

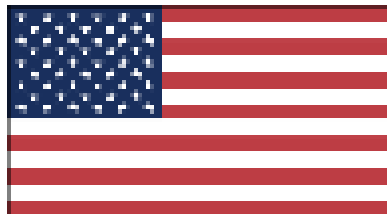


# International Entry Decisions

Session 4



# Foreign Entry Decisions



Home Market

United States

- What market(s) to enter? Choice and scale
- How to enter it/them? Mode of entry
- When to enter it/them? Timing and order of entry
- How to allocate resources during entry?

# Choice and Scale of Entry

## ■ *International market scale or scope:*

- Number of countries or markets entered
- Effect of the scale of entry on performance
  - Volume-driven cost advantages from large scale entry
  - Signal of management commitment

## ■ *Choice of entries:*

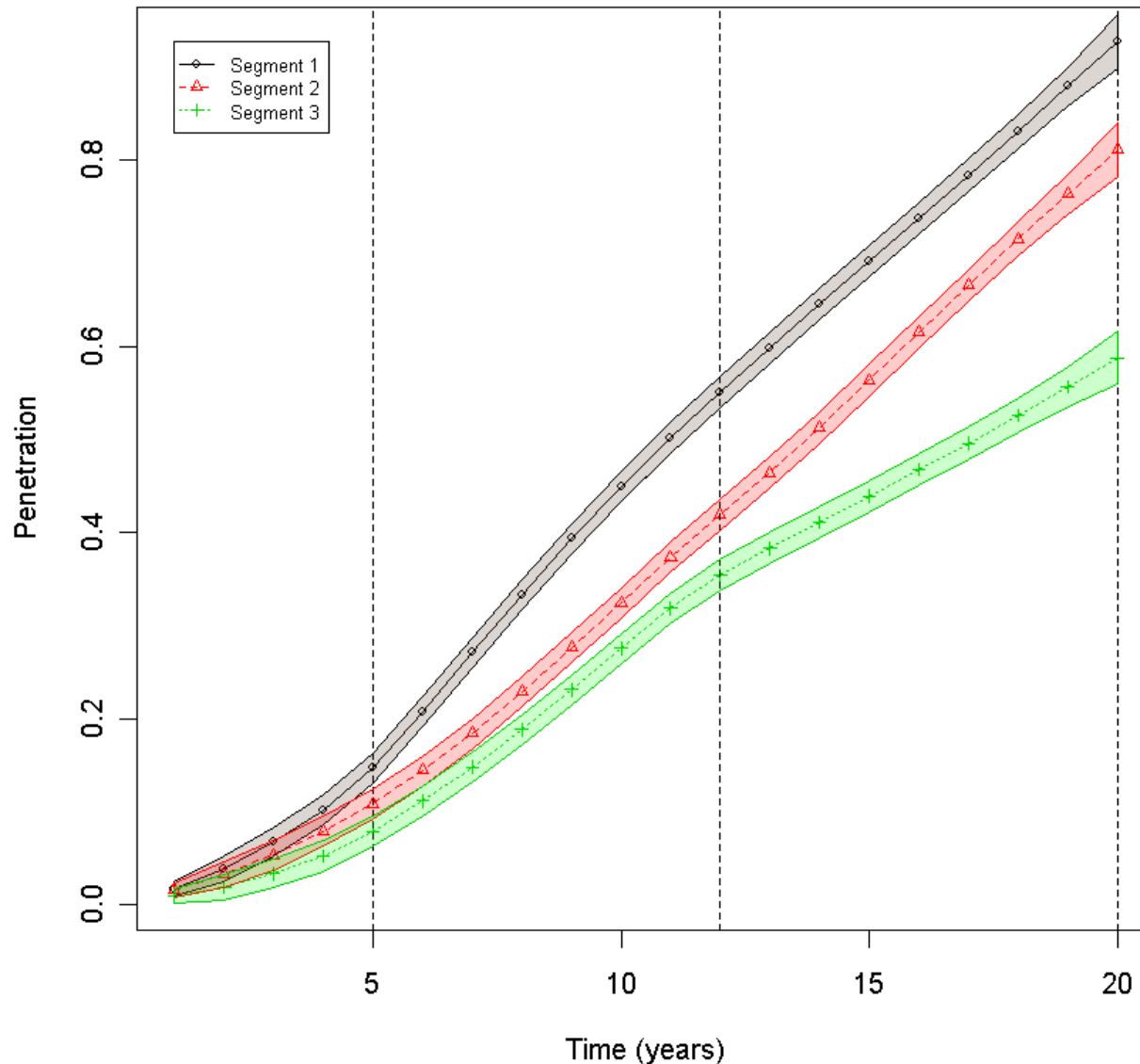
- Evaluate market potential and profitability: the idea is to consider simultaneously and matching
  - *Country-specific advantages*
  - *Firm-specific advantages*
  - *Product-specific advantages*

# Example 1: Pharmaceutical Industry

	Early Sales (<3.5 yrs after launch) per 1,000 inhabitants	Late Sales (>3.5 yrs after launch) per 1,000 inhabitants
Country	% Dev. from mean	% Dev. from mean
<b>North America</b>	<b>79%</b>	<b>74%</b>
United States	270%	305%
Canada	87%	94%
<b>Oceania</b>	<b>44%</b>	<b>77%</b>
Australia	70%	153%
New Zealand	18%	1%
<b>Europe</b>	<b>23%</b>	<b>17%</b>
Western Europe	65%	56%
Eastern Europe	-65%	-66%
<b>Asia</b>	<b>-27%</b>	<b>-35%</b>
<b>South America</b>	<b>-80%</b>	<b>-79%</b>
<b>Africa</b>	<b>-80%</b>	<b>-83%</b>

