International Marketing

BMA6100-20

Market Entry by Export

Summary of the previous lectures

- How to assess the attractiveness of markets.
- Market research techniques in international markets.
- Analysis of the competitive advantage in international environment.
- Socio-Cultural Analysis (Hofstede Framework)

What is in this lecture?

- By the end of this lecture you should be able to:
- Explain the different approaches in internationalisation.
- Describe the differences between the main market entry modes.
- Discuss the advantages and disadvantages of the main export modes.
- Discuss the criteria that should be used to select export partners.

Entry Modes

- 'An institutional arrangement for the entry of a company's products and services into a new foreign market.
- The main types of entry are **export**, **intermediate** and **hierarchical** modes.' (Hollensen, 2014: 332)

Philosophies in Market Entry

- What kind of strategy are available? (Root, 1994)
- Using the same entry mode for all foreign markets and ignoring the heterogeneity of the individual foreign markets. (Naïve rule)
- The manager uses a workable entry mode for each foreign market, typically starts with a lower risk entry mode. (Pragmatic rule)
- All alternative entry modes are systematically compared and evaluated before any choice is made. (Strategic rule)

Entry Modes at a glance

- Export mode: Manufacturing the products in the domestic market (or the third country) and then transfer directly or indirectly to the host market. (This lecture)
- Intermediate mode: Sharing and transferring technology, skills, knowledge and risk with a local partner in the host market in order to enter the foreign market (Lecture7)
- Hierarchical mode: The firm owns and controls the foreign entry mode completely (Lecture 8)

From the assessment brief

This is the outline of your document, but you can modify it if you wish. Please note that your tutor can not specify the number of word count for each section:

1- **Executive Summary**

2- **Macro Environmental Analysis. This includes political, economic, sociocultural, regulatory and any other factors that might influence your business.**

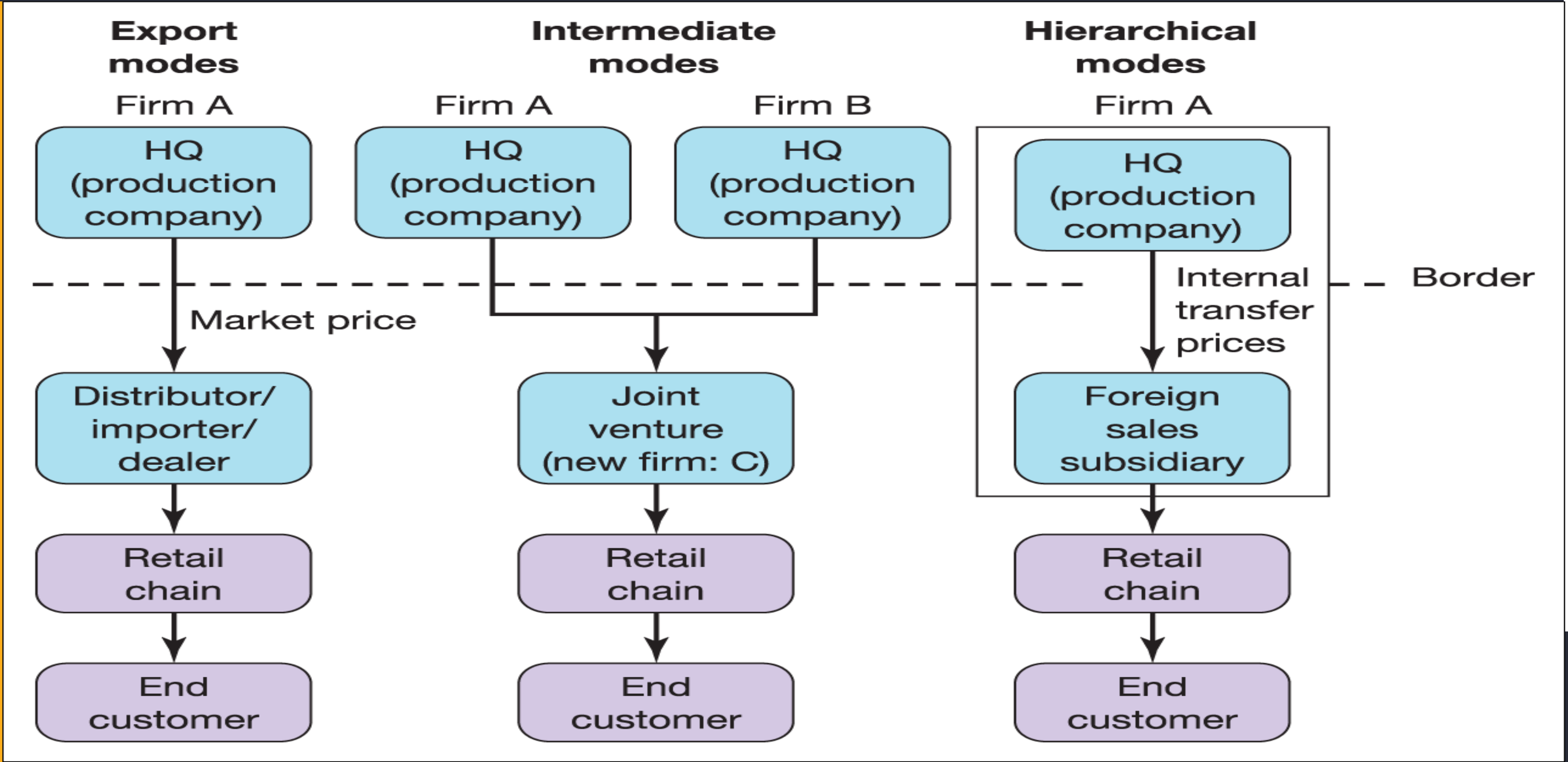
3- **Analysis at micro level. This includes more detailed analysis of the market, such as competitiveness of the market, market trends, consumer behaviour data etc**

