



**Plekhanov Russian University of Economics**

## **INTERNATIONAL BUSINESS**

*Lecture*

### **Strategies for Entering Foreign Markets**

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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

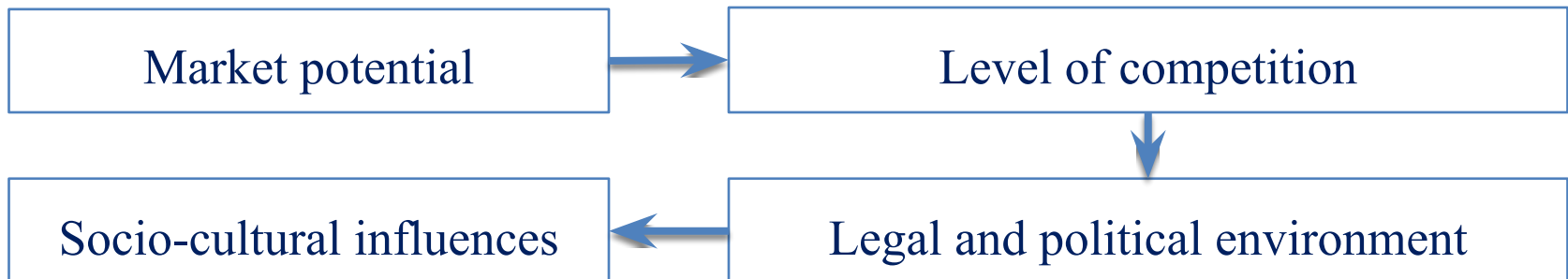


## Assessing New Market Opportunities

### 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





## INTERNATIONAL BUSINESS

### Strategies for Entering Foreign Markets

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## 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*