Stremersch & Lemmens (2009), *Marketing Science*

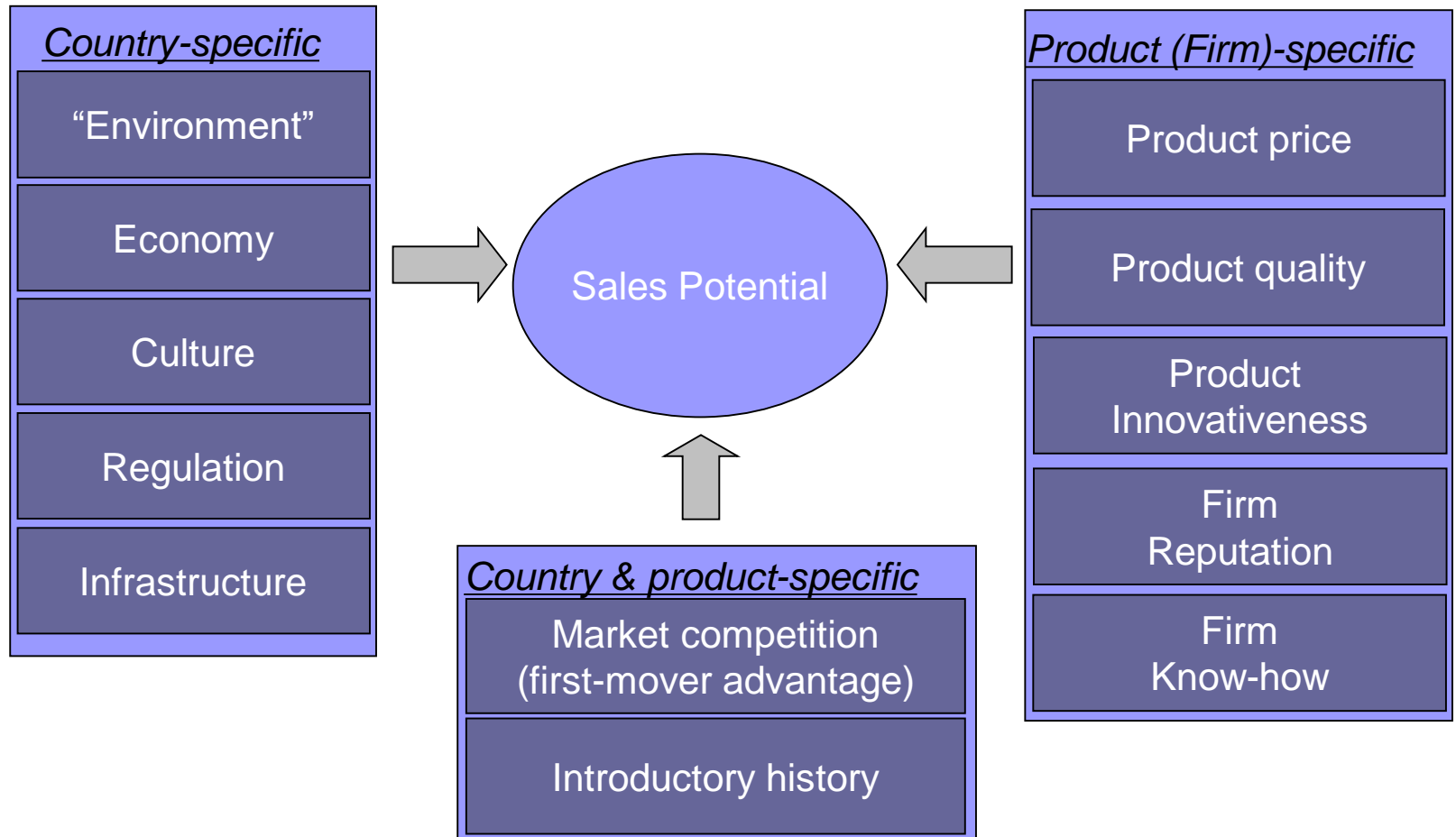
# Example 2: ICT Industry



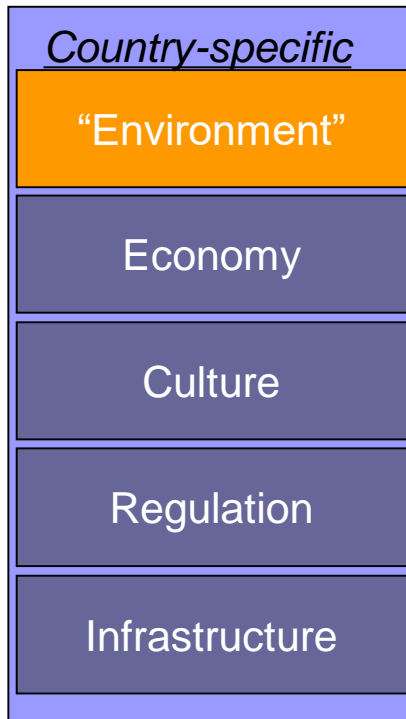
- Luxembourg, Czech Republic, Lithuania, Slovakia, Slovenia
  - Denmark, Finland, Latvia, Malta, The Netherlands, Sweden, UK
  - Bulgaria, Cyprus, Estonia, Hungary, Poland, Romania and Austria, Belgium, France, Germany, Greece, Ireland, Italy, Portugal, Spain
- Product set:
- Mobile phones (users per capita)
  - Cable TV (subscribers per household)
  - PC in use (PC per household)
  - Internet users per capita
  - Broadband Internet subscribers per household
  - Online buyers per capita.

# Choice and Scale of Entry

- Drivers of market potential:

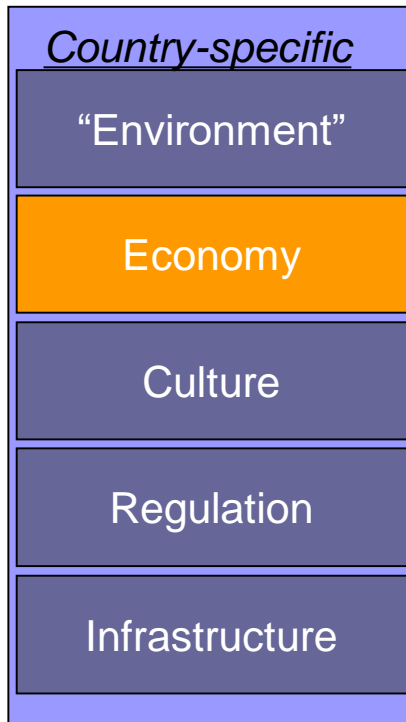


# Country-Specific Drivers of Market Potential



- Political environment
  1. General instability, e.g. revolution, terrorism
  2. Expropriation, e.g. nationalization  
(Coca-Cola, India 1977-1993)
    1. Operations, e.g. import restrictions, local regulations
    2. Finance, e.g. exchange rates, taxes
      - E.g. of risky countries: Angola, Congo, Colombia, Haiti, ...
      - Monthly reports on [www.countrydata.com](http://www.countrydata.com), [www.prsgroup.com](http://www.prsgroup.com)
- Physical and geographic environment
  - E.g. Climate
- Demographic characteristics
  - Population size, rate of growth, age structure

