Chapter 4

Country Attractiveness

Outline
- Political risk factors
- Environmental research
- Stages in the Entry Evaluation Procedure
- Data Bases for Country Evaluations
- Sales Forecasting in Foreign Markets
- Forecasting in early PLC markets
- Forecasting in Mature Markets
- Forecasting Market Shares
- Takeaways.
Political Risk

- Political Risk
  - Is the danger that political and military upheaval will change the nation's economic rules and regulations overnight
  - The rise of international terrorism is a new type of political risk
  - As governments change and new regimes come to power
    - Political risk can be temporary
    - Where the risk index is high, scenario planning becomes necessary

Political Risk Factors

<table>
<thead>
<tr>
<th>Factors</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1: General Instability</td>
<td>Revolution, External aggression</td>
</tr>
<tr>
<td>Level 2: Expropriation</td>
<td>Nationalism, Contract revocation</td>
</tr>
<tr>
<td>Level 3: Operations</td>
<td>Import restrictions, Local content rules, Taxes, Export requirements</td>
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<tr>
<td>Level 4: Finance</td>
<td>Repatriation restrictions, Exchange rates</td>
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</table>

Environmental Research

- Once political risk has been analyzed environmental factors affecting marketing should be researched
  - In new local markets, the most valuable market research centers on very basic environmental determinants of consumption and buying behaviors
- For marketing research purposes it is common to distinguish among four environmental dimensions
  - Physical
  - Sociocultural
  - Economic
  - Regulatory
Environmental Research

- Physical Environment
  - Climate is most obvious environmental factor affecting people’s behavior
- Sociocultural Environment
  - Cultural influences are pervasive in most country markets
- Economic Environment
  - The level of economic development is a major determinant of local buyer behavior
- Regulatory Environment
  - The institutional framework within which markets function is designed to enable or prohibit certain business practices

Country Screening: The First Cut

<table>
<thead>
<tr>
<th>POLITICAL RISK</th>
<th>ENVIRONMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>General instability</td>
<td>Physical</td>
</tr>
<tr>
<td>Expropriation</td>
<td>Socio-cultural</td>
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<td>Exchange rates</td>
<td>Economic</td>
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<td></td>
<td>Regulatory</td>
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</tbody>
</table>

Set of countries for further screening

Researching Competitors

- Strengths and Weaknesses
  - It is possible to get a sense of the financial capability of the competition from annual reports, 10K or corresponding stock exchange filings
  - Understanding the organizational structure of the competitors helps gauge their local strengths
- Competitive Signaling
  - The local marketer must read competitive signals to judge the competitors’ future actions
Entry Evaluation Procedure

- Four stages for evaluating candidates for foreign market entry
  - **Country Identification**
    - The first cut is used to identify candidate countries
  - **Preliminary screening**
    - Involves rating the identified countries on macrolevel indicators
  - **In-depth screening**
    - Involves assessing market potential and actual market size and other country related factors
  - **Final selection**
    - Final selection of the country to enter cannot and should not be made until personal visits are made to the country and direct experience acquired managers

Entry Evaluation Procedure

- **Country Identification**
  - accept
- **Preliminary Screening**
  - accept
  - reject
- **In-depth Screening**
  - accept
  - reject
- **Final Selection**
  - reject
  - accept

Entry Mode Analysis

In-Depth Screening Criteria

- **Market Size**
  - A direct measure of market size can be computed from local production, minus exports, plus imports
- **Market Growth**
  - Growth estimates can be obtained by getting the market size measures for different years and computing the growth rates
- **Competitive Intensity**
  - Level of competition can be measured by the number of competitors in the market and the relative size distribution of market shares
- **Trade Barriers**
  - Tariffs, taxes, duties, and transportation costs can be ascertained from official government publications
Major Data Sources

The Economist Intelligence Unit (EIU) – marketing in Europe  
Business International – consumption patterns in different countries  
Frost & Sullivan – syndicated market research for various industries in different countries  
Euromonitor – European marketing data and statistics  
Bates Worldwide – global scan, spending patterns, media habits  
US Department of Commerce – global market surveys, overseas marketing reports

