as **Simba Dickie Group, Ferrero, Spin Master, Hachette (Little, Brown and Company), Penguin Random House, Clementoni, etc.**

120 countries have already broadcast Masha and the Bear, and the series official YouTube channel is among the **top 10 most subscribed** in the world

\$1.5 million a month from *advertising on YouTube*
Another large portion of **the project's revenues** comes from *licensed merchandising*, such as food products, stationery, toys and other products

Masha + Kasha episode: **1.5 bln views** on YouTube, **17th most watched** YouTube video of all time, most views of any non-musical or Russian-language video

2 spin-offs: **Masha's Tales** (2012) – the viewer to the world of Russian folk fairy tales – and **Masha's Spooky Stories** (2014) – "scary" but funny and instructive stories



3. Franchising

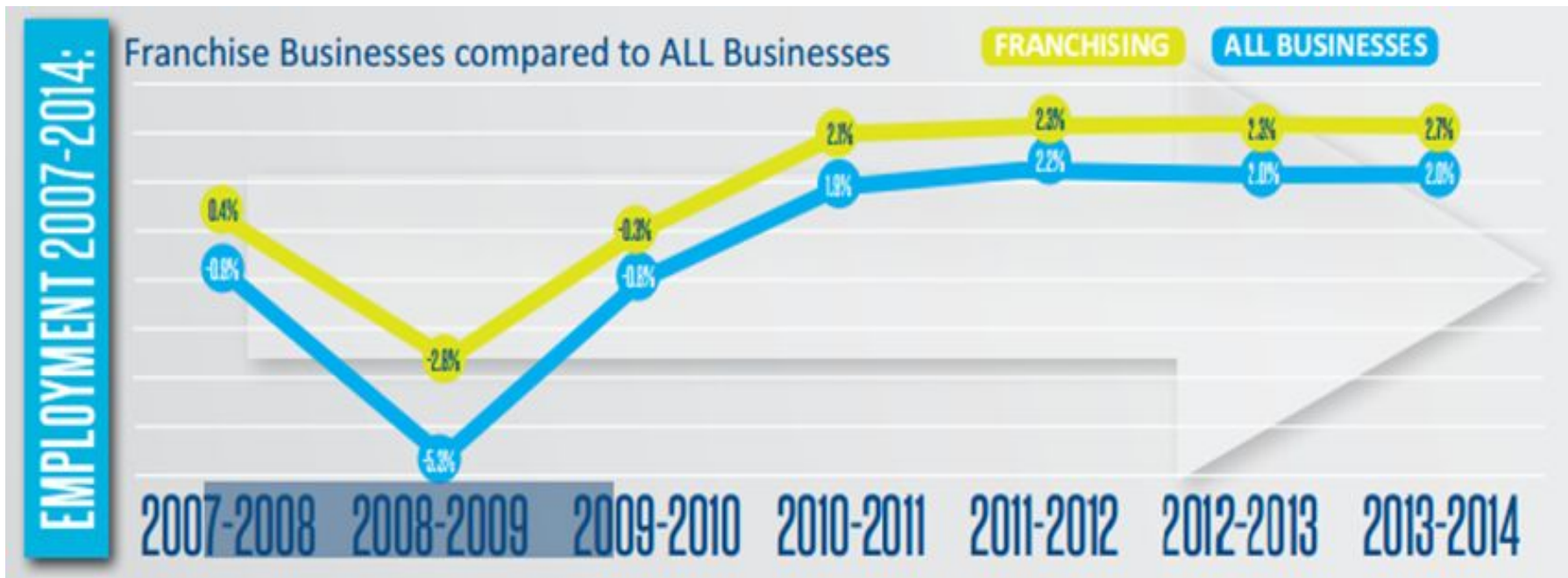
A franchise is *a type of license* that a party (franchisee) acquires to allow them to have access to a business's (the franchiser) proprietary knowledge, processes and trademarks in order to allow the party to sell a product or provide a service under the business's name. In exchange for gaining the franchise, the franchisee usually pays the franchisor initial *start-up* and *annual fees*.

Is Buying A Franchise Wise?

- Low financial risks
- Low-cost way to assess market potential
- Avoid tariffs, NTBs, restrictions on foreign investment
- Maintain more control than with licensing
- Franchisee provides knowledge of local market
- Limited market opportunities/profits
- Dependence on franchisee
- Potential conflicts with franchisee
- Possibility of creating future competitor