## Choosing 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**



# 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

Direct exporting

Indirect  
exporting

Intracorporate  
transfers



# INTERNATIONAL BUSINESS

## Strategies for Entering Foreign Markets

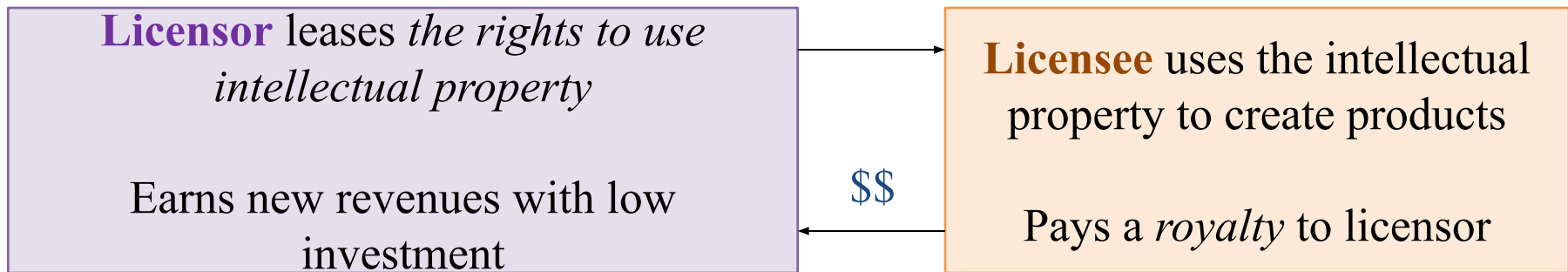
# Forms of Exporting







# 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



# 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?

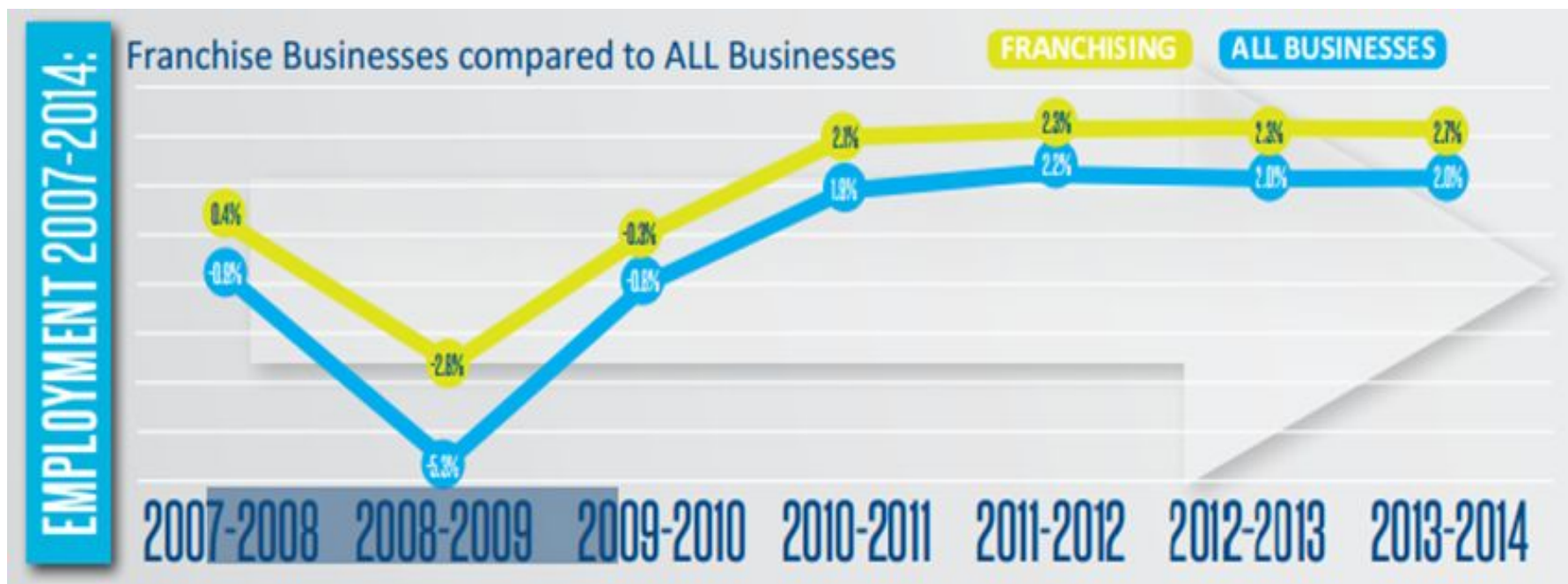
- Low financial risks
- Low-cost way to assess market potential
- Avoid tariffs, NTBs, restrictions on foreign investment
- Maintain more control than with licensing
- Franchisee provides knowledge of local market
- Limited market opportunities/profits
- Dependence on franchisee
- Potential conflicts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



# INTERNATIONAL BUSINESS

## Strategies for Entering Foreign Markets

# FRANCHISE BUSINESSES CREATE JOBS FASTER THAN OTHER BUSINESSES





# INTERNATIONAL BUSINESS

## Strategies for Entering Foreign Markets

# EMPLOYMENT DISTRIBUTION by sector, 2014





# Franchising

## Top 10 Global Franchises for 2015

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



**Auntie Anne's**  
PRETZEL PERFECT

**GNC**  
LIVE WELL





# Franchising

## Top 10 Global Franchises for 2016

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<b>1</b>	<b>Jimmy John's Sandwiches</b>
<b>2</b>	<b>Hampton by Hilton</b>
<b>3</b>	<b>Supercuts</b>
<b>4</b>	<b>Servpro</b>
<b>5</b>	Subway
<b>6</b>	McDonald's
<b>7</b>	7-Eleven Inc.
<b>8</b>	<b>Dunkin' Donuts</b>
<b>9</b>	<b>Denny's Inc.</b>
<b>10</b>	Anytime Fitness



