

Entering Foreign Markets

Chapter 10



India Outsourcing and Market Entries

As of 2013, Africa accounted for 16 percent of India's foreign direct investment (FDI) stock for a total of US\$13.6 billion.

Entered market through acquisitions of other firms and joint ventures



Objectives

How to overcome the liability of foreignness

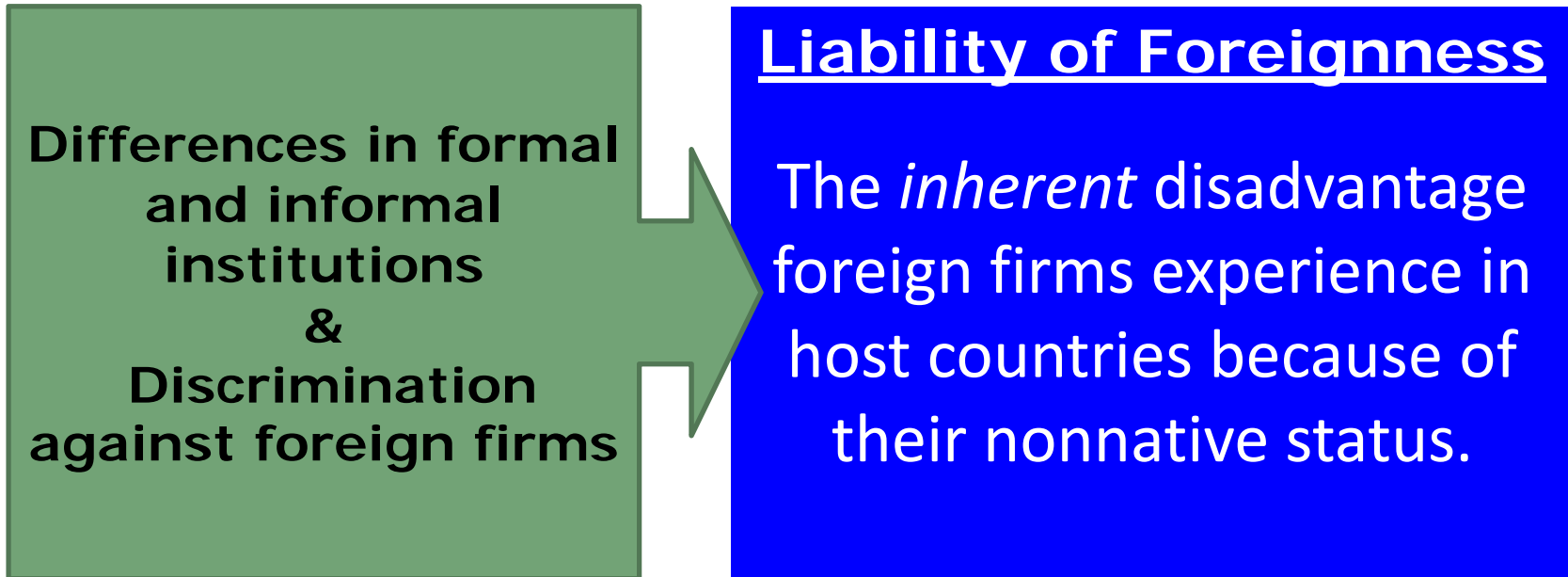
- Good decisions, Where? When? How?
 - Good match of goals and location
 - First mover or follower?
 - Big or Small?

How to enter the market

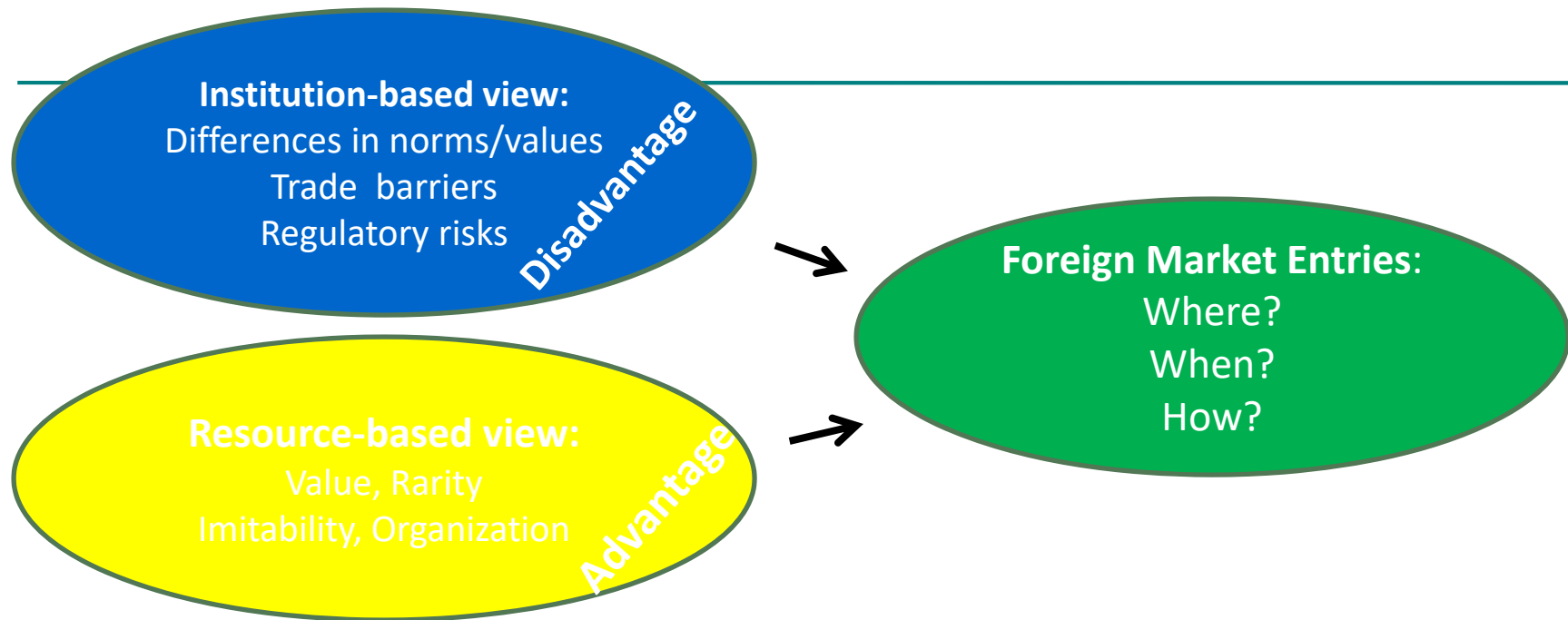
How to succeed when entering a new market

<https://www.firmex.com/thedealroom/seven-epic-fails-by-businesses-that-tried-expanding-into-foreign-markets/>

Liability of Foreignness



- Semiglobalized world
 - Formal discrimination: buy national programs
 - Informal discrimination: distrust and national pride



- Must take “legitimate” actions
 - Follow local rules, formal and informal
 - ***Accept the facts and situation as found***
- Offset liability by deploying overwhelming resources
 - If you’re going to do it, do it right!

Where?



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Where?