# Country-Specific Drivers of Market Potential

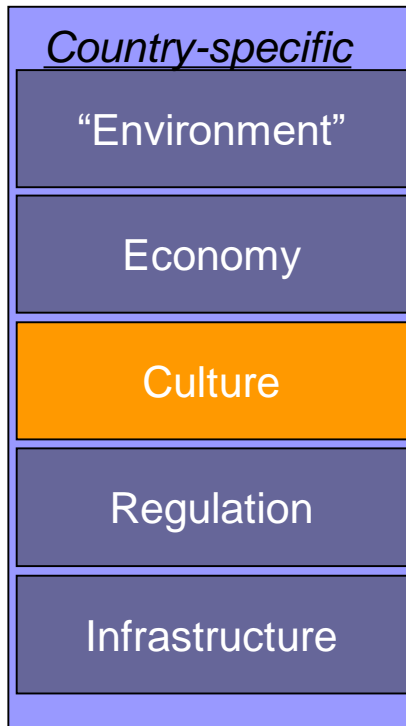


## ■ Economy:

- Includes disposal income per capita or household revenue, purchase power, income inequalities, ...
- Economic environment affects consumer demand but also distribution channels, media, ..
- Countries also vary in terms of future potential (e.g. emerging markets)
  
- GDP affects *positively* entry performance
  
- Economic *distance* is *negatively* related to foreign market entry decisions



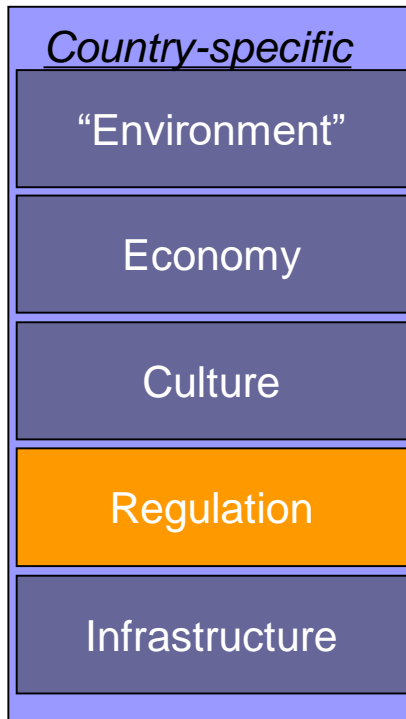
# Country-Specific Drivers of Market Potential



## ■ Culture

- See cultural values in Session 3
- E.g. openness to other cultures, materialism, importance of the norm, ethnocentrism, ...
- Religion (e.g. financial interests, cheeseburger)
- Cultural hostility and boycotts (US foreign policy)
- Culture affects many consumer-related dimensions: brand image, consumer innovativeness, ...
- Cultural *distance* is *negatively* related to foreign market entry decisions

# Country-Specific Drivers of Market Potential



## ■ Regulations

- Import-export regulations, incl. tariff barriers and
- Non-tariff barriers
  - Specific limitations on trade
    - Quotas, import licensing requirements, proportion restrictions of foreign to domestic goods (local-content requirements), minimum import price limits, embargoes
  - Customs and administrative entry procedures
    - Valuation systems, anti-dumping practices, tariff classifications, documentation requirements, fees
  - Standards
    - Standard disparities, intergovernmental acceptances of testing methods, packaging, labelling and marking standards, quality or environmental standards
  - Government participation in trade
    - Export subsidies, domestic assistance programmes
- Price regulation
- Marketing effort regulation
- Depends on the industry!

# Regulatory Intensity in the Pharma Industry



# Country-Specific Drivers of Market Potential



## ■ Infrastructure

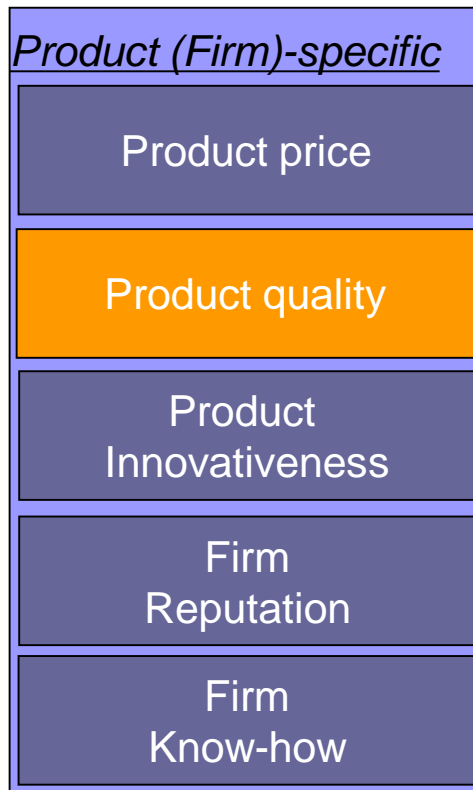
- Physical transportation structure, retail distribution network, communication network, mass media, ...
- Level of development (e.g. cars)
- Electricity availability (e.g. fridge)
- Internet access (e.g. e-commerce)
- Supplier and supporting industries present in the local market

# Product-Specific Drivers of Market Potential



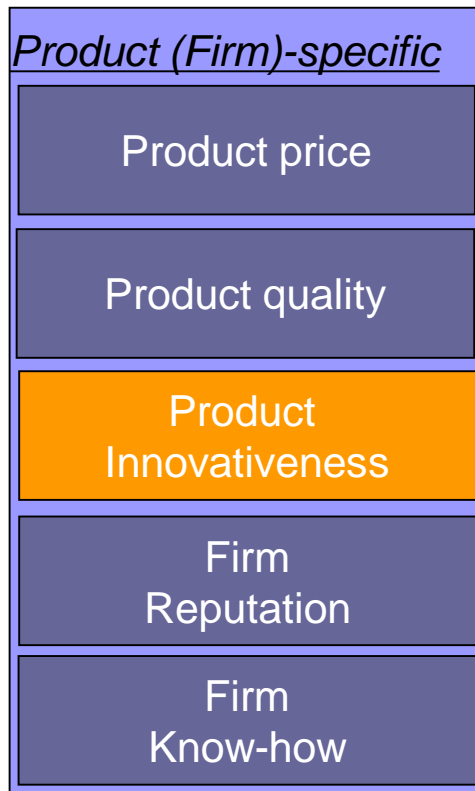
- Product price
  - Match with the country characteristics (e.g. GPD)
  - Entry decisions depend on local competitors' prices
  - Accounting for import tariffs
  - Profitability analysis
  - Perceived price: accuracy? (e.g. Germans > Finns)
  - Penetration pricing strategy
    - Introducing a product at a relatively low price and gradually increase price over the PLC
    - to ensure market acceptance and break down existing loyalties.
  - Skimming pricing strategy
    - Charging a relatively high price for a short time
    - to “skim” off customers who are willing to pay more to have the product sooner; prices are lowered later when demand from the “early adopters” falls