Data Sources & Evaluation Stage

Stage 1 – Country Identification  
- Start with the U.N. annual compilation of world economic and social data
Stage 2 – Preliminary Screening  
- Syndicated reports from Business International, Dun & Bradstreet, The Conference Board should be considered
Stage 3 – In-depth Screening  
- Trade associations are usually the place to start, followed by government agencies. Market research reports may also be needed
Stage 4 – Final Selection  
- Subjective judgments and experiences during the visits to the prospective country play a bigger role than secondary information at this stage

Forecasting Country Sales

Sales Forecasts  
- Assesses what is likely to be obtained given the probable situation and contemplated strategies  
- The focus is on the derivation of sales forecasts at two levels  
  - Industry sales and market share
A Basic Equation  
- Forecasted Sales = Forecasted Industry Sales x Forecasted Market Share  
  - To develop an estimate of industry sales, determinants such as economic growth, disposable incomes, social and political development, and dynamics of the product life cycle need to be incorporated  
  - The market share prediction relates directly to factors such as competitive situation and marketing effort
Market Potential – what could potentially be achieved under “ideal” conditions

Sales Forecast – what is likely to be obtained given the probable situation and contemplated strategies

Forecasting and the PLC

The forecasting technique depends on the stage of the Product Life Cycle in the country market.

• Early Stage: lack of data means forecasting becomes more subjective
• Later Stage: with data available, quantitative forecasts are feasible

Early PLC: Three methods

• Three forecasting techniques used in the early stages of the PLC
• “Build-up” Method
  • Derived from market sales estimated on the basis of separate estimates from individuals knowledgeable about certain market segments
  • Forecasting by Analogy
    • Based on the premise that sales of the product in one “lagging” country will show similarities to sales in another “leading” country
• Judgmental Methods
  • Generally attempt to introduce a certain amount of rigor and reliability into otherwise quite arbitrary guesses
Forecasting by analogy

YEARLY INCREASE IN HOUSEHOLD OWNERSHIP OF TV SETS 1946-1970

Judgmental Forecasting

- The Jury Technique
  - Members of the group are asked to submit their separate forecasts with the forecasts being pooled and results again evaluated
- Expert Pooling
  - Consultation with experts on the country contemplated will always be a cornerstone in sales forecasting where new entry is concerned
- Panel Consensus
  - Attempts to pool the available information from more than one source
- Delphi Method
  - Consists of a series of "rounds" of numerical forecasts from a preselected number of experts

Mature PLC: Quantitative methods

- Forecasting in the later stages of the PLC
  - Time Series Extrapolation
    - Extrapolation refers to the method by which a time series of (sales) data observed over some periods in the past is extended into the future
    - The primary requirements for statistical extrapolation of foreign sales are
      - That data are available
      - That past events will continue into the future
Regression-Based Forecasts

Required prior knowledge to develop a regression forecast

First, the relevant dependent variable of interest needs to be determined – e.g., sales per customer or total sales?

Second, the forecaster must try to identify what factors will affect the dependent variable selected

Forecasting by Regression Analysis

Regression-Based Forecasts can usefully be divided up as follows:

- The Size Component – How many people in the target market?
- Willingness to Buy
  - How likely is it that people are willing to buy the product?
- Ability to Buy
  - How likely is it that people are going to be able to pay?
- Sales per Customer
  - Multiplying the willingness and ability to buy one can develop an estimate of the amount of probable sales per customer in the target segment
- Market Sales
  - The number of customers times the sales per customer gives the total forecasted sales.
Forecasting Market Share involves predicting competition:

- Identifying Competitors
  - Drawing on informal in-house knowledge and on selected contacts in the market country, a list of competitors is compiled
- Domestic Competitors
  - For forecasting purposes, the critical figure is the proportion of the market available to foreign competitors
- Foreign Competitors
  - If appropriate, this last step can be broken down into evaluating foreign competitors first then firms from the entrant’s own home country

Domestic and Import Shares Forecast

![Diagram showing domestic and import shares forecast](image)

Takeaway

Evaluate country attractiveness by looking at:

- market potential & growth
- political developments
- trading bloc membership
- competitive intensity
- entry barriers
Assess a country’s attractiveness by weighing various factors against each other, & by considering alternative scenarios of political developments & competitive reactions.