All about *Location, Location, Location!*

Must consider:

- Strategic goals
- Cultural and institutional differences

Location Specific Advantages – benefits a firm reaps from features specific to a place

- Geographic
- Agglomeration – advantages from clustering
 - Knowledge spillovers
 - Industry demand for specific workforce
 - Industry demand facilitates specific suppliers
- Advantages unique to each firm

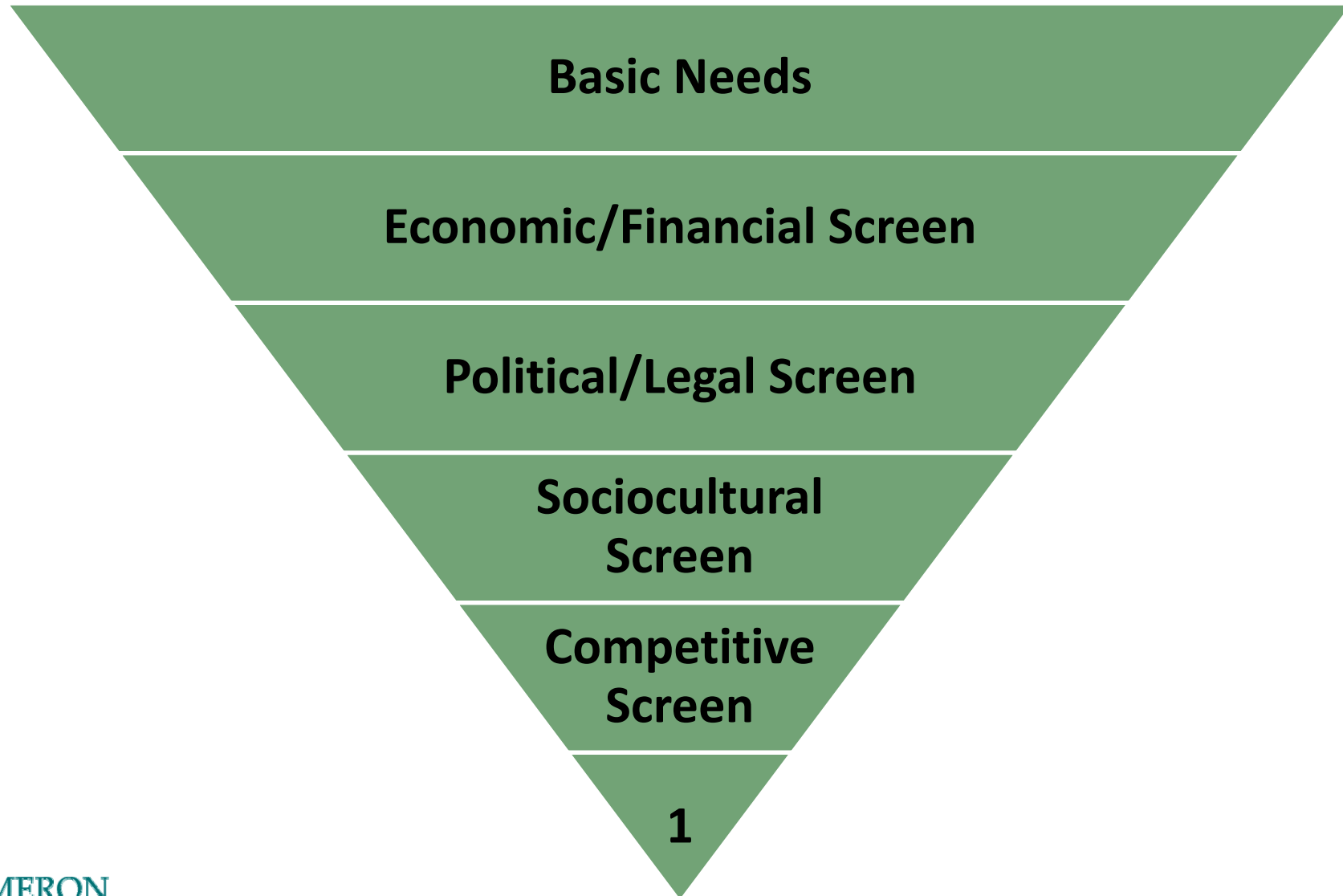
Strategic Goals

- **Resource Seeking**
 - Locations are resource specific
 - May have to suffer poor institutions
- **Market Seeking**
 - Regions with strong demand
- **Efficiency Seeking**
 - Economies of scale and low cost
- **Innovation Seeking**
 - Target countries/regions known for generating world-class innovations
 - Not always silicon valley!

Market Screening (for market seeking firms)

Basic Needs

Market Screening (for market seeking firms)



Additional Considerations

Cultural distance - difference between two cultures along identifiable dimensions. Ex: individualism.

Entry location depends on

Institutional distance –similarity or dissimilarity between regulatory, normative and cognitive institutions.

Stage Model – step-by-step process of internationalizing by entering culturally similar countries first

Opposing thought: Profits and Efficiency! Do what you have to do!

Stage Model

Kind of...



FM Global and Market Forces



Segment vs. Geography

Narrow segment across broad geography



Segment Screening

Instead of screening countries, could screen for segments

- i.e. global minded teenagers, middle class executives etc. may have similar needs
- Criteria
 - Definable (difficult)
 - Large enough
 - Accessible
 - Actionable
 - Captureable



– We will put our focus along country lines

Strategic Objectives

Strategic goals	Location-specific advantages	Examples in the text
Natural resource seeking	Possession of natural resources and related transport and communication infrastructure	<i>Oil in the Middle East, Russia, and Venezuela</i>
Market seeking	Abundance of strong market demand and customers willing to pay	<i>Seafood in Japan</i>
Efficiency seeking	Economies of scale and abundance of low-cost factors	<i>Manufacturing in China</i>
Innovation seeking	Abundance of innovative individuals, firms, and universities	<i>IT in Silicon Valley and Bangalore; financial services in New York and London; aerospace in Russia</i>

Objectives not exclusive

- Weigh multiple objectives

Objectives and/or advantages may change

When?



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When to Enter

- **First Mover** – enter a market before rivals
 - Advantages
 - Proprietary/tech leadership (set the standard)
 - Secure scarce resources
 - Establish entry barriers
 - Different focus than rivals at home
 - Build relationships early
- **Late Mover** – follow competitors into market
 - Advantages (first mover disadvantages)
 - Free ride on first mover investments
 - Reduced tech. and market uncertainty
 - Leap frog first mover in market changes



TABLE 10.3 FIRST-MOVER VERSUS LATE-MOVER ADVANTAGES

First-mover advantages	Examples in the text	Late-mover advantages	Examples in the text
Proprietary, technological leadership	<i>Yahoo! in Japan</i>	Opportunity to free ride on first-mover investments	<i>Ericsson won big contracts in Saudi Arabia, free riding on Cisco's efforts</i>
Preemption of scarce resources	<i>Japanese MNEs in Southeast Asia</i>	Resolution of technological and market uncertainty	<i>IBM and Matsushita have patience to wait</i>
Establishing entry barriers for late entrants	<i>Huggies and Pampers diapers for the first born; Poland's F-16 fighter jet contract</i>	First mover's difficulty to adapt to market changes	<i>Kodak and Fujifilm are pushed aside by Canon, Samsung, and Sony</i>
Avoidance of clash with dominant firms at home	<i>Sony, Honda, and Epson went to the US market ahead of their Japanese rivals</i>		
Relationships with key stakeholders such as customers and governments	<i>Motorola's technology became China's national paging standard</i>		

How?



