Marketing Selection & Entry Strategy

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Session Objectives

- How global marketing management differs from international marketing management
- The increasing importance of international strategic alliances
- The need for planning to achieve company goals
- The important factors for each alternative market-entry strategy

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Concept		EPRG Schema
Domestic Market Extension	➔	**(Ethnocentric)**
Multi-Domestic Market	➔	**(Polycentric)**
Global Marketing	➔	**(Regio/Geocentric)**

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Trends in global markets

- Global Marketing Management thought has undergone substantial revision
- 1970s: “standardization vs. adaptation”
- 1980s: “globalization vs. localization” or “Think local, act local”
- 1990s: “global integration vs. local responsiveness”
- The basic issue is whether the global homogenization of consumer tastes allowed global standardization of the marketing mix

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The Nestle Way

- Nestlé sells more than 8,500 products produced in 489 factories in 193 countries
- Nestlé is the world’s biggest marketer of infant formula, powdered milk, instant coffee, chocolate, soups, and mineral water
- The “Nestlé way” is to dominate its markets can be summarized in four points:
  - Think and plan long term
  - Decentralize
  - Stick to what you know, and
  - Adapt to local tastes

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A Comparison of Assumptions About Global and International Companies

Application	*Global Companies*	*International Companies*
Product Life Cycle	Global product life cycles. All consumers want the most advanced products.	Products are in different stages of the product life cycle in each nation.
Design	International performance criteria considered during design stage.	Adjustments to products initially designed for domestic markets.
Adaptation	Products are adapted to global wants and needs. Restrained concern for product suitability.	Product adaptation is necessary in markets characterized by national differences.
Market Segmentation	Segments reflect group similarities. Group similar segments together. Fewer standardized markets. Expansion of segments into worldwide proportions.	Segments reflect differences. Customized products for each segment. Many customized markets. Acceptance of regional/national differences.

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A Comparison of Assumptions About Global and International Companies

Application	*Global Companies*	*International Companies*
Competition	Ability to compete in national markets is affected by a firm's global position.	Domestic/national competitive relationships.
Production	Globally standardized production. Adaptations are handled through modular designs.	Standardization limited by requirements to adapt products to national tastes.
The Consumer	Global convergence of consumer wants and needs.	Preferences reflect national differences.
Product	Emphasis on value-enhancing distinction.	Products differentiated on the basis of design, features, functions, style, and image.
Price	Consumers prefer a globally standardized good if it carries a lower price.	Consumers willing to pay more for a customized product.

A Comparison of Assumptions About Global and International Companies

Application	*Global Companies*	*International Companies*
Promotion	Global product image, sensitive to national differences and global needs.	National product image, sensitive to national needs.
Place	Global standardization of distribution.	National distribution channels.

SOURCE: Adapted from Gerald M. Hampton and Erwin Buske. "The Global Marketing Perspective," Advances in International Marketing, vol. 2. S. Tamer Cavusgil. Ed. (Greenwich. Conn.: JAL Press. 1987). P. 265-66.

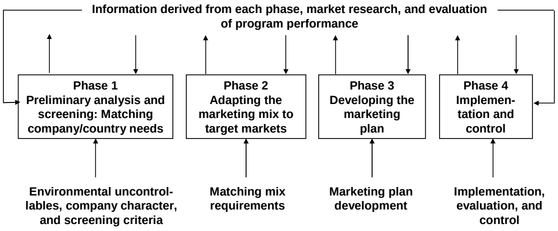
Benefits of Global Marketing

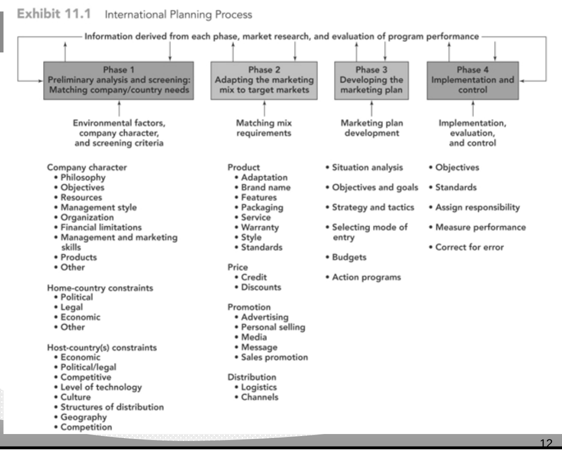
- Economies of scale in production and marketing
- Uniform global image
- Transfer of experience and know-how across countries
- Control and coordination of operations
- Diversification of risk