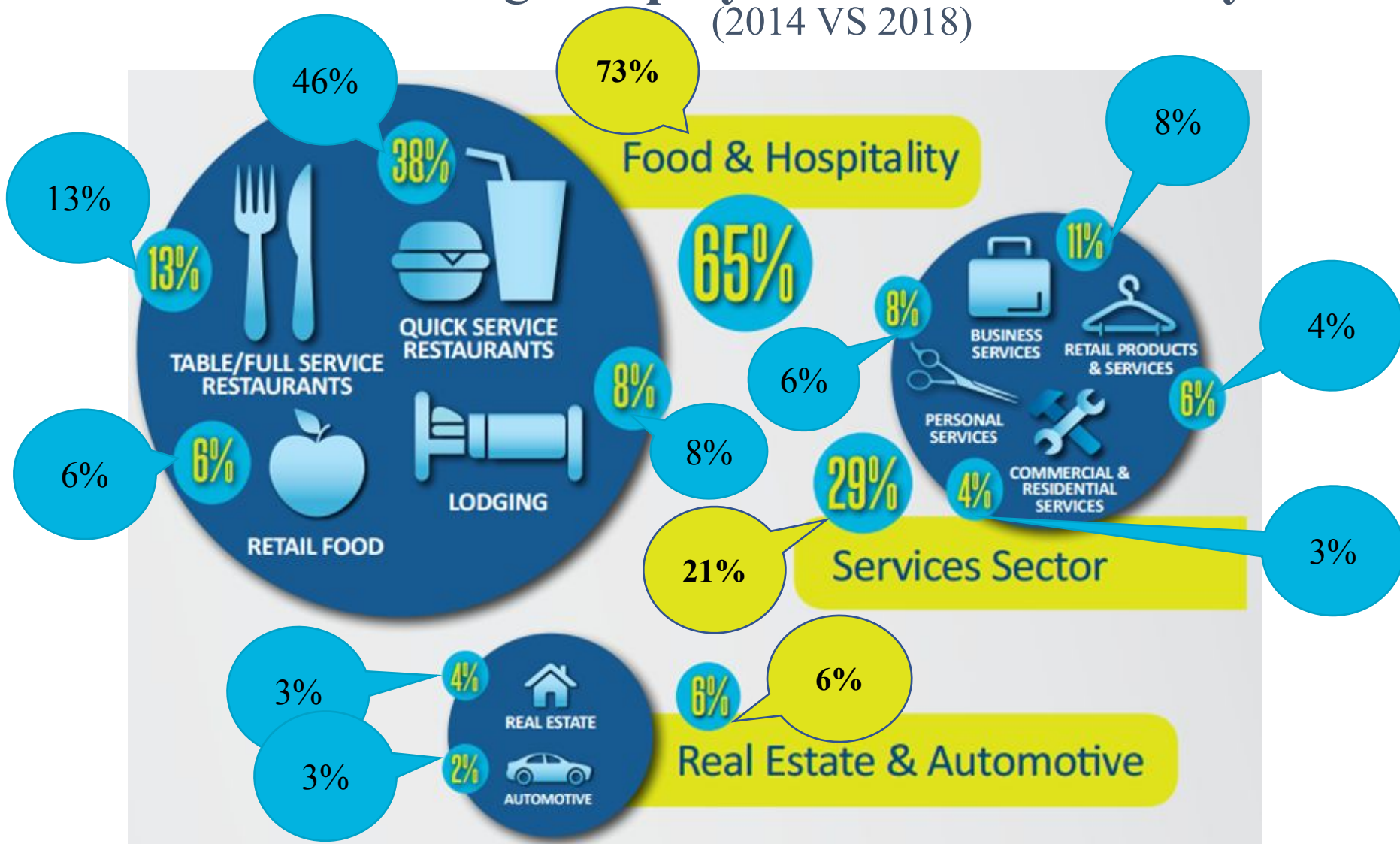


FRANCHISE BUSINESSES CREATE JOBS FASTER THAN OTHER BUSINESSES





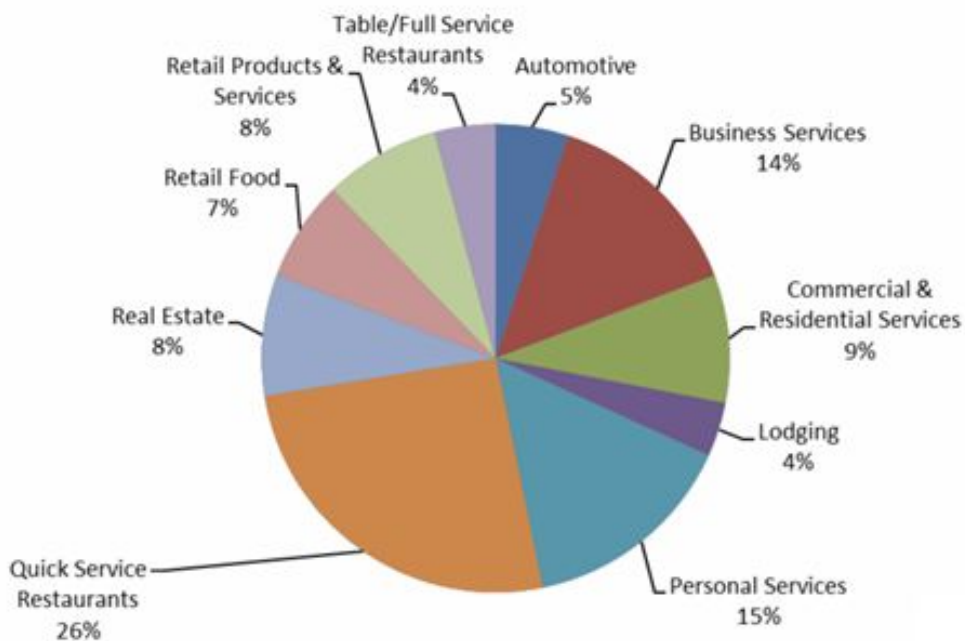
Franchising: Employment Distribution by Sector (2014 VS 2018)