4- **After completing section 2&3, what would be the overall assessment on attractiveness of the market? Summarise the risks, and opportunities.**

5- **Market entry strategy**

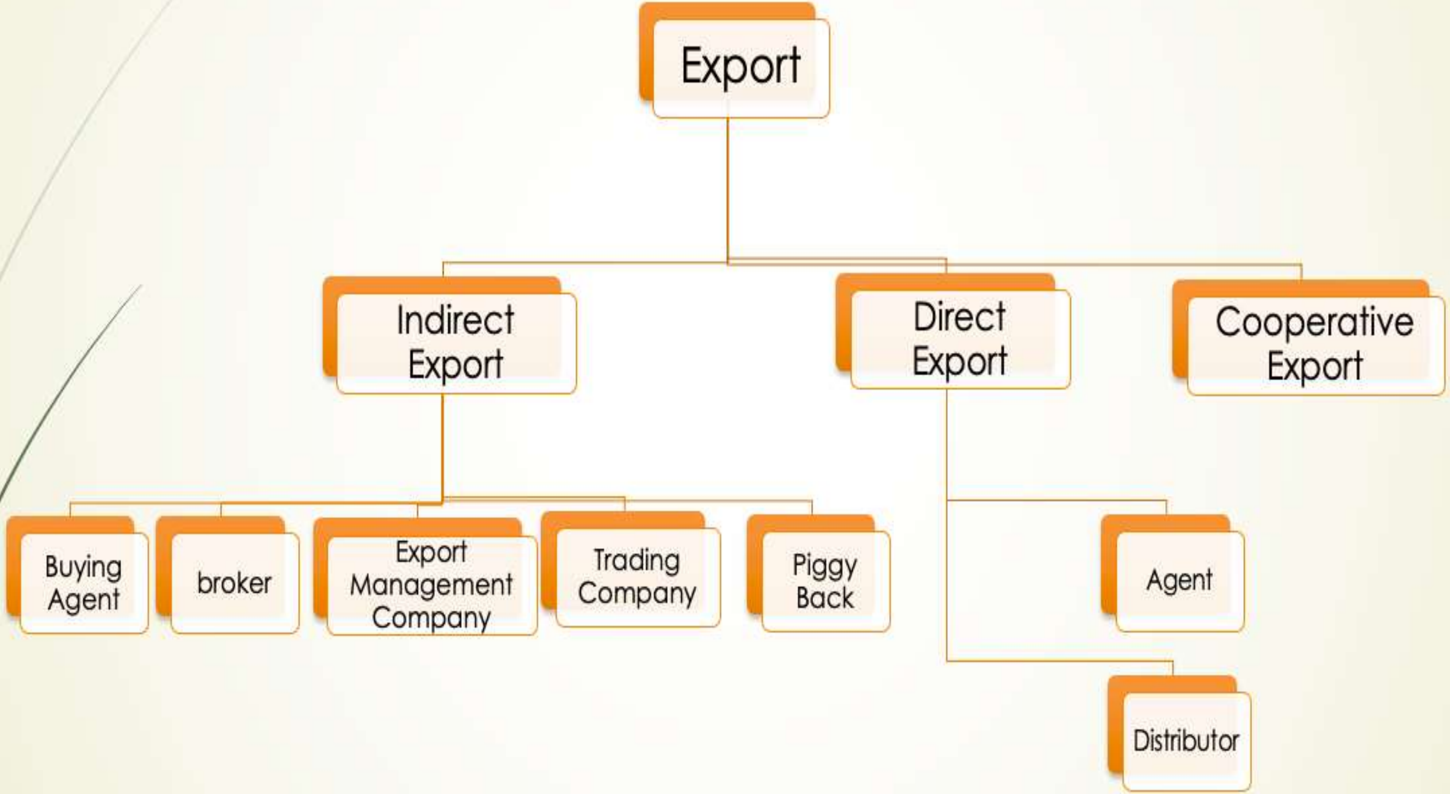
6- **Action plan to sell the products. Depending on the market entry strategy, how should the company sell the products?**