# Product-Specific Drivers of Market Potential



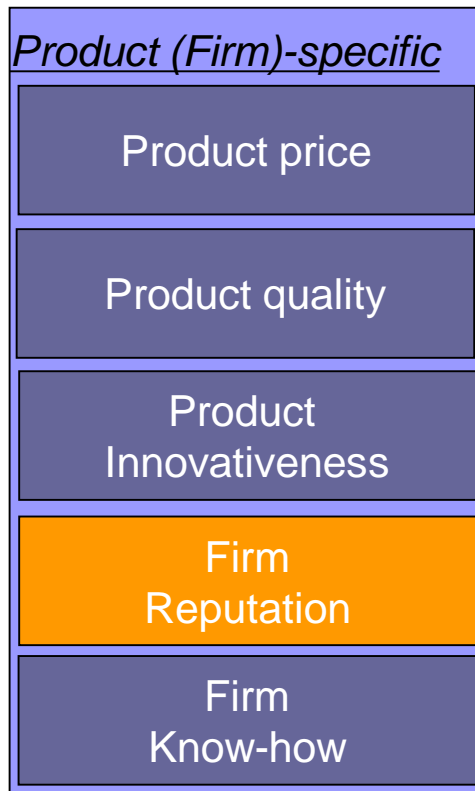
- Product quality
  - Match with the country characteristics
  - Match with the positioning of the company
  - Perceived quality
    - Quality-price ratio
    - Country dependence
    - WOM effects

# Product-Specific Drivers of Market Potential



- Product innovativeness
  - Perceived innovativeness
  - Differentiation element compared to available alternatives
  - Requires customer (cross-country) learning
  - Importance depends on the country
    - Risk-avoidant nations vs. risk-seeking nations

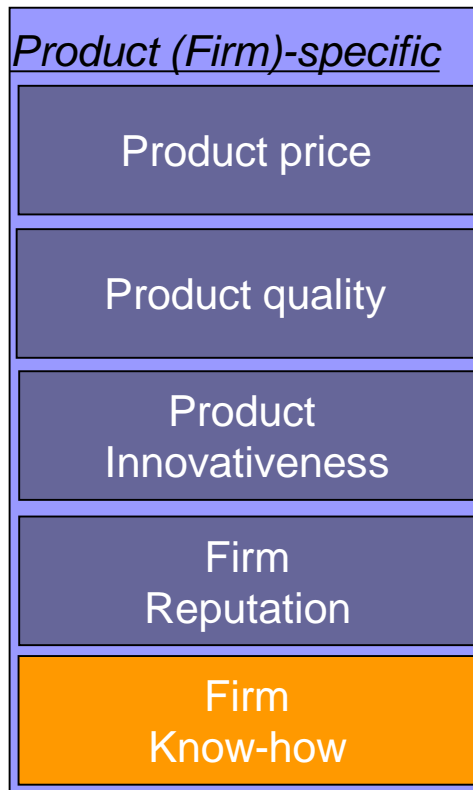
# Product-Specific Drivers of Market Potential



- Firm reputation
  - Country-of-origin effect
    - Country = brand equity
    - E.g. German cars, Italian clothes
    - Can change over time



# Product-Specific Drivers of Market Potential



- Firm know-how
  - Patents
  - Knowledge of the market (other products) or similar markets (near-market knowledge)
  - Management skills
  - Ability to adapt to the local conditions
  - Interest of a strategic partnership/alliance

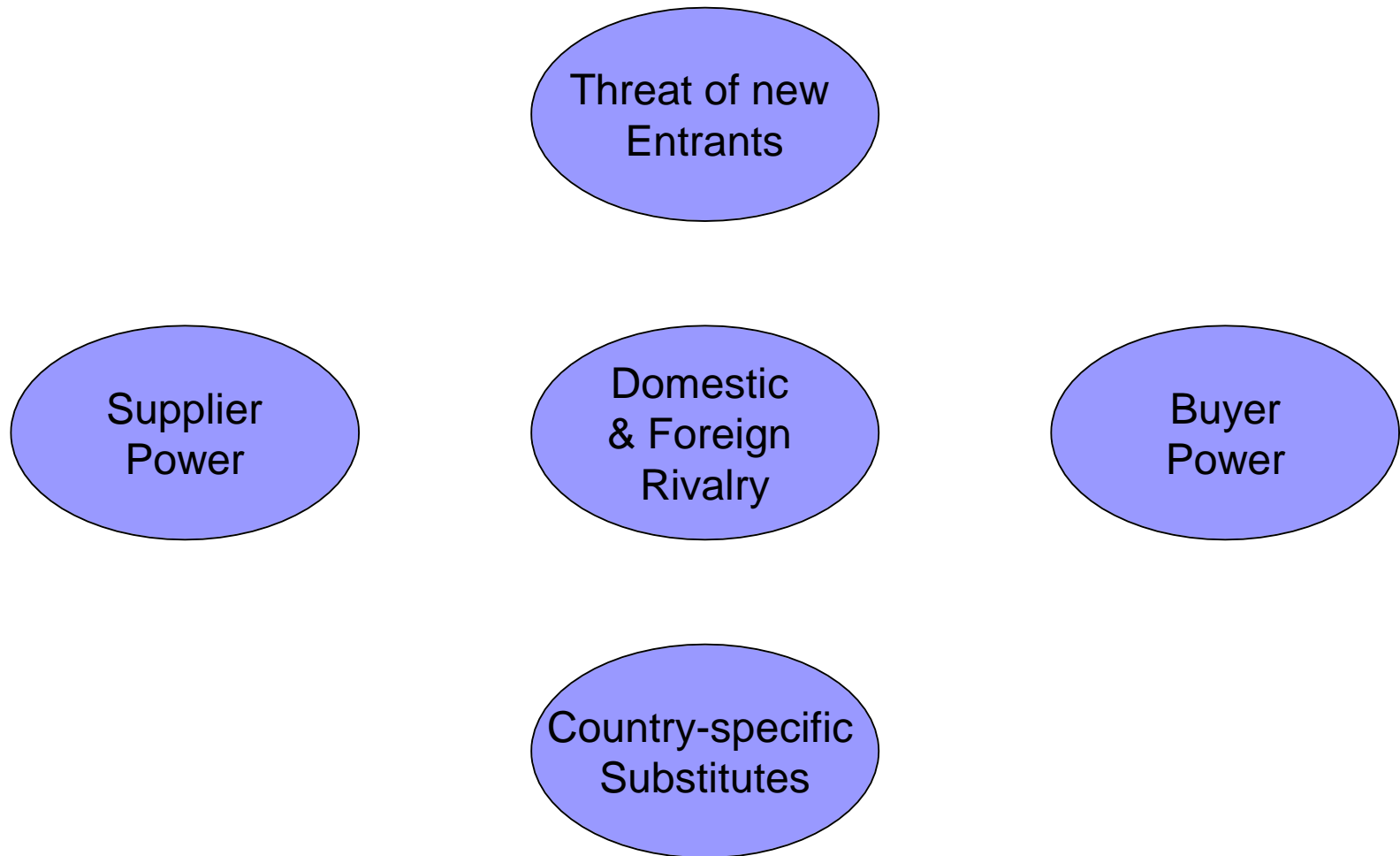
# Country-Product-Specific Drivers of Mkt Potential