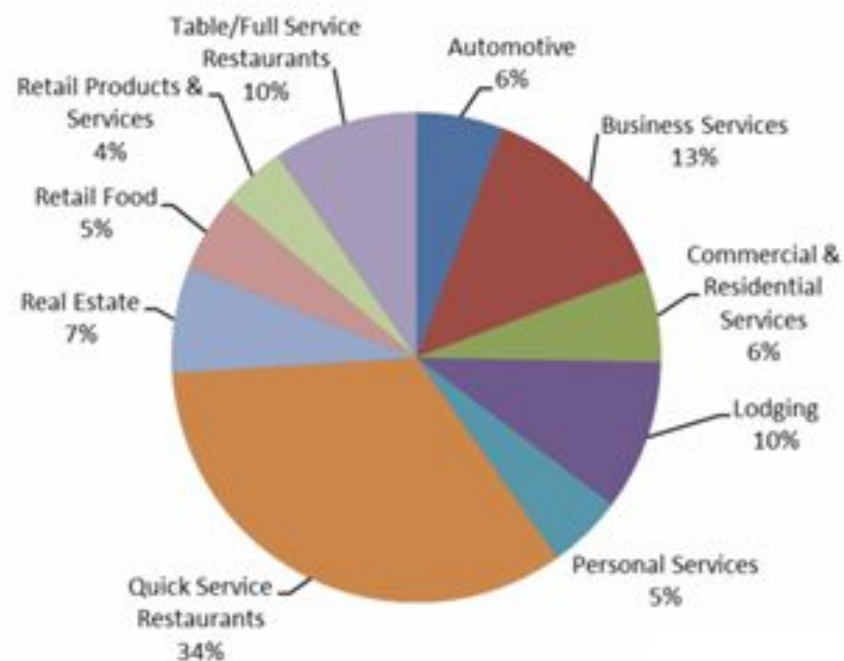


Franchising

Establishments Distribution by Sector



Output Distribution by Sector





Franchising

Top 10 Global Franchises for 2015

1	Anytime Fitness
2	7-Eleven
3	Subway
4	Pizza Hut
5	Auntie Anne's Hand-Rolled Soft Pretzels
6	KFC
7	McDonald's
8	GNC
9	Circle K
10	Papa John's



Top 10 Global Franchises for 2018

1	McDonald's
2	7-Eleven
3	KFC
4	Pizza Hut
5	Subway
6	Kumon Math & Reading Centers
7	RE/MAX LLC
8	Dairy Queen
9	Dunkin'
10	Baskin-Robbins





Top 500 European Franchises - Ranking

Top 10 European Franchises in Europe

Top 10 Global Franchises in Europe

RANK	FRANCHISE NAME	COUNTRY	INDUSTRY
1	7-Eleven	USA	Retail
2	SUBWAY	USA	Food
3	McDonald's	USA	Food
4	Kumon	Japan	Education
5	KFC	USA	Food
6	Pizza Hut	USA	Food
7	Burger King	USA	Food
8	Domino's Pizza	USA	Food
9	Spar	Netherlands	Food
10	Dunkin' Donuts	USA	Food

RANK	FRANCHISE NAME	COUNTRY	INDUSTRY
9	Spar	Netherlands	Food
24	Benetton Group	Italy	Retail
25	Bata	Czechia	Retail
26	LCF Clubs	UK	Children's
31	Etam	France	Retail
32	Dia	Spain	Food
34	Point S	France	Automotive
36	Europcar	France	Automotive
38	Sport 2000	France	Retail
41	The Body Shop	UK	Health & Beauty
43	BayWa	Germany	Retail
45	Swarovski	Austria	Retail
46	Ad-Autodienst	Germany	Automotive
47	Mango	Spain	Retail
48	Intermarché	France	Food
50	Fotoprix	Spain	Photo, Frame, Art



Franchise Opportunities in Russia

Most popular among buyers of franchises trademarks

RBC annual rating of the most dynamically developing franchises in Russia (based on Rospatent data, 2017)

Место	Торговая марка	Число заключенных контрактов в 2017 году
1	1С	698
2	«Додо Пицца»	128
3	«Гемотест»	101
4	«Бегемот»	96
5	«Чебаркульская птица»	87
6	«220 вольт»	66
7	«Сибирская заправка»	49
8	Автосервис «Вилгуд»	47
9	«Хеликс»	45
10	«Национальный кредит»	41