The Internet & other sources provide up-to-date economic & political data on countries & regions.

Independent research agencies will provide customized analysis on specific products & markets.

To forecast sales for a country, the manager will often have to combine subjective estimates with whatever objective data are available.
Chapter 5

Export Expansion

Outline

- Four Modes of Entry
- The Role of Entry Barriers
- Indirect Exporting Direct Exporting Functions
- Direct Exporting and Local Distribution
- Export Expansion and Cultural Distance
- Waterfall and Sprinkler Strategies
- Takeaways.
Four Basic Modes of Entry

- Exporting
  - Indirect Exporting
  - Direct Exporting
- Licensing
  - Incl. Franchising
- Strategic Alliances (SA)
  - Joint ventures
  - Collaborations between companies
- Wholly Owned Manufacturing Subsidiary
  - The company commits investment capital in plant and machinery.

The Exporting Modes of Entry

Exporting
- Indirect exporting via piggybacking, consortia, export management companies, trading companies
- Direct exporting, using market country agent or distributor
- Direct exporting, using own sales subsidiary
- Direct marketing, including mail order and telemarketing

The Licensing Modes of Entry

Licensing
- Technical licensing
- Contract manufacture
- Original equipment manufacture
- Management contracts
- Turnkey contracts
- Franchising
The SA and FDI Modes of Entry

**Strategic alliance**
- Distribution alliance
- Manufacturing alliance
- R & D alliance
- Joint venture

**Wholly owned manufacturing subsidiary**
- Assembly
- Full-fledged manufacturing
- Research and development
- Acquisition

The Role of Entry Barriers

**ENTRY BARRIERS** – any obstacle making it more difficult for a firm to enter a product/service market

**TARIFF BARRIERS**
- Customs duties enforced on imported products (final products or intermediate products)
- Different tariff rates for different countries and different products
- May be adjusted by political influence from trade associations

**NON-TARIFF BARRIERS**
- Include all other entry barriers
- E.g. transportation costs, slow customs procedures, etc.

More Entry Barriers

**ARTIFICIAL ENTRY BARRIERS**
- Limited distribution access
- Bureaucratic inertia
- Government regulations
- Limited access to technology
- Local monopolies

**NATURAL ENTRY BARRIERS**
- Intense competition among several differentiated brands
- Strong brand names charging a premium price over generic competitors
- Pro-domestic sentiment favoring local brands
**Entry Barriers Protect Domestic Turf**

- Government regulations, limited distribution access, tariff barriers
- Competition among differentiated brands, all companies compete on equal footing.

**Barriers and Mode of Entry**

- When barriers are low, the firm will be likely to enter via exporting.
- When barriers are high, alternative modes of entry have to be chosen:
  - License a local producer
  - Create a joint venture
  - Engage in a distribution alliance
  - Invest in a wholly owned subsidiary

**The Exporting Option**

- Indirect Exporting
  - Export management companies perform all the transactions relating to foreign trade for the firm and are independent agents working for the firm in overseas markets, going to fairs, and contacting distributors
  - The advantage is that the firm avoids the overhead costs and administrative burden involved in managing their own export affairs
  - The disadvantage is that the skills and know-how developed through experiences abroad are accumulated outside the firm, not in it
- Direct Exporting
  - The firm is able to more directly influence the marketing effort in the foreign market
Exporting Functions

- Product Shipment
  - Transportation
    - The shipment of the product to the border of the country is usually handled by an independent freight forwarder
  - Clearing through Customs
    - Unloaded at the national border, the product will go from the ship or airline to a customs-free depot before being processed through customs
  - Warehousing
    - After entering the country, the goods will often require storage

Export Pricing

- Price Quotes
  - Prices quoted CIF (cost-insurance-freight – the seller accepts the responsibility for product cost, insurance, and freight) is the recommended alternative for an export marketer.