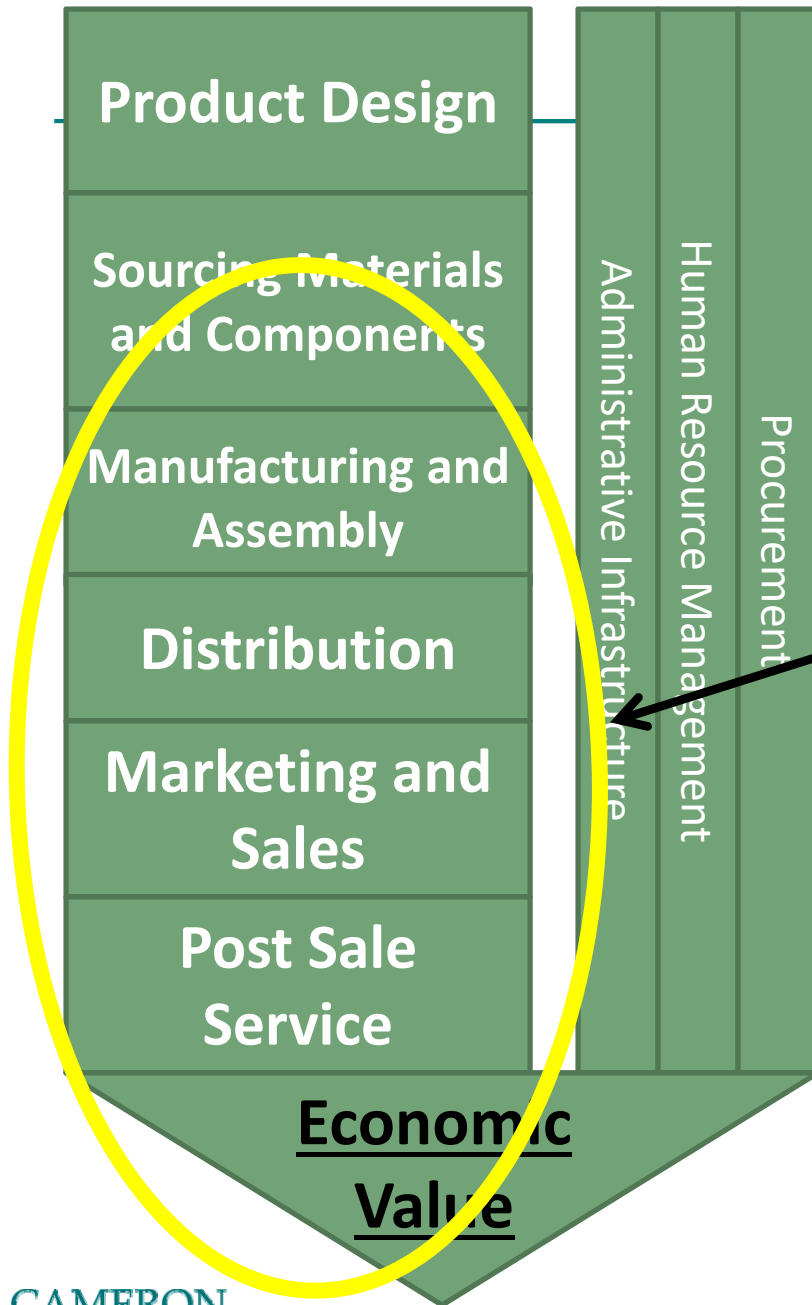
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How to Enter

Two big choices:

- **Scale of Entry** – The amount of resources committed to entering a foreign market
- **Modes of Entry** – Method used to enter a foreign market
 - Ex: exporting, JV, FDI...

Value Chain



Total Product – the total product includes tangible as well as intangible economic value of a product

“Coffee is the product we sell but not the business we are in”

~ Howard Schultz, Starbucks

How to Enter

Scale of entry – amount of resources committed to entering a foreign market.

Large Scale Entry

- Positives
 - Demonstrate commitment to markets and customers
 - May be necessary to build brand
 - Deters potential entrants
- Negatives
 - Limits strategic flexibility elsewhere
 - Significant capital at risk

How to Enter

Scale of entry – amount of resources committed to entering a foreign market.

Small Scale Entry

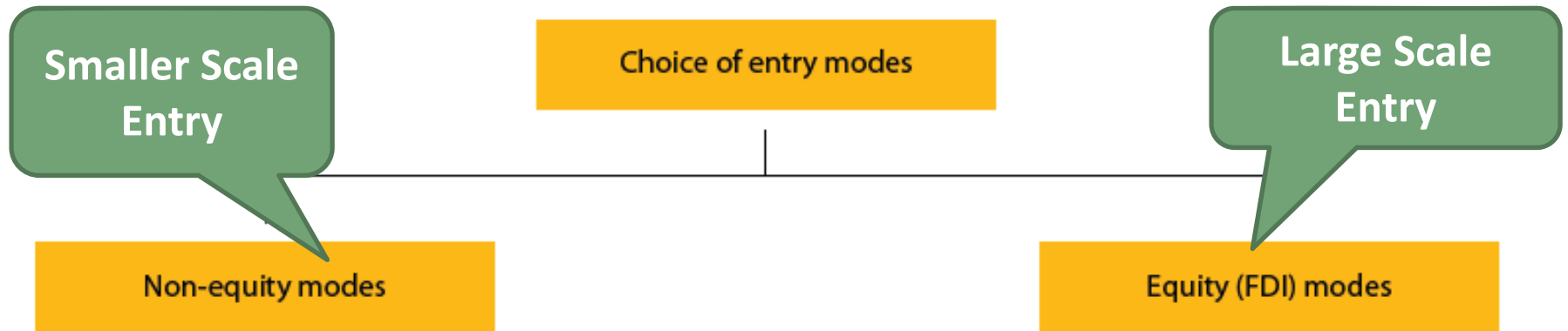
- Positives
 - Less costly
 - Focus on organization learning
 - Limits downside risk
- Negatives
 - Lack of commitment
 - Difficulties building market share

Common Entry Path

Start small

- Exporting or contractual agreement such as licensing
- Build market share and institutional knowledge
- Move into warehousing or assembly
- Full scale production

Equity vs. Non Equity

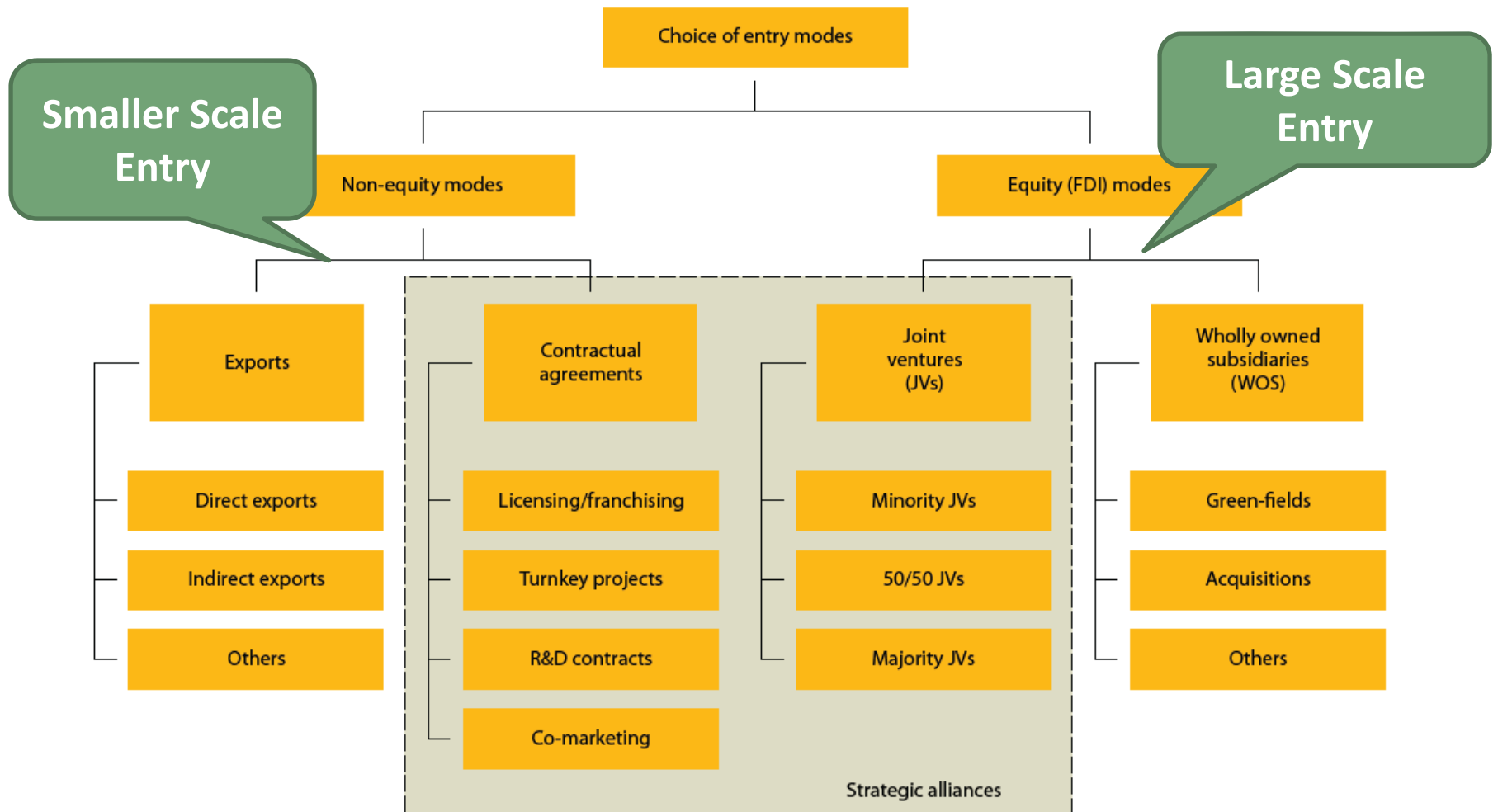


Equity Mode: entering through joint ventures or wholly owned subsidiaries – larger, hard to reverse commitments