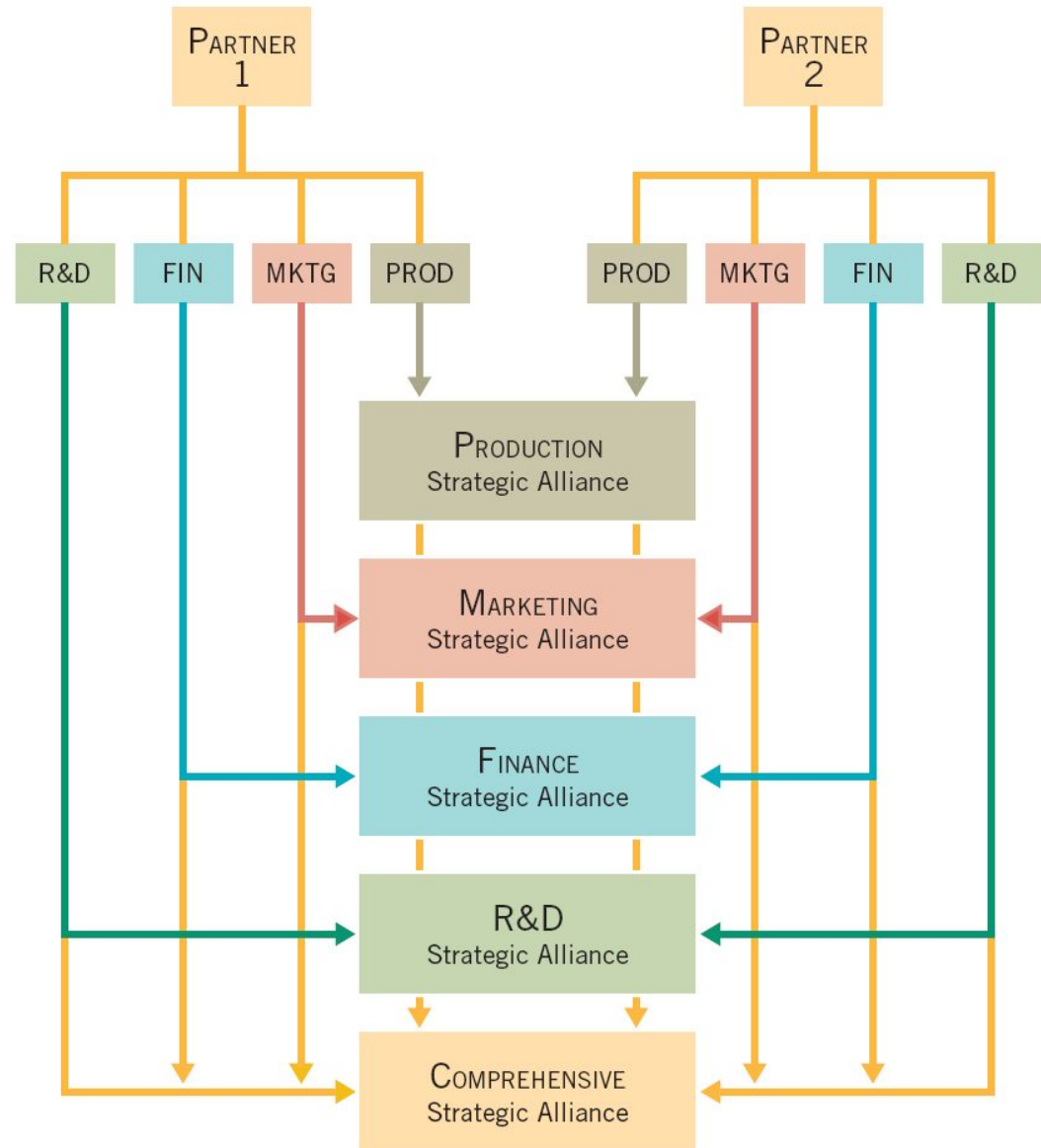


4. Strategic Alliances

- A **strategic alliance** is a business arrangement whereby two or more firms choose to cooperate for their mutual benefit
- A **joint venture (JV)** is a special type of strategic alliance in which two or more firms join together to create a new business entity that is legally separate and distinct from its parents



The Scope of Strategic Alliances





Approaches to Joint Management

Shared
management
agreements

Each partner fully and actively participates in managing the alliance

Assigned
arrangements

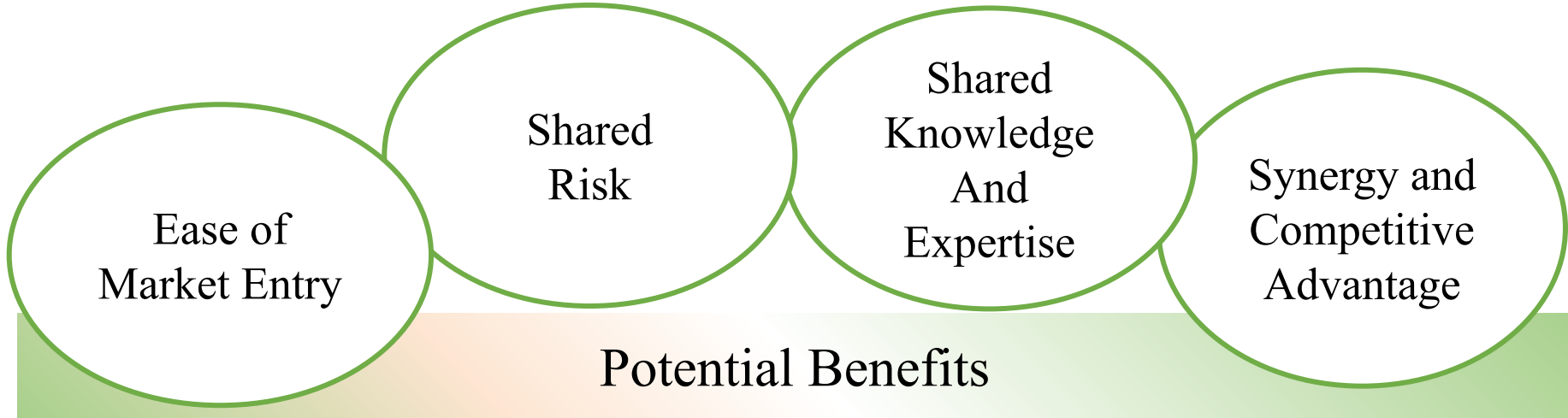
One partner assumes primary responsibility for the operations of the strategic alliance

Delegated
arrangements

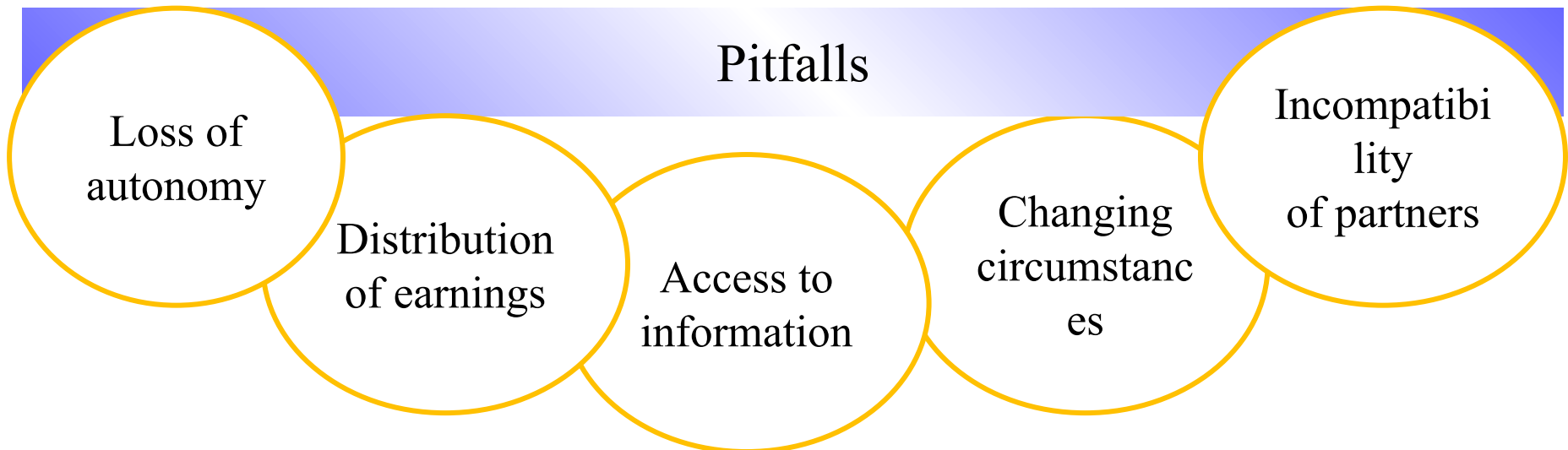
The partners agree not to get involved in ongoing operations and so delegate management control to the executives of the joint venture itself