- Trade Credit
  - A high price can often be counterbalanced by beneficial trade credit terms

- Price Escalation
  - Due to transportation costs, tariffs and other duties, special taxes, and exchange rate fluctuations, export prices tend to escalate. Still, competitive conditions and a desire to penetrate a new market often make overseas prices lower than at home.

Terms of Shipment

- EX-WORKS (EXW) at the point of origin – seller agrees to deliver goods at point of origin or some specified place, all other charges are borne by the buyer.

- FREE ALONGSIDE SHIP (FAS) at a named port of export – price for goods includes charges for delivery of the goods alongside a vessel.

- FREE ON BOARD (FOB) at a named port of export – in addition to FAS, the seller loads the goods on the vessel.

- COST & FREIGHT (CFR) to a named overseas port – price for goods includes cost of transportation to a named overseas port.

- COST, INSURANCE & FREIGHT (CIF) to a named overseas port – price includes insurance and all transportation and miscellaneous charges to the port of disembarkation for the ship or aircraft.
The Exporting Option: Dumping

- Dumping: Selling goods in some markets below cost
  - Reverse Dumping
    - Refers to the practice of selling products at home at prices below cost
  - Countervailing Duty
    - An assessment levied on the foreign producer that brings the prices back up over production costs and imposes a fine
    - The usual penalty for manufacturers found to violate antidumping laws
  - Illegal but common reason for dumping:
    - Entry into a large competitive market by selling at very low prices when a company has overproduced and wants to sell the product in a market where it has no brand franchise.

Dumping and the WTO

- New World Trade Organization trade rules regarding dumping
  - Intended to support emerging countries exports
  - Features include
    - Stricter definitions of injury
    - Higher minimum dumping levels needed to trigger imposition of duties
    - More rigorous petition requirements
    - Dumping duty exemptions for new shippers

Direct Exporting: Local Distribution

- Finding a Distributor
  - The most common approach is to use existing channels, found via
    - assistance of governmental agencies
    - trade fairs and international conventions
  - Screening Distributors
    - On key performance criteria
    - The financial strength of the distributor is less important if the entering firm can support the company in the start-up period
Local distributors: Screening criteria

- Previous experience (products handled, area covered, size)
- Services offered (inventory, repairs, after-sales service)
- Marketing support (advertising and promotional support)
- Financial strength
- Relations with government
- Cooperativeness
- Whether or not handling competing products

Direct Exporting: Local Distribution

- Personal Visit by a Manager
  - Talk to the ultimate users of the equipment to find out from which distributors they prefer to buy and why
  - Visit the preferred distributors and see which would be able to sign up
  - Look for the distributor who has the key person for your line
- Negotiating a Contract
  - Specific terms as to the rights and obligations of the manufacturer and the distributor, the length of the contract, and conditions for its renegotiation

Distribution Channels

- Importer – Physical Goods
- Agent – legal/regulations, marketing effort, not physical goods
- Independent Distributor – Physical goods, marketing effort
- Can be replaced by wholly-owned sales subsidiary
- Wholesalers
- Retailers
Direct Exporting: Payment

- Payment issues
  - Local Currency
  - Creditworthiness
  - Letter of Credit
  - Converting Funds
  - Repatriation, Hedging

How a letter of credit works

1. Purchase and agreement
2. L/C application
3. Advises of L/C
4. Shipment of goods
5. Presents documents for negotiation
6. Sends documents
7. Pays bank or gets loan

United States

Overseas

Importer’s bank

Exporter’s bank

Direct Exporting: Legal Issues

- Legal Issues
  - Export License
  - Transferring Title
  - Insurance
  - Hiring an Agent
**Direct Exporting: Service**

- After-Sales Support
  - Service, Parts Supply, Training
    - Often managed by the distributor, aided by the agent
  - Sales Subsidiary
    - The decision to establish a sales subsidiary, staffed with locals and a few top managers from headquarters is often made because after-sales service is important – and requires training
    - Ex. Automobiles, Computers, Hi-tech electronics.