Entry Mode Comparison



Types of Export

- **Indirect export:** The manufacturer is not involved in the exporting activities. Instead another domestic company in the domestic market(i.e. trading company, export management company) performs this activity.
- **Direct export:** The manufacturer controls and deals with export activities: documentation, delivery and pricing.
- **Cooperative export:** Collaborative agreements with other firms (export marketing groups) concerning the performance of exporting functions.


Export
Indirect Export
Direct Export
Cooperative Export
Buying Agent
broker
Export Management Company
Trading Company
Piggy Back
Agent
Distributor

Types of Indirect Export

- export buying agent
- broker
- export management company
- trading company
- piggyback

Broker

- Another type of agent. Their task is to bring the buyer and seller together and perform the contractual functions.
- The broker does not normally handle the transport.
- The commission charge is between 2%-5%

Export Management Company

- These are specialist export companies. They conduct business in the name of each business they represent.
- These companies are normally specialised in particular geographical areas.
- They operate on commission.
- They are sales representative of the manufacturer in a specialised geographical area.
- https://www.allianceexperts.com/en/ten/export-management-company/

Trading Companies

- Companies that are performing diverse range of activities in international marketing such as:
- Shipping, warehousing, finance, technology transfer, planning resource development, insurance, consultancy, facilitating joint ventures etc.

Piggyback

- An abbreviation of 'pick a back'.
- It is a form of distribution in which an inexperienced company (the rider) deals with a large company (the carrier) which already operates in certain foreign markets and is willing to act on behalf of the rider that whishes to export to those markets.
- Normally the piggyback is used between unrelated products and non-competitive companies.
- https://www.export.gov/article2?id=Indirect-Exporting

Grana Padono and Heinz

- Grana Padono is using Heinz to distribute its products in Europe.

Direct Export

- The manufacturer sells directly to an importer, distributor or an agent located in the foreign target market.
- The manufacturer handles the documentations, transport and other related export tasks.