## ■ Market Competition

- Competitive analysis:
  - Porter's 5 forces (Opportunities and Threats)
- Domestic and foreign competition
- Number of competitors (-)
- Variability in market shares among competitors (+)
- "Competitive Attack": entering a market to weaken competitors,
  - Attack a competitor's cash-generating home market
  - Precede a competitor's entry (pioneering advantage, first-mover advantage)
  - Risk: costly and dangerous (competitive war)

# Porter's Five Forces of Competition



# Country-Product-Specific Drivers of Mkt Potential

## *Country & product-specific*

Market competition  
(first-mover advantage)

Introductory history

- E.g. of global competition in the shoe market:  
Nike vs. Reebok? ... or vs. Adidas!
  - Historically, the sports shoe market had focused on the active sports(wo)men
  - About 40 years ago, Nike positions trainers as ideal shoes to protect weak ankles and tender knees for the new fitness-minded generation
  - Simultaneously, Reebok (UK) targets women with an aerobics shoe
  - In 1987, Reebok leads the sports shoe market
  - In the 90's, Nike launches the airpump and the famous swoosh logo ("Just do it")
  - Mid-90s, Adidas (GE) establishes a new global strategy while Nike and Reebok loose track (mktg war, ethical concerns, ...)
  - In 1998, France (Adidas) won the World Cup against Brazil (Nike)!
  - In 2003, Nike buys Converse...

# Country-Product-Specific Drivers of Mkt Potential



- First-mover advantages:
  - Higher brand recognition
  - More positive brand image
  - More customer loyalty
  - More distribution
  - Longer market experience (knowledge)
- Drawbacks
  - Channel members may need training
  - Customers might have to be educated (e.g. cell phones)
  - Advertising has to be more generic (e.g. Viagra)
  - Tastes and standards are unknown and perhaps informed (e.g. Starbucks)
- Controversy

# Country-Product-Specific Drivers of Mkt Potential



- Introduction history
  - Learning effect through introductory delays
  - Spillover effects between countries
    - In launch
    - In time-to-take off
    - In sales
    - ...
  - Near-market knowledge
  - Leading markets
    - Learn from highly demanding customers and strong competition
    - Not especially the largest markets
    - Low regulation
    - E.g. US for pc, Japan for camera, Germany for automobiles
  - But first-mover advantage

# Assessing Market Potential

- Based on sales/penetration information
  - Of similar product categories in the focal country
  - Of the focal product in similar (already entered) countries (*test markets*)
  - Or both:
- Methodology:
  - Let  $i$  denote the product
  - Let  $c$  denote the product category
  - Let  $j$  denote the country
  - Let  $t$  denote the time
  - $i = 1, \dots, I; c = 1, \dots, C; j = 1, \dots, J; t = 1, \dots, T.$

# Assessing Market Potential

## ■ Methodology

- Linear regression on country and product characteristics

$$sales_{icjt} = \beta_o + \beta_1 culture_j + \beta_2 GDP_{jt} + \beta_3 gini_{jt} + \beta_4 regulation_{jt} + \beta_5 latitude_j + \beta_6 longitude_j + \dots + \beta_7 country\_of\_origin_i + \beta_8 perceived\_quality_i + \beta_9 price_i + \dots + \beta_{10} competition_{icjt} + \beta_{11} introductory\_delay_{icj} + \dots + \varepsilon_{icjt}$$

- Plug-in parameters' estimates and variables' values for the product and country of interest → “predicted sales”

$$Est.\_sales_{icjt} = \hat{\beta}_o + \hat{\beta}_1 culture_j + \hat{\beta}_2 GDP_{jt} + \hat{\beta}_3 gini_{jt} + \hat{\beta}_4 regulation_{jt} + \hat{\beta}_5 latitude_j + \hat{\beta}_6 longitude_j + \dots + \hat{\beta}_7 country\_of\_origin_i + \hat{\beta}_8 perceived\_quality_i + \hat{\beta}_9 price_i + \dots + \hat{\beta}_{10} competition_{icjt} + \hat{\beta}_{11} introductory\_delay_{icj} + \dots$$



# Cross-National Transferability Issue

- *Transferability* of the firm- and product-specific advantages to other countries
  - Do the product-specific characteristics are stable across countries?  
*Cross-national invariance*
    - Do consumers from different countries perceive a product similarly?
    - E.g. Product perceived quality and economic welfare
    - Importance of a pre-test survey
  - Do they still matter in the same way? *Interaction/moderating effect*
    - Do these advantages have the same influence on the sales potential in different countries?
    - E.g. Product and consumer innovativeness
    - E.g. Firm's reputation and culture
    - E.g. Product perceived quality and economic welfare