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Strategic Alliances





5. Specialized Entry Modes

Contract manufacturing

Advantages

- Low financial risks
- Minimize resources devoted to manufacturing
- Focus firm's resources on other elements of the value chain

Disadvantages

- Reduced control (may affect quality, delivery schedules, etc.)
- Reduce learning potential
- Potential public relations problems

Management contract

Advantages

- Focus firm's resources on its area of contracts
- Minimal financial exposure

Disadvantages

- Potential returns limited by contract expertise
- May unintentionally transfer proprietary knowledge and techniques to contractee

Turnkey project

Advantages

- Focus firm's resources on its area of expertise
- Avoid all long-term operational risks

Disadvantages

- Financial risks (Cost overruns)
- Construction risks (Delays and Problems with suppliers)



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CM is used in situations when *one company arranges for another company* in a different country *to manufacture its products*; this is also known as **international subcontracting**. The company provides the manufacturer with all the specifications, and, if applicable, also the materials required for the production process.

Many *industries* use this process, especially the *aerospace, defense, computer, semiconductor, energy, medical, food manufacturing, personal care, packaging, and automotive fields*.

In the *semiconductor industry*, this practice is called the **foundry model**.

Contract manufacturing

Index of the contract

Parties	
Preamble	10. Intellectual Property
Clauses	11. Confidentiality
	12. Termination
1. Appointment	13. Subcontracting
2. Orders	14. Force Majeure
3. Obligations of the Manufacturer	15. Resolution of disagreement
4. Inspection & testing	16. Applicable law and competent jurisdiction
5. Delivery terms	17. Language
6. Rejection of products	
7. Warranty and indemnity	
8. Prices and payment terms	Signatures
9. Variations of products	Annexes





6. Foreign Direct Investment

Methods for FDI

Building new facilities (the **greenfield strategy**)

Participating in **a joint venture**

Buying existing assets in a foreign country (**acquisition strategy**)

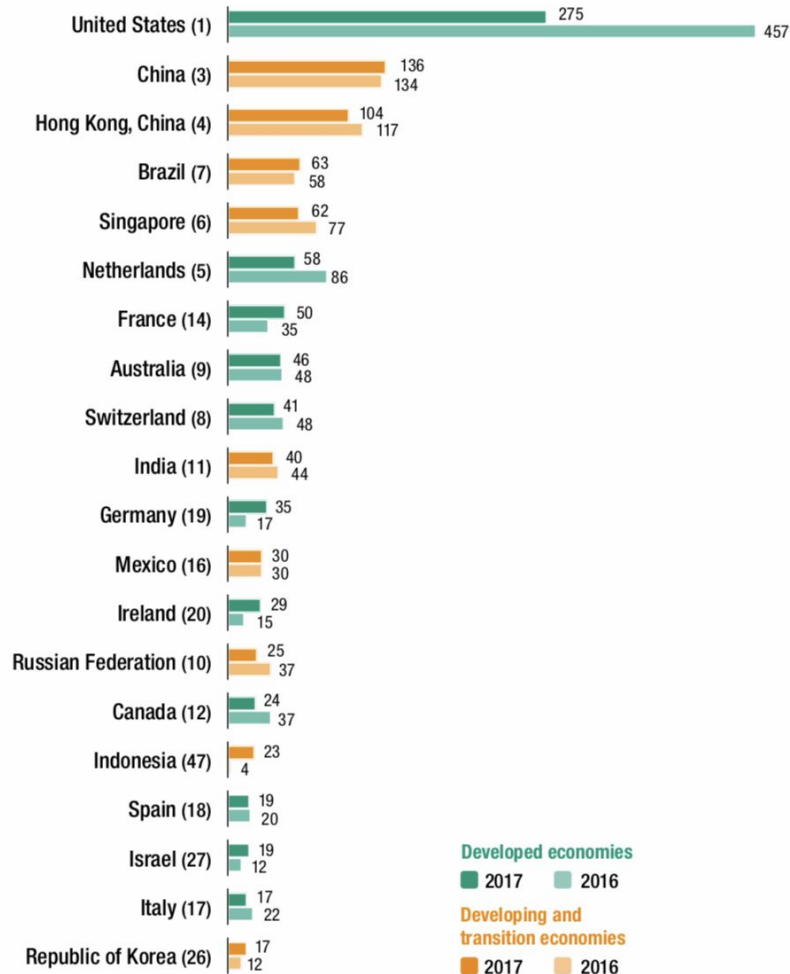
Advantages & Disadvantages

- High profit potential
- Maintain control over operations
- Acquire knowledge of local market
- Avoid tariffs and NTBs
- High financial and managerial investments
- Higher exposure to political risk
- Vulnerability to restrictions on foreign investment
- Greater managerial complexity