Types of Global Planning

- Strategic Planning
- Tactical Planning
- Operational Planning

The Global Planning Process





Foreign market entry strategy

- Choice of market entry depends on:
  - Market characteristics
  - Company capabilities and characteristics
  - Commitment of management

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Questions which should be asked…

- Product Markets
  - Can companies easily obtain reliable data on customer tastes and purchase behaviours? Are there cultural barriers to market research? Do world-class market research firms operate in the country?
  - Can consumers easily obtain unbiased information on the quality of the goods and services they want to buy? Are there independent consumer organizations and publications that provide such information?
  - Can companies access raw materials and components of good quality? Is there a deep network of suppliers? Are there firms that assess suppliers' quality and reliability? Can companies enforce contracts with suppliers?
  - How strong are the logistics and transportation infrastructures? Have global logistics companies set up local operations?
  - Do large retail chains exist in the country? If so, do they cover the entire country or only the major cities? Do they reach all consumers or only wealthy ones?

Khanna, T, Krishna G. Palepu, and Jayant Sinha (2005), Strategies That Fit Emerging Markets, Harvard Business Review, June, pp. 63-74 14

Questions which should be asked…

- Product markets
  - Are there other types of distribution channels, such as direct-to-consumer channels and discount retail channels, that deliver products to customers?
  - Is it difficult for multinationals to collect receivables from local retailers?
  - Do consumers use credit cards, or does cash dominate transactions? Can consumers get credit to make purchases? Are data on customer creditworthiness available?
  - What recourse do consumers have against false claims by companies or defective products and services?
  - How do companies deliver after sales service to consumers? Is it possible to set up a nationwide service network? Are third-party service providers reliable?
  - Are consumers willing to try new products and services? Do they trust goods from local companies? How about from foreign companies?
  - What kind of product-related environmental and safety regulations are in place? How do the authorities enforce those regulations?

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Questions which should be asked…

- Labour Markets
  - How strong is the country's education infrastructure, especially for technical and management training? Does it have a good elementary and secondary education system as well?
  - Do people study and do business in English or in another international language, or do they mainly speak a local language?
  - Are data available to help sort out the quality of the country's educational institutions?
  - Can employees move easily from one company to another? Does the local culture support that movement? Do recruitment agencies facilitate executive mobility?
  - What are the major post-recruitment training needs of the people that multinationals hire locally?
  - Is pay for performance a standard practice? How much weight do executives give seniority, as opposed to merit, in making promotion decisions?

Khanna, T, Krishna G. Palepu, and Jayant Sinha (2005), Strategies That Fit Emerging Markets, Harvard Business Review, June, pp. 63-74 16

Questions which should be asked…

- Labour markets
  - Would a company be able to enforce employment contracts with senior executives? Could it protect itself against executives who leave the firm and then compete against it? Could it stop employees from stealing trade secrets and intellectual property?
  - Does the local culture accept foreign managers? Do the laws allow a firm to transfer locally hired people to another country? Do managers want to stay or leave the nation?
  - How are the rights of workers protected? How strong are the country's trade unions? Do they defend workers' interests or only advance a political agenda?
  - Can companies use stock options and stock-based compensation schemes to motivate employees?
  - Do the laws and regulations limit a firm's ability to restructure, downsize, or shut down?
  - If a company were to adopt its local rivals' or suppliers' business practices, such as the use of child labour, would that tarnish its image overseas?

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Questions which should be asked…

- Capital Markets
  - How effective are the country's banks, insurance companies, and mutual funds at collecting savings and channelling them into investments?
  - Are financial institutions managed well? Is their decision making transparent? Do non-economic considerations, such as family ties, influence their investment decisions?
  - Can companies raise large amounts equity capital in the stock market? Is there a market for corporate debt?
  - Does a venture capital industry exist? so, does it allow individuals with good ideas to raise funds?
  - How reliable are sources of information on company performance? Do the accounting standards and disclosure regulations permit investors and creditors monitor company management?
  - Do independent financial analysts, rating agencies, and the media offer unbiased information on companies?