# Cross-National Transferability (cont.)

$$sales_{icjt} = \beta_o + \dots + \beta_2 GDP_{jt} + \dots + \beta_8 perceived\_quality + \dots \\ + \gamma_1 GDP_{jt} \cdot perceived\_quality + \dots + \varepsilon_{icjt}$$

- How can we test :
  - whether the product-specific characteristics (perceived quality) are stable across countries? *Cross-national invariance of perceived quality*

---



---

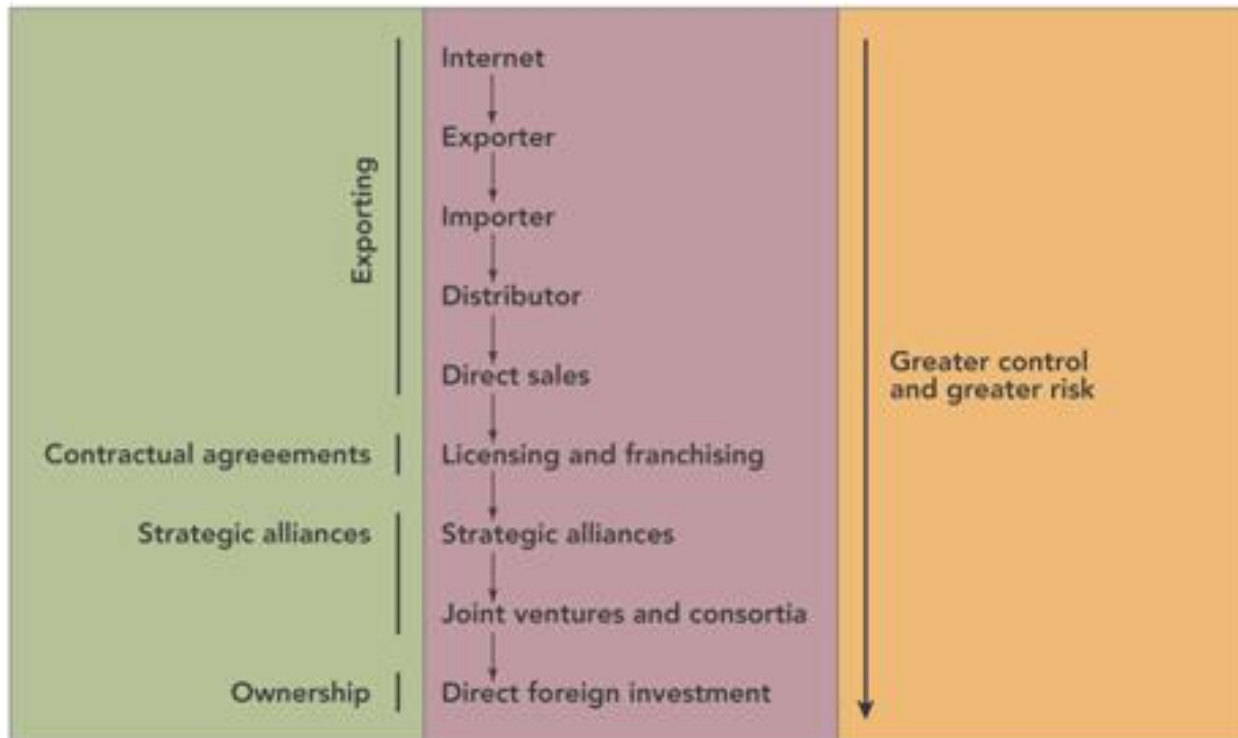
  - Whether the product-specific characteristics (perceived quality) matter in the same way across countries? *Interaction/moderating effect of perceived quality and GDP*

---



---

# Modes of Entry



# Modes of Entry

## ■ Exporting

- Internalization
- Only if low tariffs barriers and transportation costs
- Usually as a first expansion step
- + : Low risk, control of operations, generate learning
- - : No know-how transfer

## ■ Licensing

- Externalization, sell rights to use technology, know-how and brand equity.
- - : Risk of know-how dissipation to competitors, little control (better control with franchises)
- +: Intellectual property rights to prevent technological leaks, no tariff
- +/- : Some learning generation

# Modes of Entry

## ■ *Strategic Alliances and Joint Ventures*

- Exchange or share parts of the value chain, e.g. R&D, distribution channels
- + : Access to technology, to local knowledge, to distribution channels, speed, EOS
- - : Requires a win-win collaboration, heavy costs in case of withdrawal, limits growth potential of the partners

## ■ *Direct foreign investment through subsidiaries*

- Internalization
- When high barriers exist
- + : Stable stock flow, availability, lower manufacturing costs (e.g. Asia), avoid tariff barriers, reduced transport costs, adaptation potential to satisfy local requirements
- - : Risky, quality variations, country-of-origin effects: effect of the “made in” label (e.g. Nike)

# Modes of Entry

- ***Effect of the mode of entry on performance***
  - Greenfield expansion (FDI) tend to be more successful than acquisitions or joint ventures
  - Difficulty of integration and management commitment

# Timing of Entry

## ■ Waterfall strategy:

- Gradual, stepwise entry into various markets
- Usually preferred
- Pro's: Lower risk, consolidate on existing resources and gradual learning
- Con: rather slow

## ■ Sprinkler strategy:

- Several markets are entered simultaneously (or within a limited period of time)
- Growing trend
- Pro's: quick, generate first-mover advantage
- Con's: financially demanding and risky.