Non-equity mode: entering through exports and/or contractual agreements

- Smaller commitments

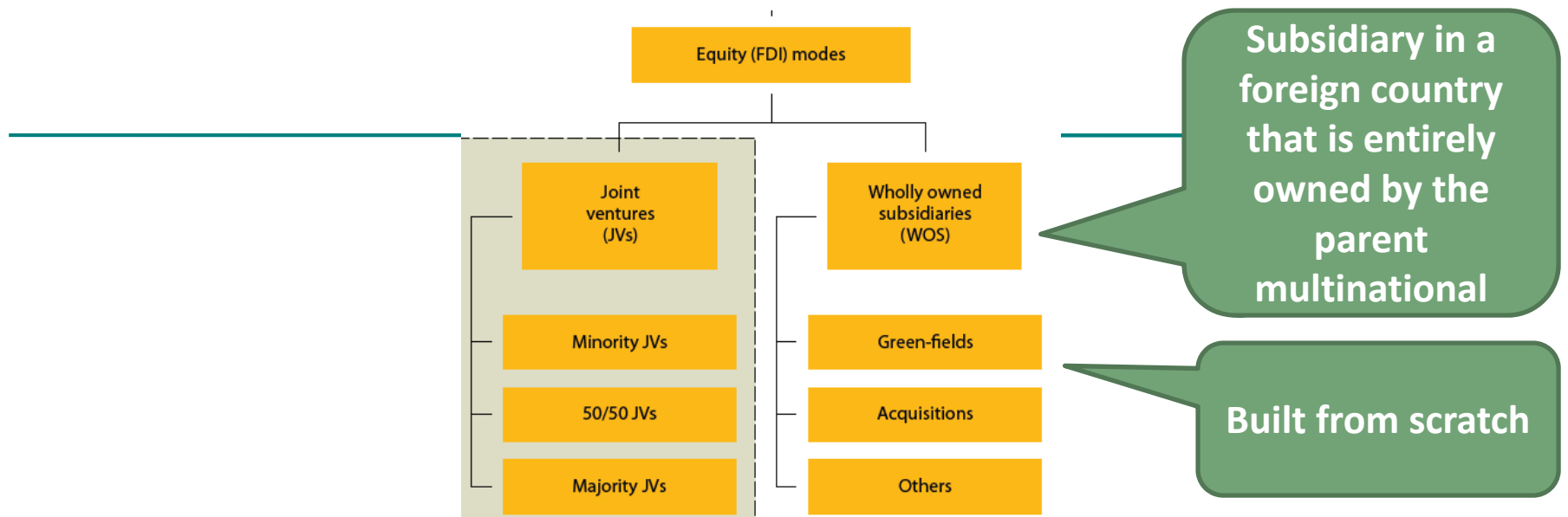
Choice of Entry



Equity Modes

Foreign Direct Investment
Large Scale Entry





Equity entry

	Advantages	Disadvantages
Greenfield projects (wholly owned subsidiary)	<ul style="list-style-type: none"> Control Protection of Intellectual property 	<ul style="list-style-type: none"> Political problems New capacity to industry Slow speed
Acquisitions (wholly owned)	<ul style="list-style-type: none"> No added capacity Fast entry 	<ul style="list-style-type: none"> Integration problems High cost Potential political problems
Joint Ventures	<ul style="list-style-type: none"> Share costs and risk Partner's knowledge Politically acceptable 	<ul style="list-style-type: none"> Differing objectives Limited control

Wholly Owned Subsidiaries

Potential Problems:

- **Greenfield development**
 - Adds capacity to industry
 - Pushes down prices and value

- **Acquisition**
 - Holds capacity constant or removes
 - Potentially increases prices for consumers
 - Regulatory risk

The Anatomy of the GE-Honeywell Disaster

By Michael Elliott | Sunday, July 08, 2001



Read Later

On the evening of Wednesday, June 13, Jack Welch, CEO of General Electric, retreated to his room at the Conrad Hilton hotel in Brussels and wrestled with an unfamiliar feeling — one of impending defeat. Just

eight months before, he had, it seemed, pulled off a stunning coup. Welch had always coveted Honeywell International, whose business making advanced electronics for the aviation industry, he thought, made a perfect fit with GE, one of three leading global manufacturers of airplane engines. In October 2000, during a visit to the New York Stock Exchange, he had learned that United Technologies Corp. — whose Pratt & Whitney division is another huge enginemaker — planned to buy Honeywell. Within 45 minutes, on the phone from his car, Welch had lined up his board to make a counter-offer. Two days later he had Honeywell in the bag; it would be the largest ever merger between two industrial companies. Welch delayed his retirement to oversee the integration of GE and Honeywell — and to set the capstone on his legendary career.

And now, in the European capital, his last big deal was falling apart. On that day in June, Welch had met twice with Mario Monti, the European Union's Commissioner for Competition. Monti believed that the combination of Honeywell's cockpit controls with GE's engines and powerful aircraft financing division would stifle competition. In other words, he viewed with suspicion precisely those synergies that, for Welch, made the deal so attractive. Monti