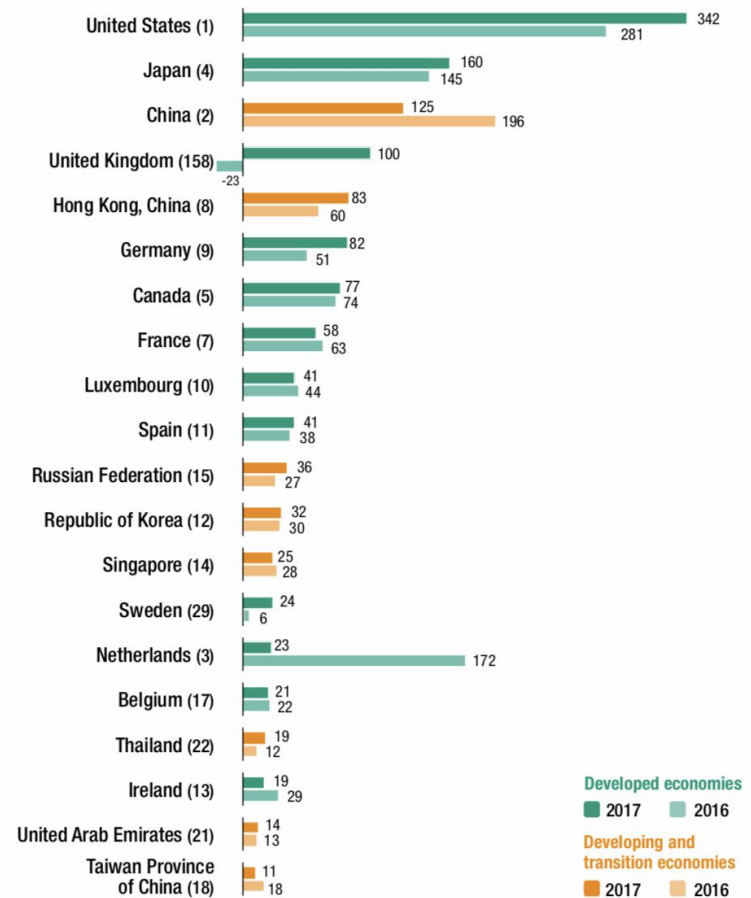


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FDI inflows: top 20 host economies, 2016 and 2017 (billions of dollars)



FDI outflows: top 20 host economies, 2016 and 2017 (billions of dollars)



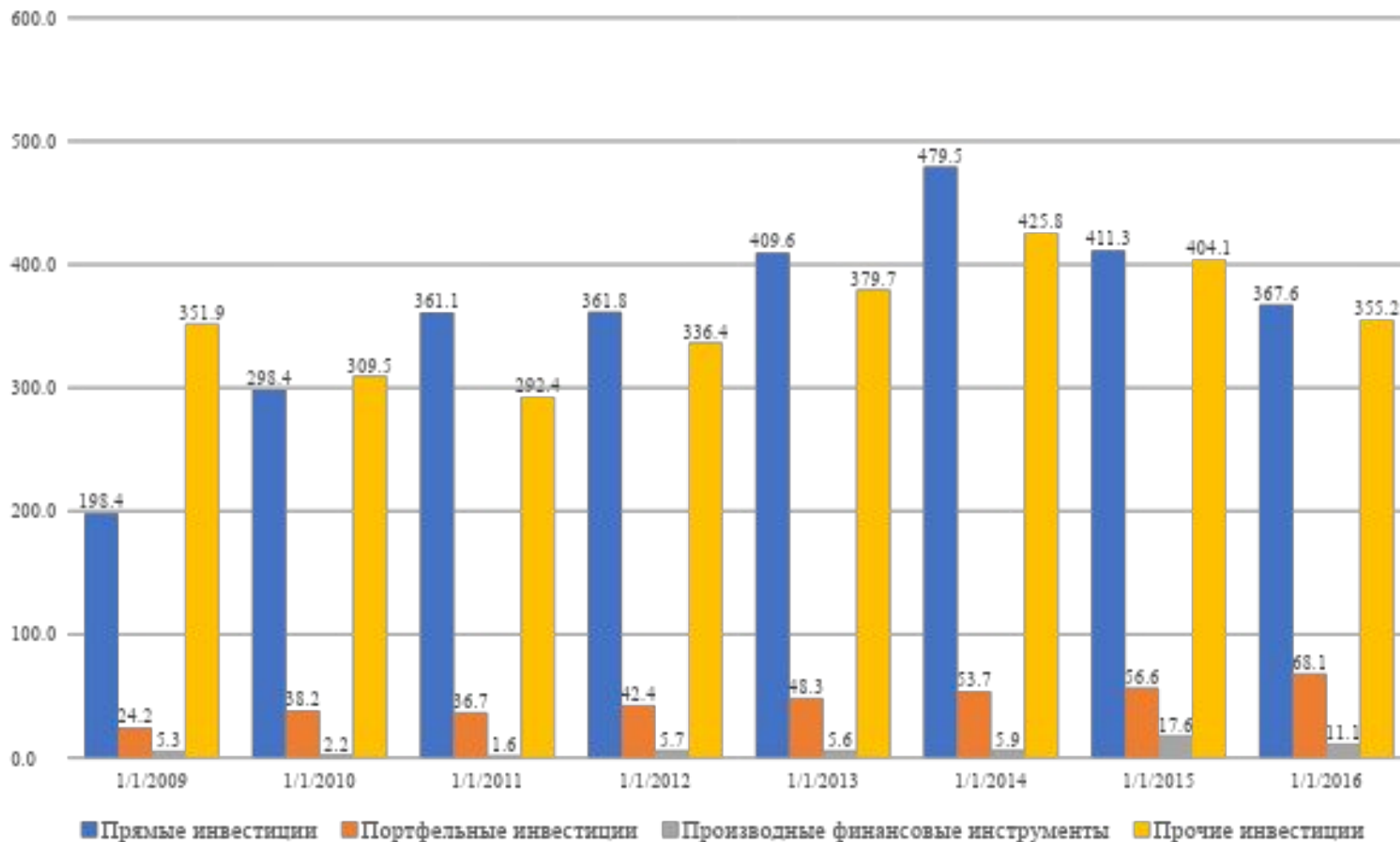
Developed economies
 ■ 2017 ■ 2016
 Developing and transition economies
 ■ 2017 ■ 2016