# Order of Entry

- Two kinds:

- Among competitive brands/firms within a market/country

→ *FIRST-MOVER ADVANTAGE*

- Among countries for a given brand/firm

→ *CROSS-COUNTRY LEARNING OR SPILLOVER EFFECTS*

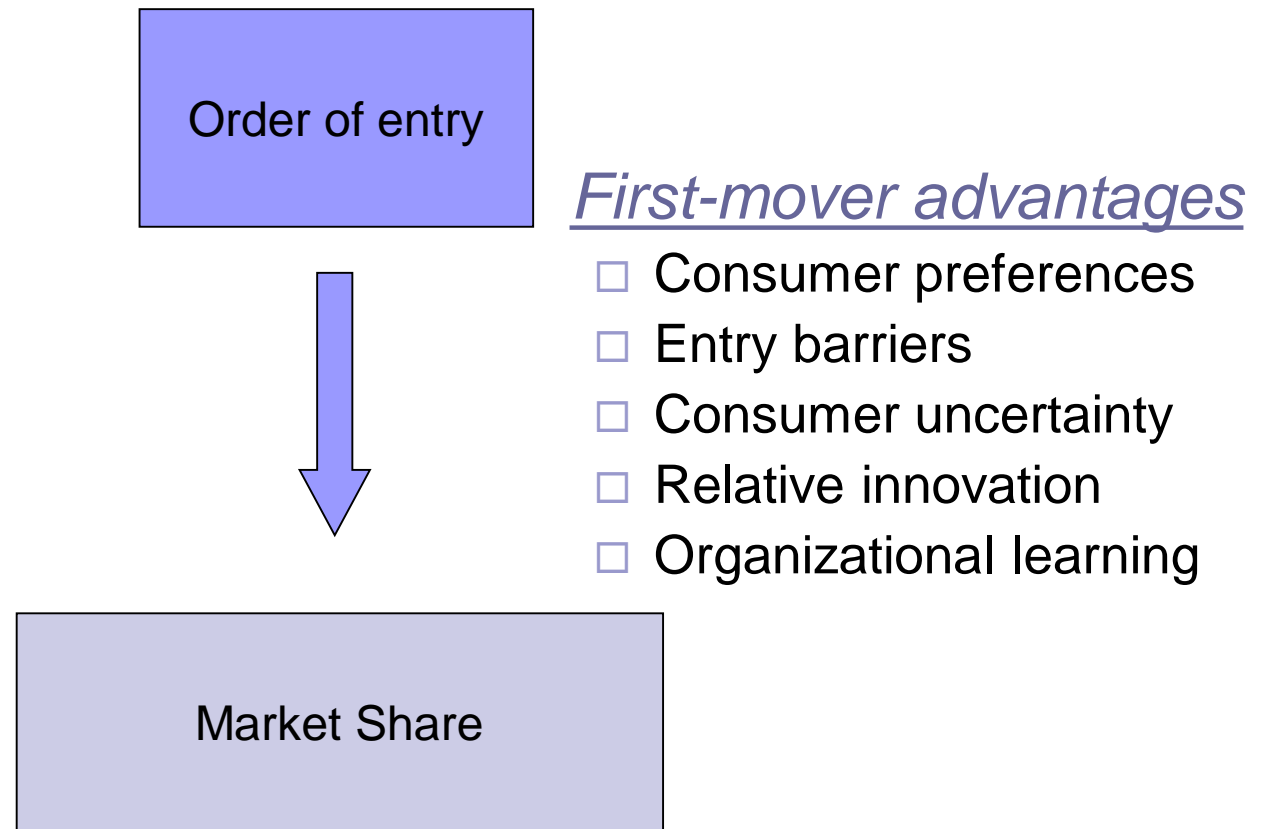


# Order of Entry *in a Market*

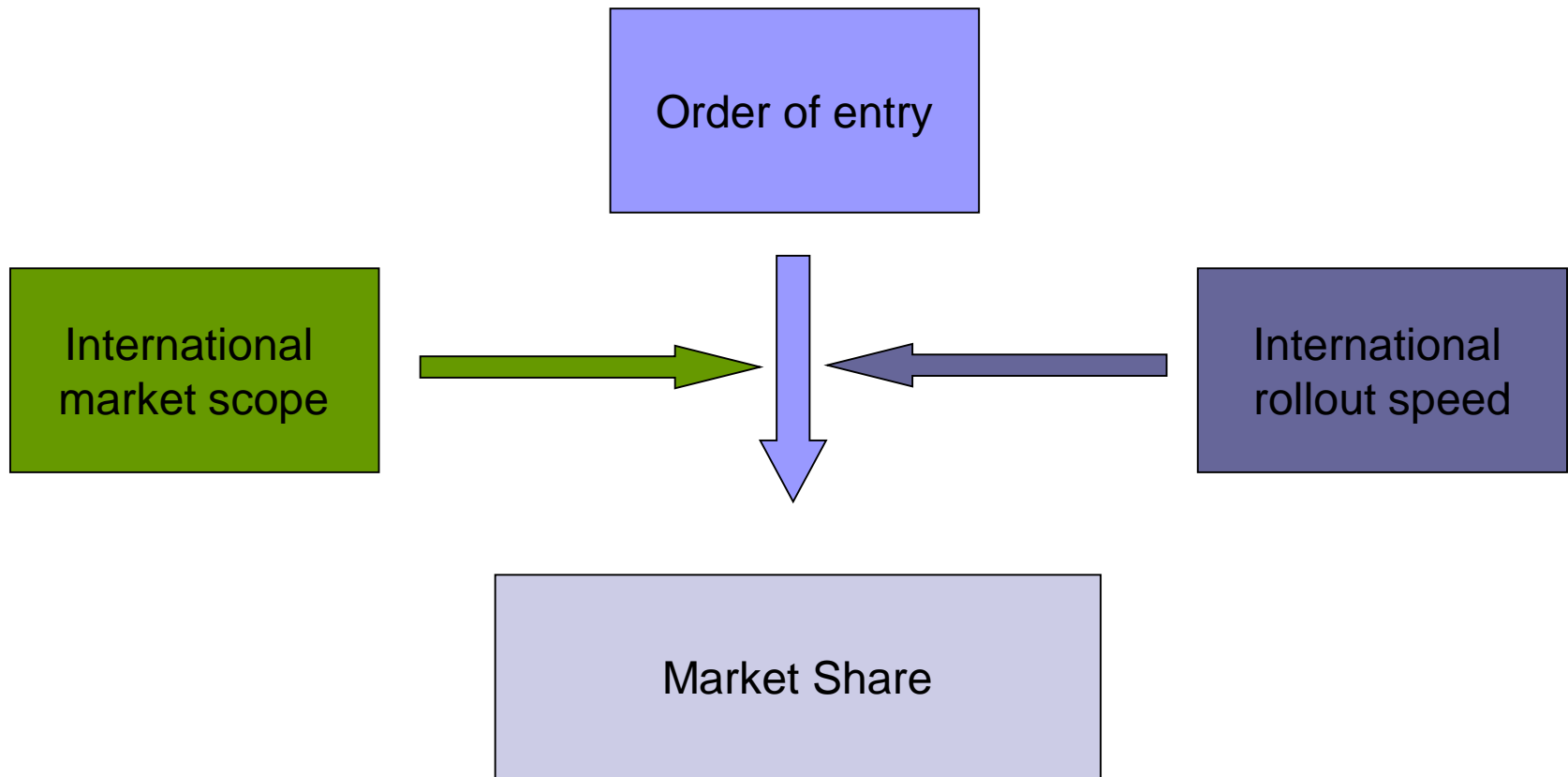
- Example: Coke vs. Pepsi in India



# Order of Entry: Pioneering Advantage?

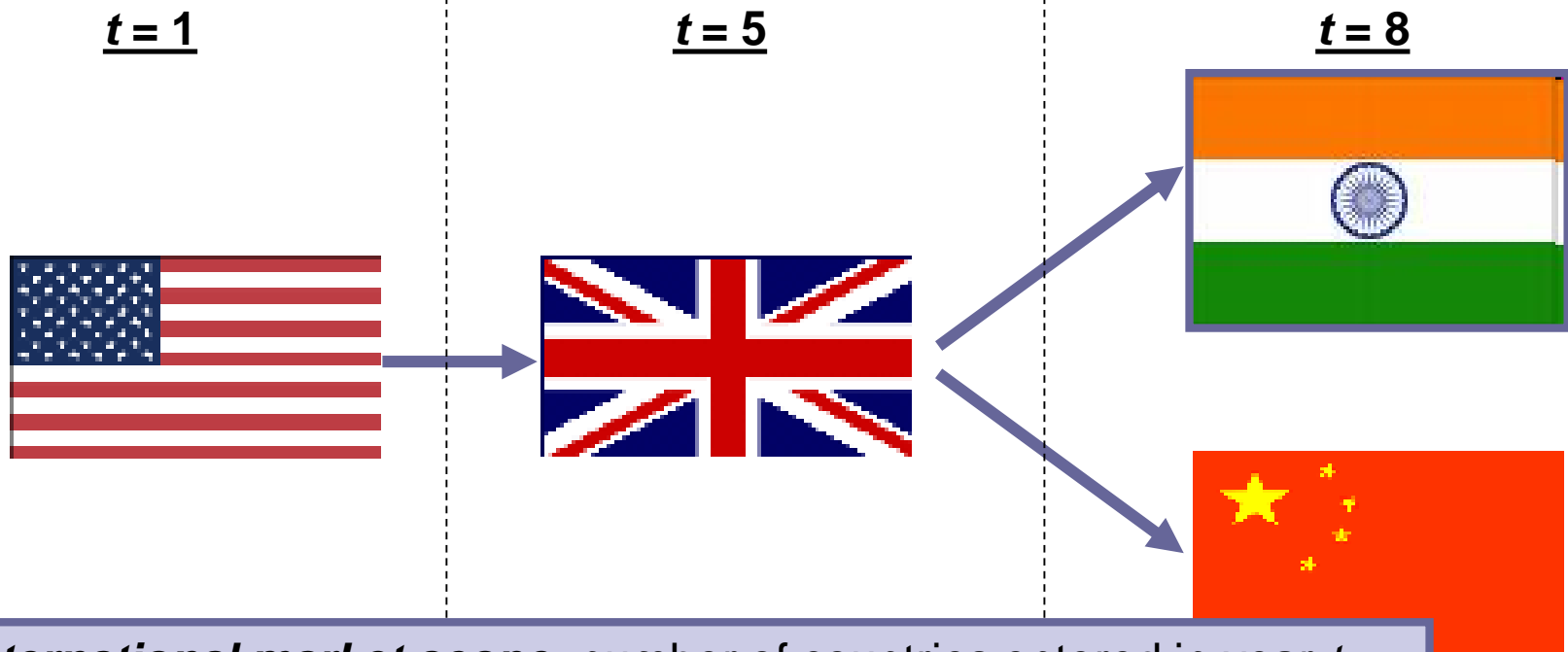


# Order of Entry *in a Market*: Moderating Role of Intl. Entry Strategies



From Fisher et al. (2005)