TONY DEJAK/AP

General Electric Co. Chairman Jack Welch

Email

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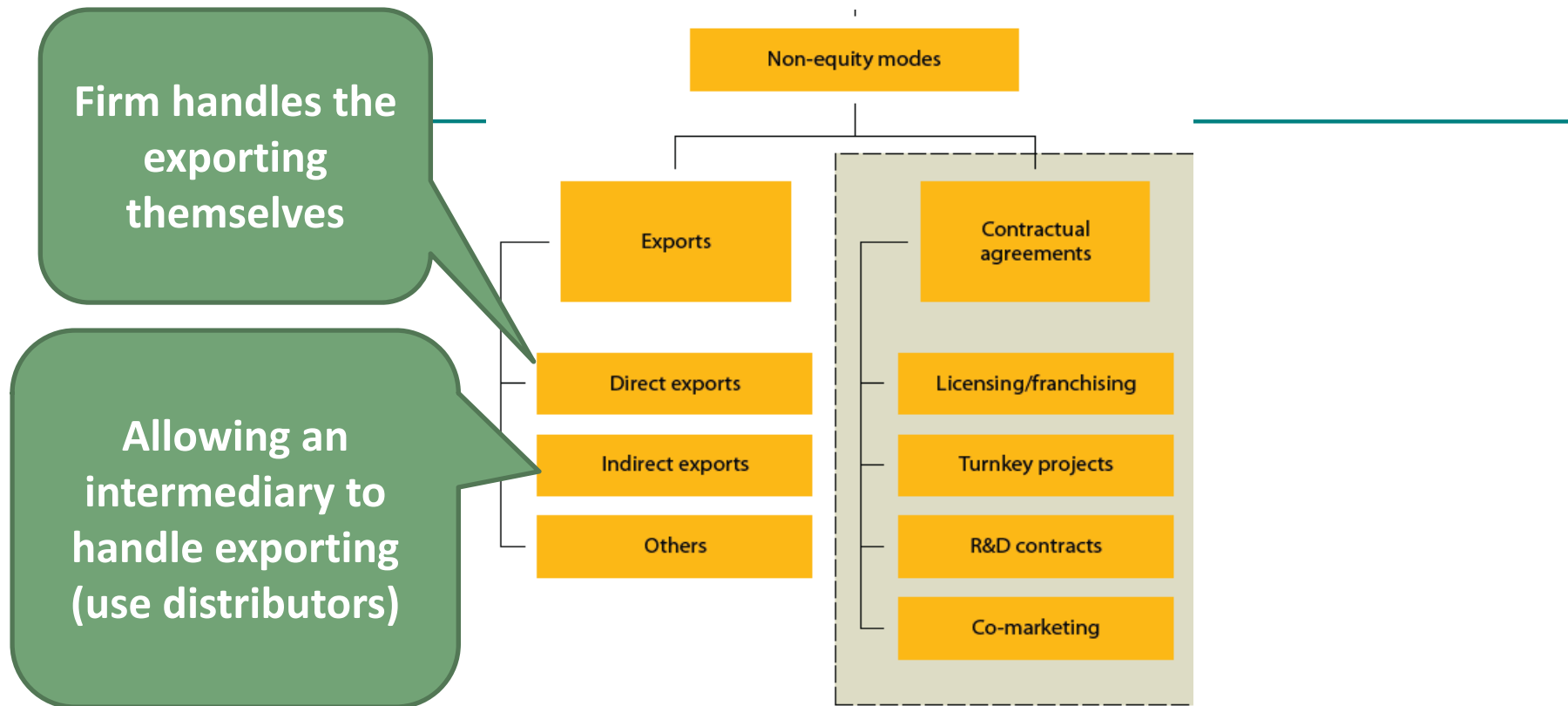
Reprints

Follow @TIME

Non-Equity Modes

Small Scale Entry





Non-equity entry: Exporting

	Advantages	Disadvantages
Direct Exports	<ul style="list-style-type: none"> Expanded sales Control over distribution 	<ul style="list-style-type: none"> Distance from customers Trade barriers, time cost, etc.
Indirect Exports	<ul style="list-style-type: none"> Concentrate on production 	<ul style="list-style-type: none"> Costly Less control Loss of learning opportunity

Non-Equity Modes

Licensing/franchising agreements

- Licensor/franchisor sells the rights to intellectual property to licensee/franchisee for a royalty fee

Turnkey projects: Clients pay contractors to design and construct new facilities and train personnel

Co-marketing: Efforts among a number of firms to jointly market their products and services

Exporting Pricing Concerns



Anti-Dumping

Dumping – Exporting products at prices that are below what it costs to manufacture with intent to raise prices in future

Subject to anti-dumping assessments

Dumping or not...

- A way to slow down competition
 - Tied up with questions and red tape!

Print LOC blank!!!



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Importing and Exporting



Methods of Payment

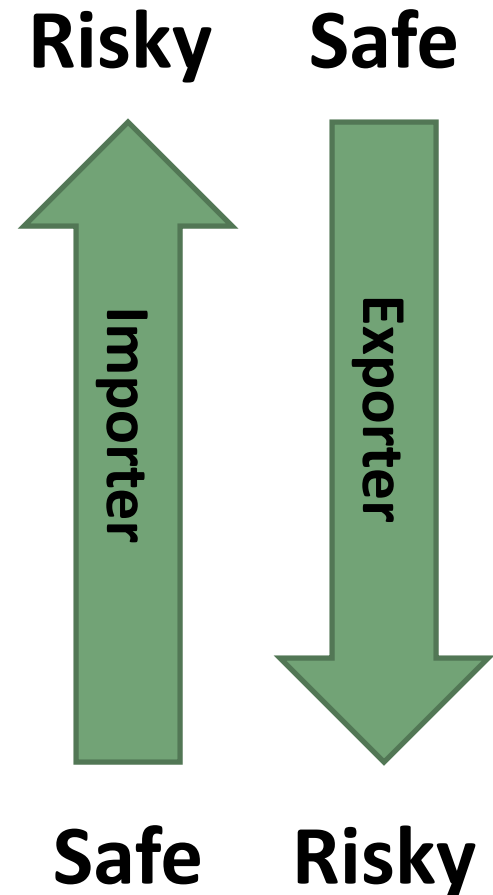
Cash in Advance – importer pays before goods shipped

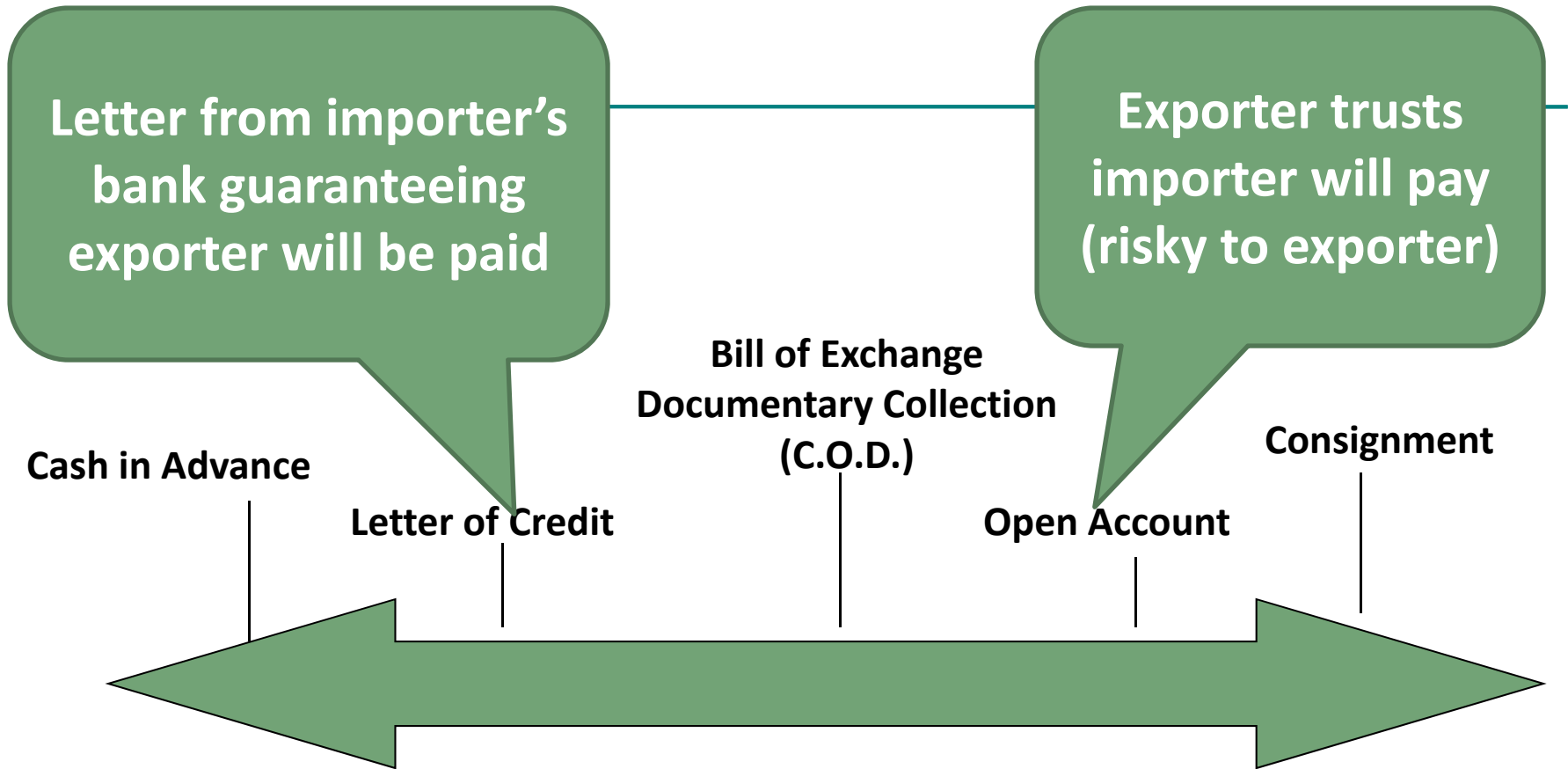
Letter of Credit – letter from importer's bank guaranteeing payment