**Export Expansion and Cultural Distance**

- Cultural Distance and Learning
  - The “Cultural Distance” Effect: Firms tend to enter countries close to home culturally and geographically.
  - Create very natural “biases,” which are not necessarily counterproductive
  - The International Learning Curve: As firms enter markets further away culturally, managers learn more about how to do business internationally.
  - One rationale for choosing countries to enter

**Cultural Distance and Learning**

- Amount of Learning
  - Early Entry
    - Some learning
  - Gradual Entry
    - More learning
  - Late Entry
    - Learning and unlearning

<table>
<thead>
<tr>
<th>SIMILAR COUNTRIES</th>
<th>LESS SIMILAR MARKETS</th>
<th>DISTANT MARKETS</th>
<th>CULTURAL DISTANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMOUNT OF LEARNING</td>
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</table>
The Internationalization Stages
- Internationalization Stages
  - Stage 1 – Indirect exporting, licensing
  - Stage 2 – Direct exporter, via independent distributor
  - Stage 3 – Establishing foreign sales subsidiary
  - Stage 4 – Local assembly
  - Stage 5 – Foreign production
- Born Globals
  - Firms that form the outset view of the world as one market
    - Typically small technology-based businesses

Export Expansion Strategies
- Waterfall Strategy
  - The firm gradually moves into overseas markets
    - Advantages of this strategy are that expansion can take place in an orderly manner and it is relatively less demanding in terms of resource requirements
    - Disadvantage of this strategy: it may be too slow in fast-moving market

The Waterfall Gradual Expansion
Sprinkler Strategy

- The firm tries to enter several country markets simultaneously or within a limited period of time
  - Advantages of this strategy are that it is a much quicker way to market penetration across the globe and it generates first-mover advantages
  - Disadvantage of this strategy is the amount of managerial, financial, and other resources required.

The Sprinkler Simultaneous Expansion

- Usually the exporter or market entrant is the initiator of a trading relationship
  - Importers can also initiate trade
  - E.g. Nike in Asia, Volkswagen in Portugal
  - Local businesspeople are quicker to see opportunities within their country market
The four main entry modes are:

- Exporting
- Licensing
- Strategic alliances
- Wholly Owned Manufacturing Subsidiary

Barriers to entry include:

- tariffs, quotas, customs procedures
- restrictive government regulations
- limited access to distribution channels
- pro-domestic consumer biases

Export operations involve activities that are new to a domestic marketer. Many of these activities force the firm to either develop new skills or – the typical case – rely on independent middlemen.

The firm can let its agent & distributor handle the local marketing, or it can establish a foreign sales subsidiary.
In the past, foreign expansion started with culturally similar countries leveraging existing know-how in similar markets.

Now, with a higher commitment to international markets, we observe firms that are “born global”. These firms sell abroad from the start.

Takeaway

When rapid entry into several countries is important, firms follow a “sprinkler” strategy, entering countries simultaneously.

Past patterns followed a less risky but slower “waterfall” strategy where firms gradually expand from country to country.
Chapter 6
Licensing, Strategic Alliances, FDI
Three modes of entry

- WHOLLY-OWNED SUBSIDIARY: A replica of home
- STRATEGIC ALLIANCE (J.V.): A "joint effort"
- LICENSING: Blueprint: "how to do it"

The Impact of Entry Barriers

- The non-exporting modes of entry basically represent alternatives for the firm when entry barriers to a foreign market are high.
- These entry barriers involve not only artificial barriers such as tariffs, but also involve lack of knowledge of the foreign market and a need to outsource the marketing to local firms with greater understanding of the market.

Licensing

- LICENSING refers to offering a firm’s know-how or other intangible asset to a foreign company for a fee, royalty, and/or other type of payment
  - Advantages for the new exporter
    - The need for local market research is reduced
    - The licensee may support the product strongly in the new market
  - Disadvantages
    - Can lose control over the core competitive advantage of the firm.
    - The licensee can become a new competitor to the firm.
Franchising

- A form of licensing where the franchisee in a local market pays a royalty on revenues - and sometimes an initial fee - to the franchisor who controls the business and owns the brand.
- The local franchisee typically invests money in the local operation and has the right to operate under the franchisor’s brand name.
- The franchisee gets help setting up the operation, usually according to a well-developed blueprint. The business is typically very standardized (fast food operations is a case in point).