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FI: Key figures on Russian

FI outflows: Russia investing abroad, \$ bln

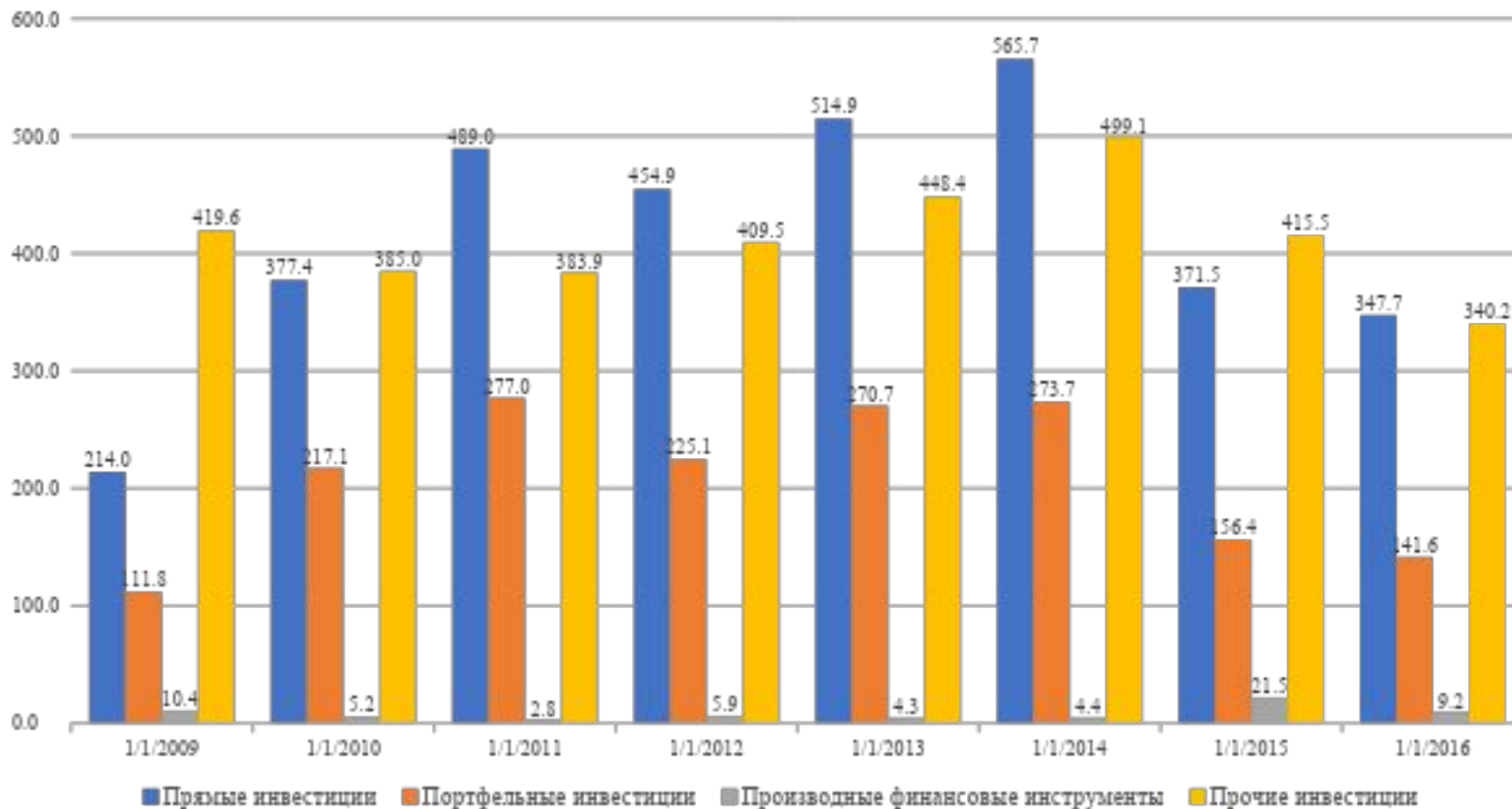




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FI: Key figures on Russian

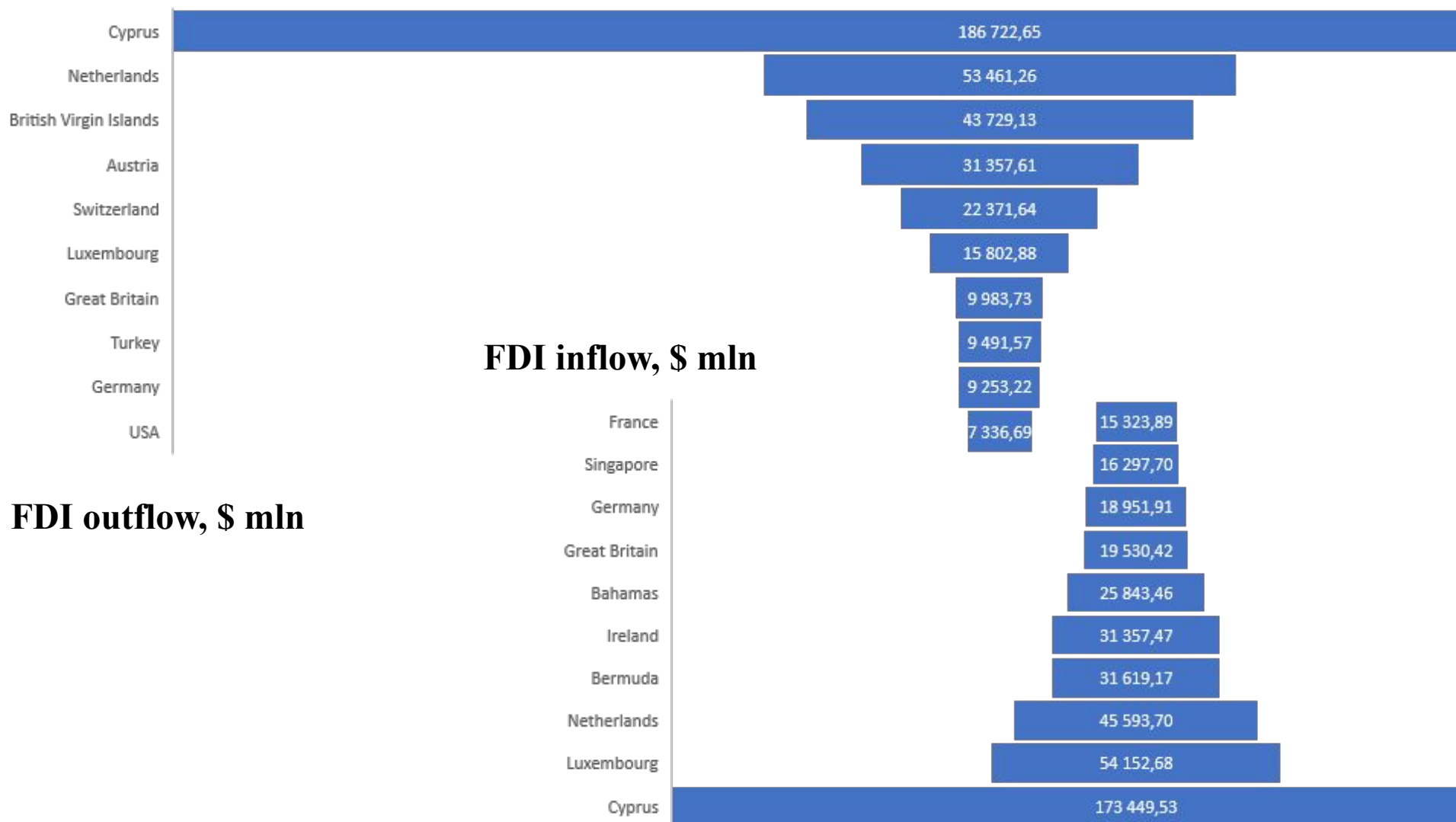
FI inflows to Russia, \$ bln





Lecture 2. Market entry modes for international business

Russia's main investment partners in 2018





What are the main incentives to attract foreign investment in Russia?

In recent years, the Russian government has been actively promoting investments in certain fields of the Russian economy and specific territories, irrespective of whether the investments are of domestic or foreign origin.

The most noteworthy government efforts in this regard include:

- ✓ **The Skolkovo Innovation Center**, a flagship project of the government, sometimes also referred to as the Russian “Silicon Valley”, aimed at promoting research and development activities in the fields of energy efficiency, strategic computer technologies, biomedicine, nuclear and space technologies;
- ✓ **Special Economic Zones (“SEZs”)** designed to attract investments into priority sectors of the Russian economy (such as innovative technologies, ports and recreational complexes);
- ✓ **Territory Development Zones (“TEZs”)** aimed at boosting the development of certain territories; and
- ✓ **Advanced Development Territories (“ADTs”)** aimed at incentivizing investment into more depressed regions, such as the Russian Far East and Eastern Siberia.



Among other things, foreign investors may enjoy certain benefits ...