Bill of Exchange – Like C.O.D but paid when docs shown

Open Account – exporter trusts importer will pay

Consignment – importer pays after goods are sold and customer pays





Risky to Importer
Desirable to exporter

Risky to Exporter
Desirable to importer

Terms

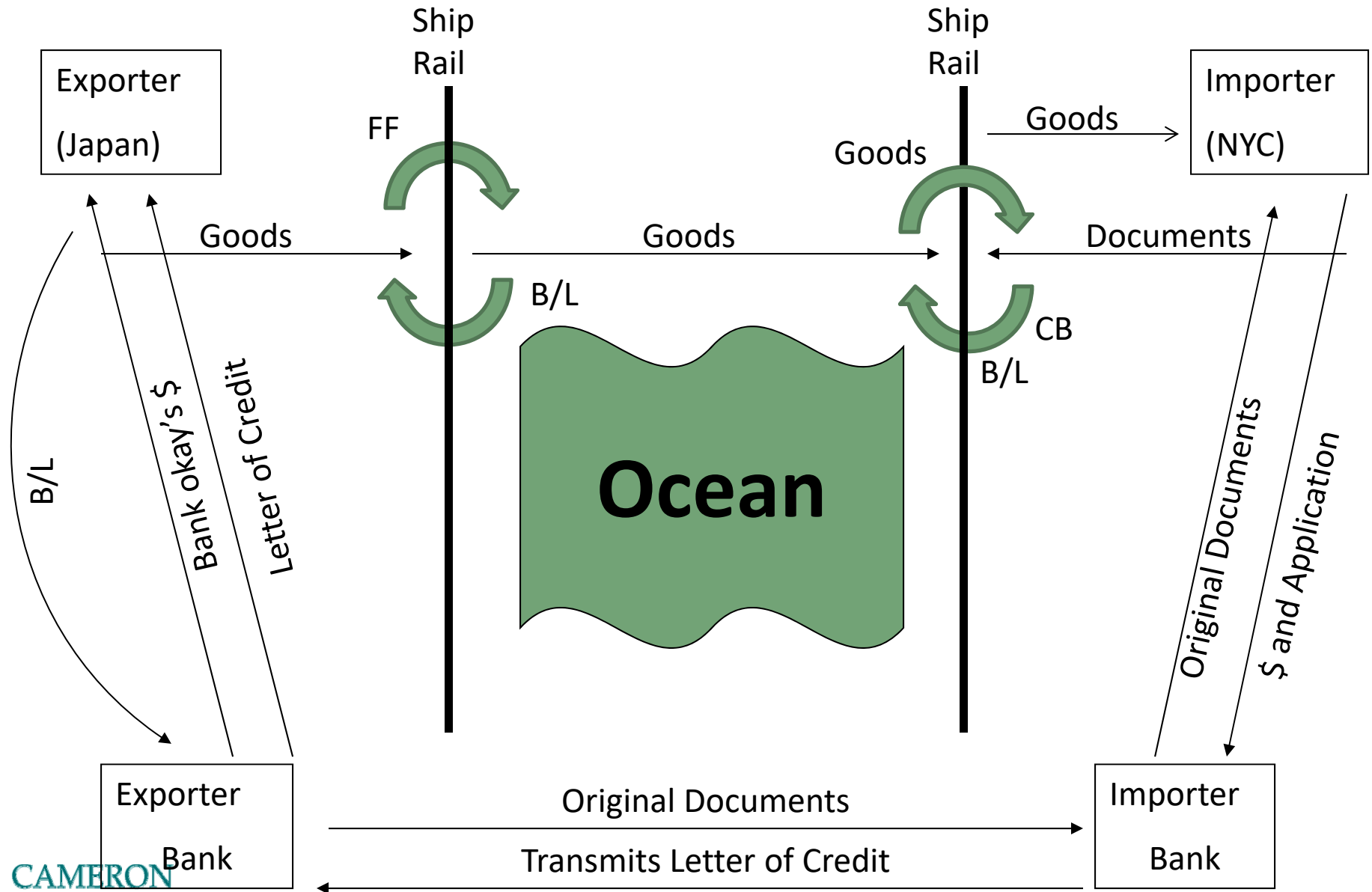
Freight Forwarder (FF) – business that handles export shipments (consultant)

Bill of Lading (B/L) – document from cargo carrier that is receipt for goods to be delivered.
Customer needs original to take possession of goods

Customs Broker (CB) – anyone who is licensed to transact customs business, such as taxes, duties, other charges for importation, on behalf of others

- <http://apps.cbp.gov/brokers/index.asp?portCode=1501>

Letter of Credit Process



Process

Exporter
(Japan)

Ship
Rail
FF

Ship
Rail

Importer
(NYC)

Goods →



Exporter
Bank

Importer
Bank

Who pays for transit?





Road

Below is a breakdown of what is included in the base price and some options. Pricing is considered ex-works, Castiglion Fiorentino, Italy. All arranged deliveries are D.D.U.:

Base road (700c) frame and Enve composites carbon fork with 1-1/8" oversized headtube, Chris King external headset:

Please note as of January 2011, all road framesets are designed to include custom geometry, front fork, Chris King headset and seatpost clamp. Frame-only purchases are not available. Prices are subject to change without notice due to raw material pricing. Details of this custom frameset include:

- Straight-gauge grade 9 (3Al/2.5V) titanium tubes
- Machined parts in grade 5 (6Al/4V) titanium
- 1-1/8" headtube standard, relieved headtube
- Stainless steel logo headtube badge