Franchising Pros and Cons

- Advantages
  - The basic “product” sold is a well-recognized brand name.
  - The franchisor provides various market support services to the franchisee.
  - The local franchisee raises the necessary capital and manages the franchise.
- A disadvantage
  - Careful and continuous quality control is necessary to maintain the integrity of the brand name.

Licensing

- Original Equipment Manufacturing (OEM)
  - A company enters a foreign market by selling its unbranded product or component to another company in the market country.
  - Examples:
    - Canon provides cartridges for Hewlett-Packard’s laser printers.
    - Samsung sells unbranded television sets, microwaves, and VCRs to resellers such as Sears, Amana, and Emerson in the U.S.
Strategic Alliances (SAs)
- Typically a collaborative arrangement between firms, sometimes competitors, across borders
- Based on sharing of vital information, assets, and technology between the partners
- Have the effect of weakening the tie between potential ownership advantages and company control

Equity and Non-Equity SAs
Equity Strategic Alliances:
- Joint Ventures

Non-equity Strategic Alliances:
- Distribution Alliances
- Manufacturing Alliances
- Research and Development Alliances

Equity Alliances: Joint Ventures
- Joint Ventures
  - Involve the transfer of capital, manpower, and usually some technology from the foreign partner to an existing local firm.
  - Examples include Rank-Xerox, 3M-Sumitomo, several China entries where a government-controlled company is the partner.
  - This was the typical arrangement in past alliances – the equity investment allowed both partners to share both risks and rewards.
  - Today non-equity alliances are common.
Rationale for Non-Equity Alliances

- Tangible economic gains at lower risk
- Access to technology
- Markets are reached without a long buildup of relationships in channels
- Efficient manufacturing made possible without investment in a new plant

SA’s allow two companies to undertake missions impossible for one individual firm to undertake.
- Strategic Alliances constitute an efficient economic response to changed conditions.

Distribution Alliances

- Also called “piggybacking”, “consortium marketing”
- Examples
  - SAS, KLM, Austrian Air, and Swiss Air
  - STAR Alliance (United Airlines, Lufthansa, Air Canada, SAS, Thai Airways, and Varig Brazilian Airlines)
  - Chrysler and Mitsubishi Motors

Pros and Cons of Distribution Alliances

- Advantages
  - Improved capacity load
  - Wider product line
  - Inexpensive access to a market
  - Quick access to a market
  - Assets are complimentary
  - Each partner can concentrate on what they do best

- Disadvantages
  - Time arrangement can limit growth for the partners
  - Can hinder learning more about the market, creating obstacles to further inroads
Manufacturing Alliances

- Shared manufacturing examples
  - Volvo and Renault share body parts and components
  - Saab engines made by GM Europe
- Advantages
  - Convenient
  - Money saving
- Disadvantages
  - The organization must deal with two principals in charge of production, harder to communicate customer feedback
  - Can put constraints on future growth

R&D Alliances

- R&D Alliances
  - Provide favorable economics, speed of access, and managerial resources and are intended to solve critical survival questions for the firm
  - Used to be seen as particularly risky, since technological know-how is often the key competitive advantage of a global firm
  - The risk of dissipation has become less of a concern, however, as technology diffusion is growing ever faster anyway.

Manufacturing Subsidiaries

- Wholly Owned Manufacturing Subsidiaries
  - Undertaken by the international firm for several reasons
    - To acquire raw materials
    - To operate at lower manufacturing costs
    - To avoid tariff barriers
    - To satisfy local content requirements
Manufacturing Subsidiaries

**ADVANTAGES**
- Local production lessens transport/import-related costs, taxes & fees
- Availability of goods can be guaranteed, delays may be eliminated
- More uniform quality of product or service
- Local production says that the firm is willing to adapt products & services to the local customer requirements

**DISADVANTAGES**
- Higher risk exposure
- Heavier pre-decision information gathering & research evaluation
- Political risk
- “Country-of-origin” effects can be lost by manufacturing elsewhere.