- Recently introduced concept of **special investment contracts** (“SPICs”). Under SPICs, a private investor undertakes to create, modernize or operate a production facility in Russia, while the Russian federal (or regional) government assumes the obligation to provide a private investor with certain benefits (e.g., a stable and preferential tax regime) to facilitate product manufacturing. SPICs are concluded for a maximum term of 10 years and have been visible in the pharmaceuticals, chemicals, health care, machinery, light industry and electronics.
- **Regional investment projects** (“RIPs”). Participants in RIPs undertake to invest in the production of goods within a certain territory, and in turn are granted a number of tax benefits. Initially, RIPs were designed to promote investments in the economies of the Russian Far East and Eastern Siberia, but investors can now implement RIPs in any region of Russia.
- **Public-private partnership** (“PPP”) mechanisms. Until recently, the only PPP mechanism available at the federal level was the concession agreement. The concession model implies that ownership title to a facility remains with the public partner. This drawback limited the possibility for implementing internationally recognized PPP models and hindered the broad expansion of concession agreements in Russia, forcing Russian regions to develop their own more sophisticated PPP legislation. To resolve this situation, on 1 January 2016, new PPP legislation entered into force, establishing the general legal framework for PPP projects at the federal level and, among other things, allowing the transfer of a facility’s ownership title to a private partner. This opens opportunities for private investors to employ a variety of models in structuring PPP projects, which were previously not available.

The end