Types of direct export

Distributors

Agents

Distributor

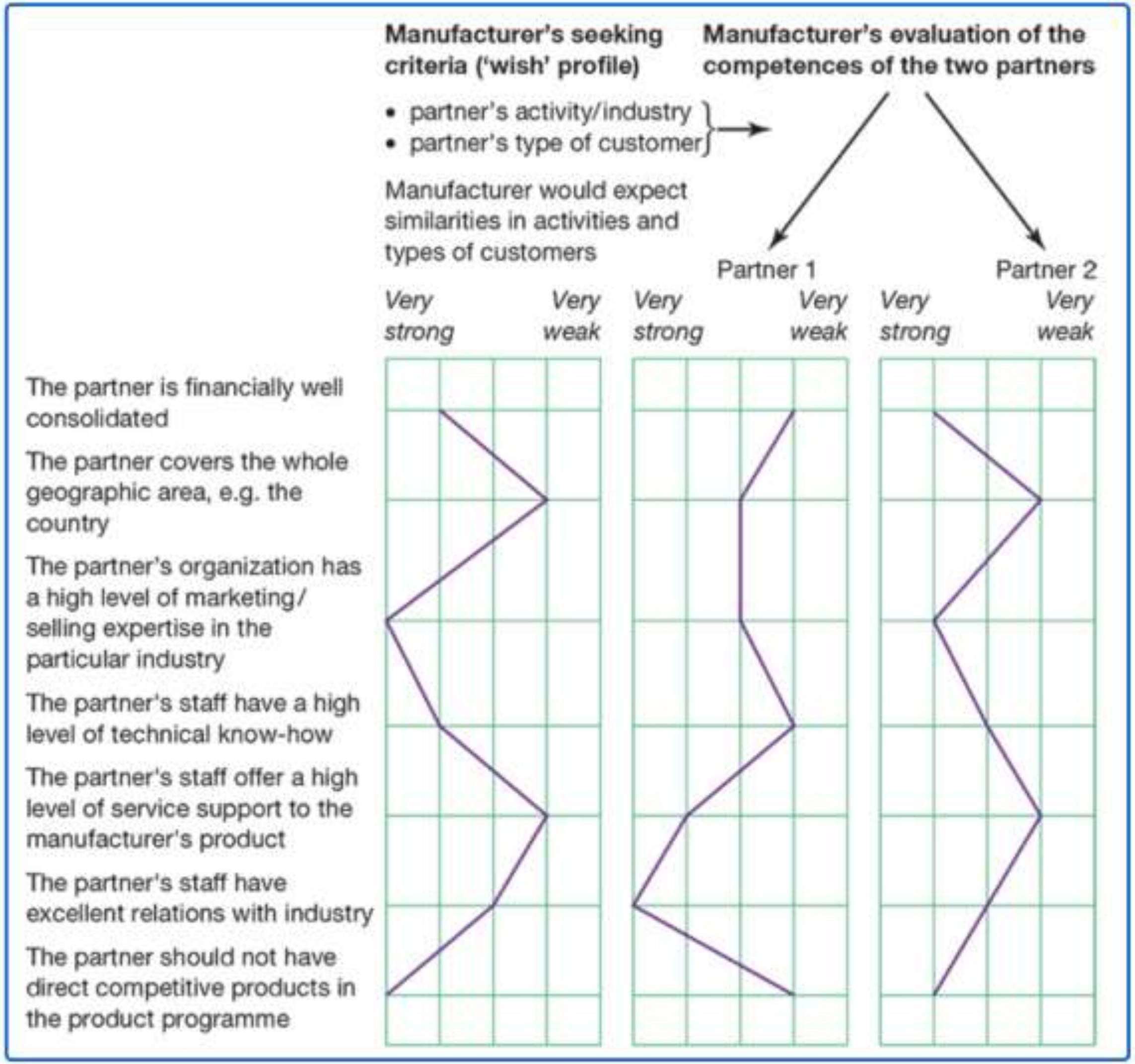
- They are normally the exclusive representative of the manufacturer in the foreign market .
- They normally have the freedom to choose their customer and price.
- They will buy and stock the products from the manufacturer (exporter).