Khanna, T, Krishna G. Palepu, and Jayant Sinha (2005), Strategies That Fit Emerging Markets, Harvard Business Review, June, pp. 63-74 18

Questions which should be asked…

- Capital markets
  - How effective are corporate governance norms and standards at protecting shareholder interests?
  - Are corporate boards independent and empowered, and do they have independent directors?
  - Are regulators effective at monitoring the banking industry and stock markets?
  - How well do the courts deal with fraud?
  - Do the laws permit companies to engage in hostile takeovers? Can shareholders organize themselves to remove entrenched managers through proxy fights?
  - Is there an orderly bankruptcy process that balances the interests of owners, creditors, and other stakeholders?

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Alternative market entry strategy

- Exporting
- Internet
- Contractual Agreements
  - Licensing
  - Franchising
  - Joint Ventures
  - Consortia
- Direct Foreign Investment
- Strategic International Alliances

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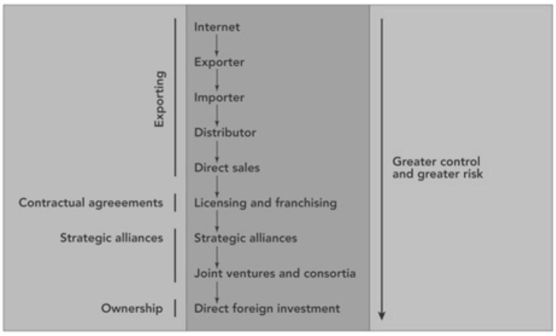

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Exporting

- Exporting can be either direct or indirect
- In direct exporting the company sells to a customer in another country
- In contrast, indirect exporting usually means that the company sells to a buyer (importer or distributor) in the home country who in turn exports the product
- The Internet is becoming increasingly important as a foreign market entry method

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Contractual agreement

- Contractual agreements generally involve the transfer of technology, processes, trademarks, or human skills
- Contractual forms of market entry include:
  - Licensing: A means of establishing a foothold in foreign markets without large capital outlays is licensing of patent rights, trademark rights, and the rights to use technological
  - Franchising: In licensing the franchisor provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management

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International strategic alliance

- A strategic international alliance (SIA) is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective
- Way to shore up weaknesses and increase competitive strengths
- Offer opportunities for rapid expansion into new markets, access to new technology, more efficient production and marketing costs
- An example of SIAs in the airlines industry is that of the Oneworld alliance partners made up of American Airlines, Cathay Pacific, British Airways, Canadian Airlines, Aer Lingus, and Qantas

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Exhibit 11.3 Building Strategic Alliances

Primary Relationship Activity	Typical Actions, Interactions, Activities	Key Relationship Skill
Dating	Senior executives leveraging personal networks Wondering how to respond to inquiries Wondering how to seek out possibilities	Good radar; good relationship self-awareness
Imaging	Seeing the reality in possibilities Creating a shared vision from being together Involving trusted senior managers	Creating intimacy
Initiating	Bringing key executives into action Creating trust through face-to-face time	Trust building
Interfacing	Facilitating the creating of personal relationships at many levels Traveling to partner facilities and engaging in technical conversations Blending social and business time	Partnering
Committing	Demonstrating that managers are fully committed to the alliance and each other Managing the conflict inherent in making hard choices Accepting the reality of the alliance and its relationships	Commitment
Fine-tuning	Relying on mature and established relationships Facilitating interaction and relationships with future successors	Growing *with* another

Source: Adapted from Robert E. Spekman, Lynn A. Isabella, with Thomas C. MacAvoy, *Alliance Competence* (New York: Wiley, 2000), p. 81.

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Joint ventures

- International joint ventures (IJVs) have been increasingly used since 1970s
- Used as a means of lessening political and economic risks
- Less risky way to enter culturally sensitive markets
- A joint venture is different from strategic alliances or collaborative relationships in that a joint venture is a partnership of two or more participating companies that have joined forces to create a separate legal entity
- Joint ventures are different from minority holdings by an MNC in a local firm.

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Consortia

- They typically involve a large number of participants, and
- They frequently operate in a country or market in which none of the participants is currently active

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Direct foreign investment

- A fourth means of foreign market development and entry is direct foreign investment
- Companies may manufacture locally to capitalize on low-cost labour, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials, or as a means of gaining market entry
- Firms may either invest in or buy local companies or establish new operations facilities

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Organizing for global competition

- An international marketing plan should optimize the resources committed to company objectives by using one of the following three alternative organizational structures:
  - Global product divisions
  - Geographical divisions
  - A matrix organization

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