# 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



# 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

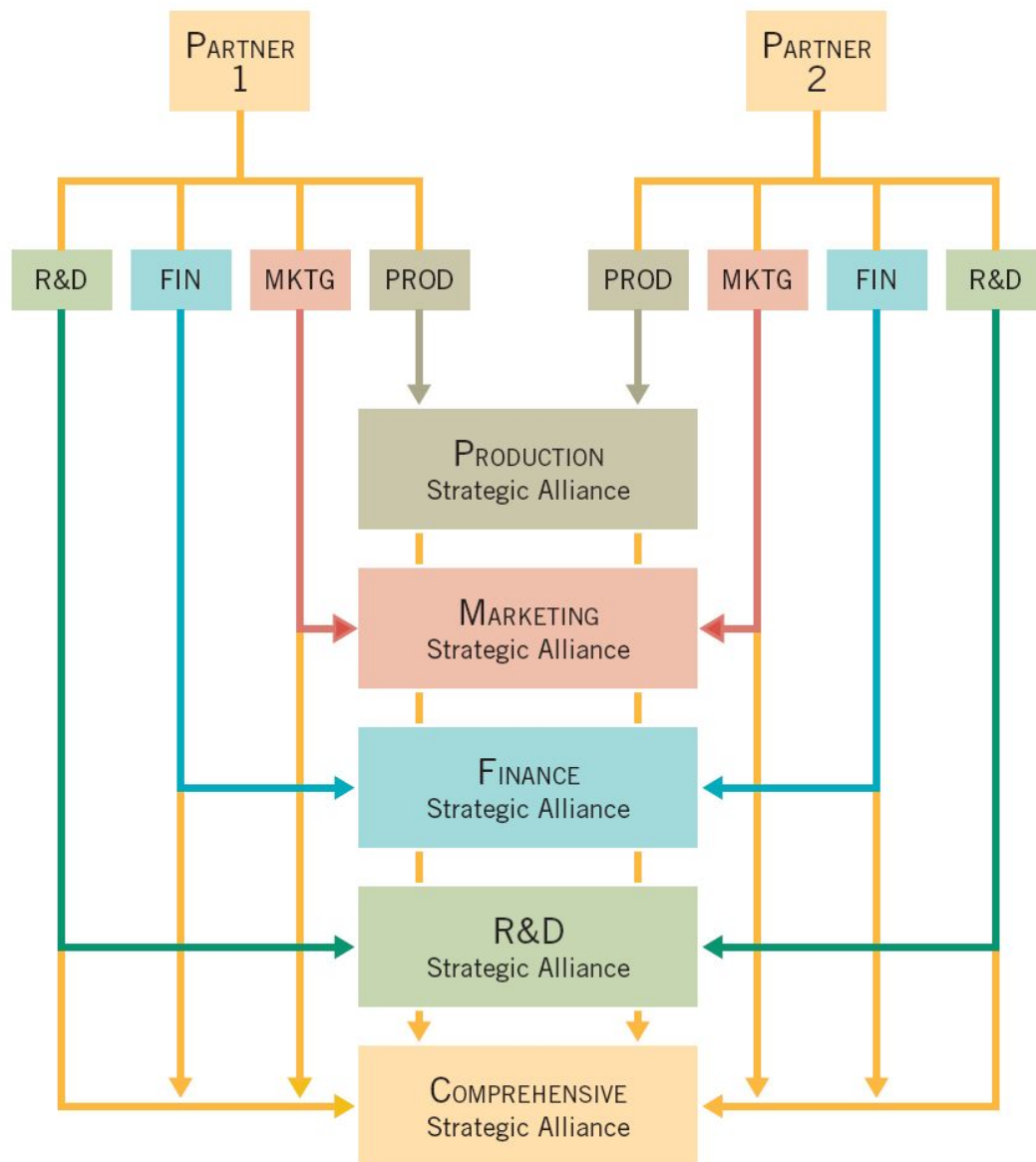




# INTERNATIONAL BUSINESS

## Strategies for Entering Foreign Markets

# 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



# INTERNATIONAL BUSINESS

## Strategies for Entering Foreign Markets

Ease of  
Market Entry

Shared  
Risk

Shared  
Knowledge  
And  
Expertise

Synergy and  
Competitive  
Advantage

Potential Benefits

## Strategic Alliances

Pitfalls

Loss of  
autonomy

Distribution  
of earnings

Access to  
information

Changing  
circumstances

Incompatibility  
of partners



# Specialized Entry Modes

Contract  
manufacturing

Management  
contract

Turnkey  
project

## 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

## Advantages

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

## Disadvantages

- Potential returns limited by contract terms
- May unintentionally transfer proprietary knowledge and techniques to contractor
- Construction risks (Delays and problems with suppliers)

## Advantages

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

## Disadvantages

- (Cost overruns)
- Construction risks (Delays and problems with suppliers)

THANK  
YOU!