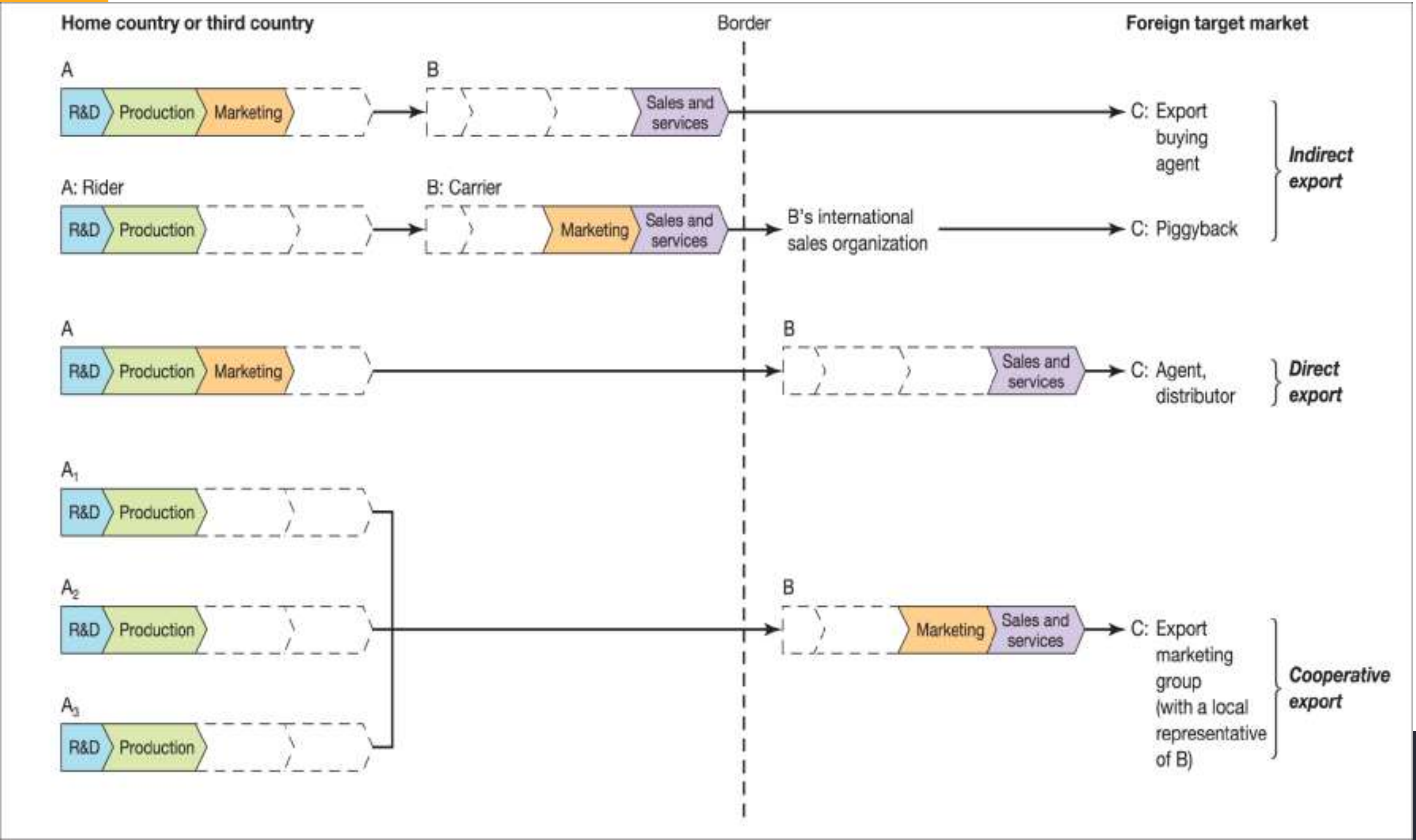
Agent

- An independent company that sells on to customers on behalf of the manufacturer. They normally do not stock the product.
- The profits come from a commission (5%-10%).
- Agents normally cover rare geographical areas.
- The responsibility of transport, finance, insurance etc. is on the exporter.
- The agent is normally used at the early stage of internationalisation because they have extensive market knowledge.

Cooperative Export

- Attempt by export marketing groups (usually SMEs) to enter foreign markets for the first time by cooperating with each other.
- Manufacturer A1, A2, A3 have their core competency in the following product lines and form cooperative export:
- A1- Living room furniture
- A2- Dining room furniture
- A3- Bedroom furniture


Manufacturer's seeking criteria ('wish' profile)
Manufacturer's evaluation of the competences of the two partners
• partner's activity/industry
• partner's type of customer
Manufacturer would expect similarities in activities and types of customers
Partner 1
Partner 2
Very strong
Very weak
Very strong
Very weak
Very strong
Very weak
The partner is financially well consolidated
The partner covers the whole geographic area, e.g. the country
The partner's organization has a high level of marketing/ selling expertise in the particular industry
The partner's staff have a high level of technical know-how
The partner's staff offer a high level of service support to the manufacturer's product
The partner's staff have excellent relations with industry
The partner should not have direct competitive products in the product programme


Home country or third country
Border
Foreign target market
A
R&D
Production
Marketing
B
Sales and services
C: Export buying agent
Indirect export
A: Rider
R&D
Production
B: Carrier
Marketing
Sales and services
B's international sales organization
C: Piggyback
A
R&D
Production
Marketing
B
Sales and services
C: Agent, distributor
Direct export
A_1
R&D
Production
A_2
R&D
Production
A_3
R&D
Production
B
Marketing
Sales and services
C: Export marketing group (with a local representative of B)
Cooperative export