FDI: Acquisitions

- Instead of a “greenfield” investment, the company can enter by acquiring an existing local company.
- **Advantages**
  - Speed of penetration
  - Quick market penetration of the company’s products
- **Disadvantages**
  - Existing product line and new products to be introduced might not be compatible
  - Can be looked at unfavorably by the government, employees, or others
  - Necessary re-education of the sales force and distribution channels

Entry Modes and Local Marketing Control

- The local marketing can be controlled to varying degrees, quite independent of the entry mode chosen. The typical global firm maintains a sales subsidiary to manage the local marketing. Examples:

<table>
<thead>
<tr>
<th>Mode of Entry</th>
<th>Independent</th>
<th>Joint with Alliance Partner</th>
<th>Own Sales Subsidiary</th>
<th>Licensing</th>
<th>Strategic Alliance</th>
<th>Exporting</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute vodka in the US</td>
<td>Toshiba in Japan</td>
<td>Toyota in the US</td>
<td>Disney in Japan</td>
<td>Microsoft in Japan</td>
<td>Nike in Asia</td>
<td>EuroDisney</td>
<td>Goldstar in the US</td>
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</tbody>
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**Optimal Entry Mode Matrix**

<table>
<thead>
<tr>
<th>Company strategic posture</th>
<th>Emerging</th>
<th>High-growth</th>
<th>Mature</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>Indirect exports</td>
<td>Indirect exports</td>
<td>Direct exports</td>
<td>Licensing/ Alliance</td>
</tr>
<tr>
<td>Protected</td>
<td>Joint venture</td>
<td>Indirect exports</td>
<td>Alliance/ Licensing</td>
<td>Licensing</td>
</tr>
<tr>
<td>Control</td>
<td>Wholly owned subsidiary</td>
<td>Acquisition/ Alliance</td>
<td>Wholly owned subsidiary</td>
<td>Franchising/ Alliance/ Exporting</td>
</tr>
</tbody>
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**Illustrative Entry Strategies**

<table>
<thead>
<tr>
<th>Company strategic posture</th>
<th>Product/Market Situation</th>
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<tbody>
<tr>
<td>Incremental</td>
<td>Supervalu to Russia</td>
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<tr>
<td></td>
<td>North American fish to Japan</td>
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<td>Rossignol skis to U.S.</td>
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<td>Dialogue to Europe</td>
</tr>
<tr>
<td>Protected</td>
<td>Pharmaceuticals in China</td>
</tr>
<tr>
<td></td>
<td>Sun Energy technology to Europe</td>
</tr>
<tr>
<td></td>
<td>Coca-Cola bottling; Toyota-GM tie-up</td>
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<tr>
<td></td>
<td>Disneyland in Japan</td>
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<tr>
<td>Control</td>
<td>New FDI in India</td>
</tr>
<tr>
<td></td>
<td>Matsushita in U.S. TV market</td>
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<tr>
<td></td>
<td>IBM Worldwide: autos in U.S.</td>
</tr>
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<td>Hilton, Sheraton, McDonalds</td>
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**Takeaway**

Trade barriers will typically force the firm to un-bundle its value chain & engage in non-exporting modes of entry, such as licensing or strategic alliances -

- or invest in a wholly owned manufacturing subsidiary.
Licensing & strategic alliances may dilute firm specific advantages through transfer of know-how, but the need for partners with local knowledge and the need to reduce a firm’s risk exposure offsets this.

A global marketer needs good interpersonal skills to work effectively with foreign partners, local subsidiary managers, & licensing/alliance partners who may be competitors in some product markets.

The optimal mode of entry is to find a way over entry barriers, then to make trade-offs between strategic posture and the product/market situation.
Controlling the local marketing effort:

- By establishing a sales subsidiary in the market country, the firm can control the local marketing effort quite independent of which particular mode entry mode has been chosen.