Terms of Sale

Ex-works (EXW) – exporter makes goods available on loading dock of its facility

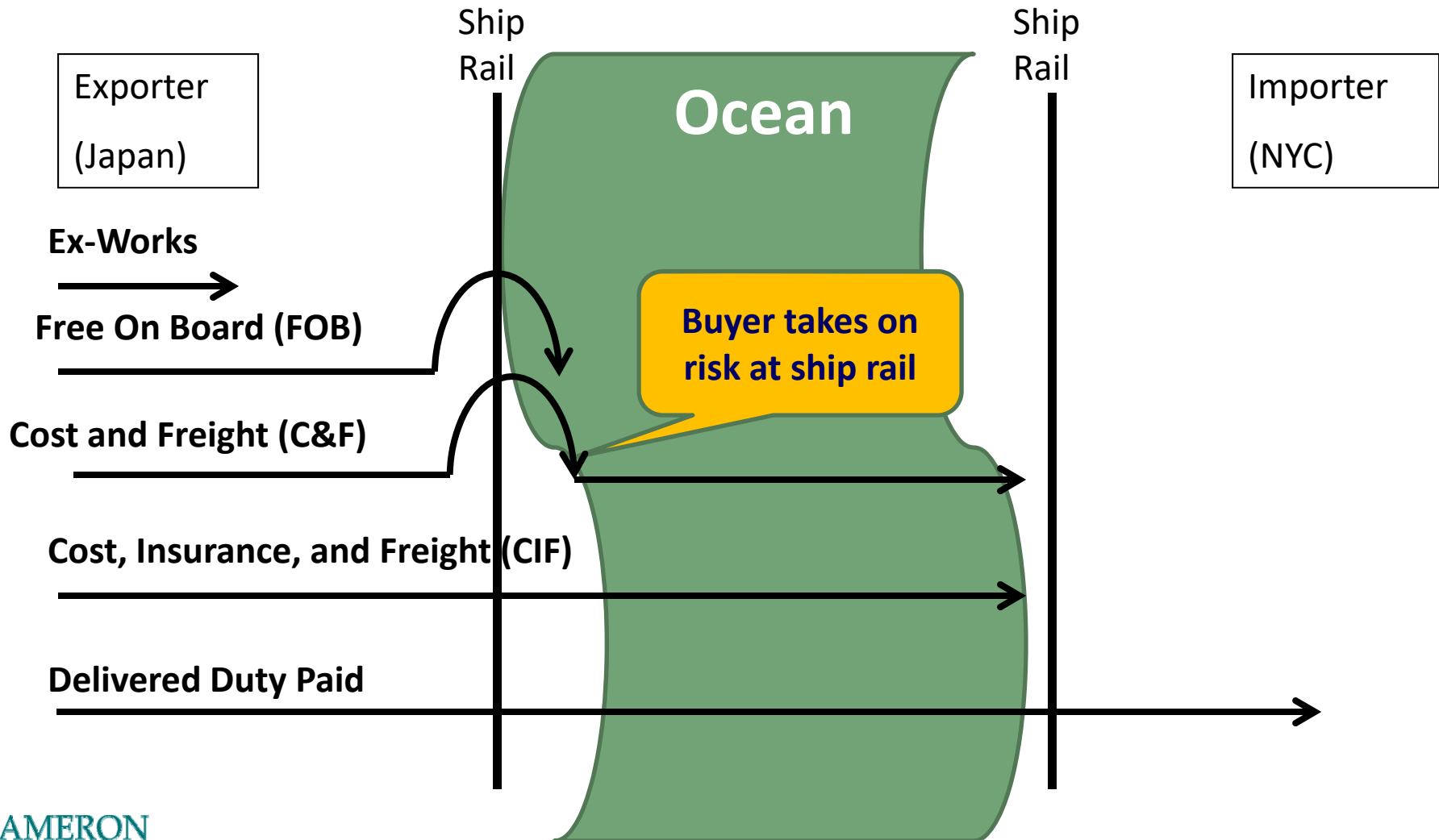
Free On Board (FOB) – exporter responsible for costs to transport to and load onto ship.

Cost and Freight (C&F) – exporter responsible for freight expenses. Importer responsible for unloading charges, customs fees, and inland transport costs

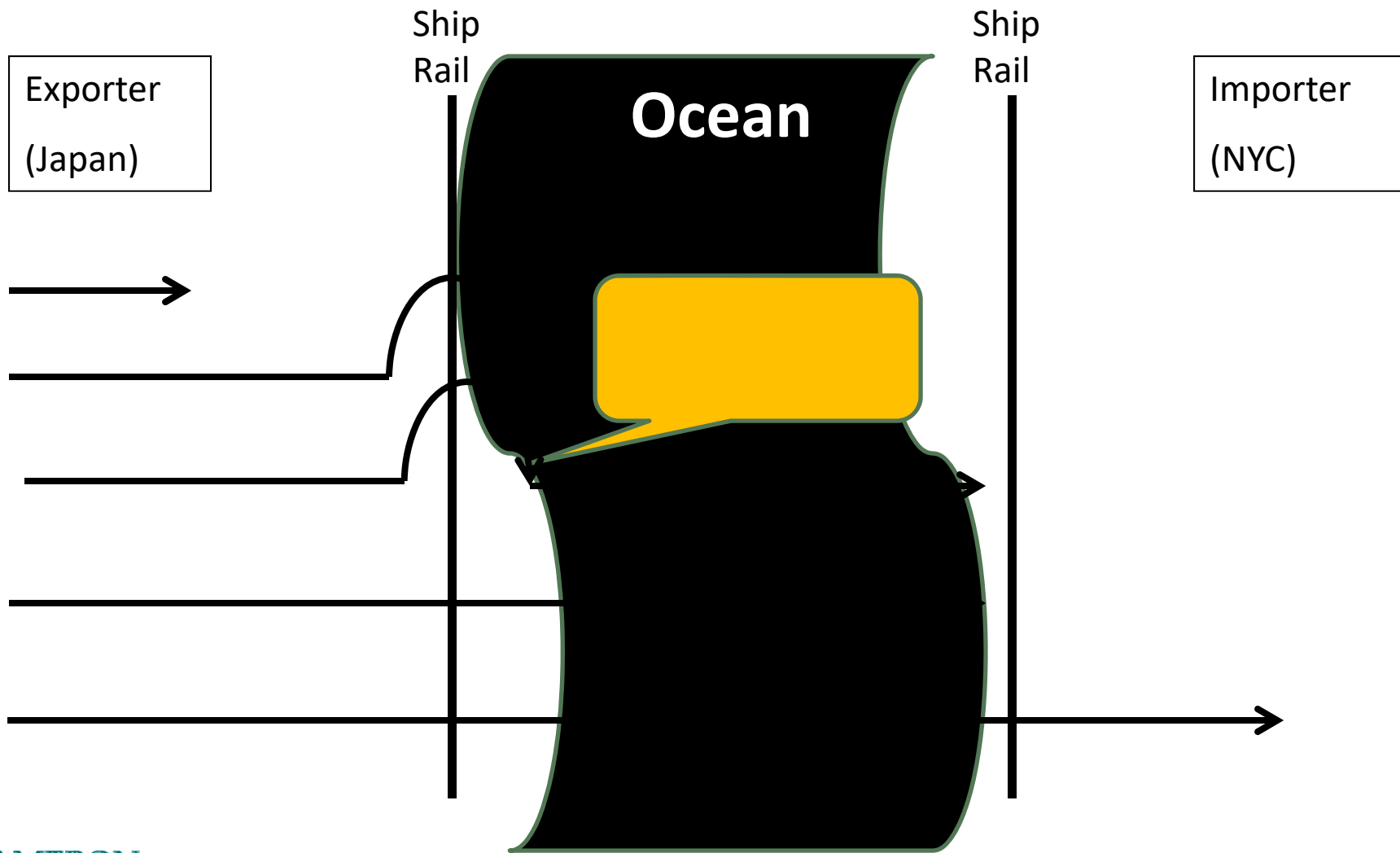
Cost Insurance and Freight (CIF) – like C&F but exporter must secure insurance as well.

Delivered Duty Paid (DDP) – exporter responsible for moving goods to importer's warehouse

Terms



Terms



Other Documents

Commercial Invoice – Bill for goods. Used by gov't to determine value, nec. for shipment

Certificate of Origin – signed statement as to the origin of the export organization. (call Chamber of Commerce)

Shippers export declaration – declares what exported for gov't stats, over \$500 for mail, over \$2500 for other shipping

Pro-forma Invoice, Consular invoice, Dock receipt, inspection certificate, destination control statement, insurance certificate, export license, packing list

COMMERCIAL INVOICE

SELLER: 1	INVOICE No. 4	DATE
	SOLD TO: 2	CUSTOMER REFERENCE No. 5
SHIP BY (OR BILL OF LADING): 3	TERMS OF SALE 6	
	TERMS OF PAYMENT 7	
	ISSUED BY (OR TO ORDER): 8	DATE OF ISSUE / AMOUNT
	ISSUED TO (OR ORDER): 9	

QTY	DESCRIPTION	UNIT OF MEASURE	UNIT PRICE	TOTAL PRICE
10	11	12	13	

PACKAGE MARKS: 15	TOTAL COMMERCIAL VALUE: 14
	REC. CHARGES (freight, insurance, etc.): 15
	TOTAL INVOICE VALUE:

CERTIFICATIONS:
17

I certify that the stated export prices and description of goods are true and correct:

_____ (SIGNED)

TITLE: _____

CERTIFICATE OF ORIGIN

SHIPPER/EXPORTER 1			COMMERCIAL INVOICE NO. 5		DATE
			CUSTOMER PURCHASE ORDER NO. 6		B/L AND NO. 7
			COUNTRY OF ORIGIN 8		DATE OF EXPORT 9
CONSIGNEE 2			EXPORT REFERENCES 10		
NOTIFY: INTERMEDIATE CONSIGNEE 3			ATLANTIC PORT OF DEPARTURE 11		
FORWARDING AGENT 4			EXPORTING CARRIER/ROUTE 12		
QUANTITY 13	NET WT. (KGS) 14	GROSS WT. (KGS) 15	DESCRIPTION OF MERCHANDISE 16		
PACKAGE MARKS: 17					
The undersigned 18 _____ (Owner or Agent), does hereby declare for the above named shipper, the goods as described above were shipped on the above date and consigned as indicated and are products of the United States of America. Dated at _____ 19 _____ on the _____ day of _____ 20_____. Sworn to before me this _____ day of _____ 20_____. 20 _____ _____ SIGNATURE OF OWNER OR AGENT					
The _____ 21 _____, a recognized Chamber of Commerce under the laws of the State of _____, has examined the manufacturer's invoice or shipper's affidavit concerning the origin of the merchandise, and, according to the best of its knowledge and belief, finds that the goods named originated in the United States of America. Secretary _____ 22 _____					

Form No. 19-505 Printed and Sold by LMG & CO. 201 Civic Center N. Suite 101, Parsippany, NJ 08854 (908) 621-2888 www.lmgco.com

PACKING LIST

© Copyright 2001 Lin & Co.

Place and Date of Shipment _____ 19____

To _____

Gentlemen:

Under your Order No. _____ the material listed below
 was shipped _____ via _____
 To _____

Shipment consists of _____ Cases _____ Packages _____ Cases _____ Cartons _____ Bbls _____ Drums _____ Pails _____	Make _____
--	------------

* LEGAL WEIGHT IS WEIGHT OF ARTICLE PLUS PAPER, INCL, BOTTLE, ETC., CONTAINING THE ARTICLE AS USUALLY QUARRED IN STOCK.

PACKAGE NUMBER	WEIGHTS IN LBS. OR KGS.			DIMENSIONS			QUANTITY	CLEARLY STATE CONTENTS OF EACH PACKAGE
	GROSS WEIGHT EACH	TOTAL WEIGHT EACH	NET WEIGHT EACH	HEIGHT	WIDTH	LENGTH		

Form No. 30-008 Revised and Sold by 201 Clark Drive N, Suite 104, Pleasanton, NJ 08864 (908) 851-0288 www.linco.com

Importing

To pick up goods will need

- Bill of lading, commercial invoice, Entry manifest, packing list
- Duties must be paid
 - **Ad valorem duties** – percentage of value of merchandise
 - **Specific** – price per unit of weight or quantity
 - **Compound** – combination of both ad valorem and specific
- See Harmonized Tariff Schedule of the United States – a classification of goods for international trade

Get a customs broker!

How to really do this!

Seek help!

- Chamber of Commerce
- Other exporters
- SBA
- Trade Association
- Export.gov
 - All kinds of info
 - Shipping terms – 114 pages of terms (let's not cover them all...)
- Call a freight forwarder!!

Exporter of the Year Winners

Ten U.S. Commercial Service clients received DHL/ThinkGlobal Exporter of the Year awards during a presentation at the annual Asia/Pacific Business Outlook conference held in Los Angeles. Winners will be featured in the May issue of Commercial News USA.

[View Full Story](#)



The annual Exporter of the Year awards are given to companies in 12 different industry sectors.

BEGIN
Exporting

EXPAND
Your Exports



Export Topics

- ▶ Success Stories
- ▶ Export Finance
- ▶ Trade Data
- ▶ NAFTA Certificate
- ▶ "Doing Business In" Guides
- ▶ HS Codes, Tariffs & Taxes
- ▶ Export Controls & Licenses
- ▶ IPR, Trade Complaints & Advocacy
- ▶ Promote Products Overseas

Training

- ▶ Upcoming Training
- ▶ Formal Training
- ▶ Export Basics
- ▶ Multimedia
- ▶ Watch Archived Webinars

Connect

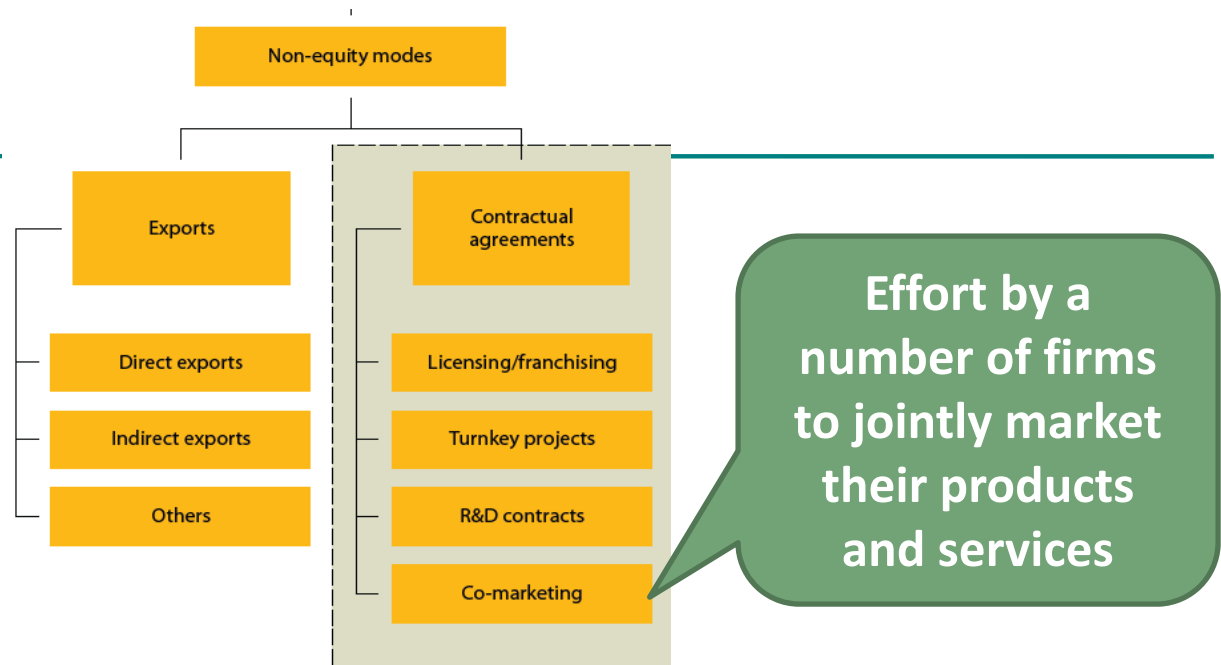


More social sites for Export.gov

[Trade Shows](#)
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Export.gov is managed by the



Non-equity entry: Contractual Agreements

	Advantages	Disadvantages
Licensing/ Franchising	<ul style="list-style-type: none"> • Low development cost • Limited capital at risk 	<ul style="list-style-type: none"> • Limited control over tech • May create competitors • Lack of coordination
Research and development	<ul style="list-style-type: none"> • Tap into knowledge in other locations 	<ul style="list-style-type: none"> • Difficult to negotiate and enforce contracts • May nurture competitors
Co-marketing	<ul style="list-style-type: none"> • Inexpensive way to reach customers 	<ul style="list-style-type: none"> • Limited control • Coordination problems

Options and Concerns

Instead of JV, could pursue **Co-marketing** – effort by a number of firms to jointly market their products and services

- i.e. toys and movies marketed together, airlines etc.
- Cheaper way to reach customers
- Limited control, coordination problems

Implications for Action

Understand the rules of the game for foreign markets

- Where?
- Formal and informal

Don't lose track of strategic goals

Going international? Go right

- Deploy overwhelming resources to overcome the liability of foreignness