# Order of Entry *in a Market*: Moderating Role of Intl. Entry Strategies



**International market scope:** number of countries entered in year  $t$

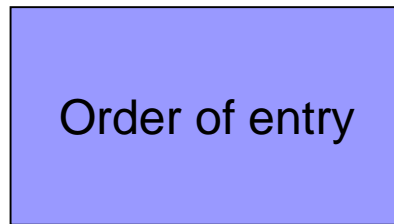
= .....

**International rollout speed:** Number of entries per period

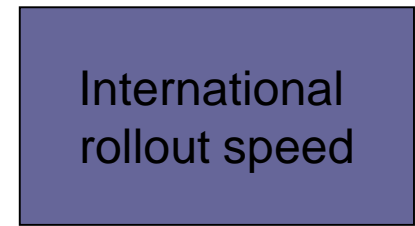
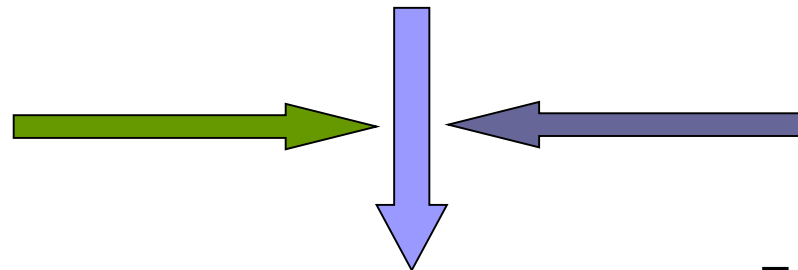
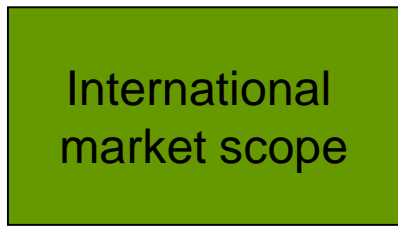
= .....

# Order of Entry *in a Market:* Moderating Role of Intl. Entry Strategies

- Extent of exposure to an international customer base



- Fast vs. slow
- Sprinkler vs. waterfall



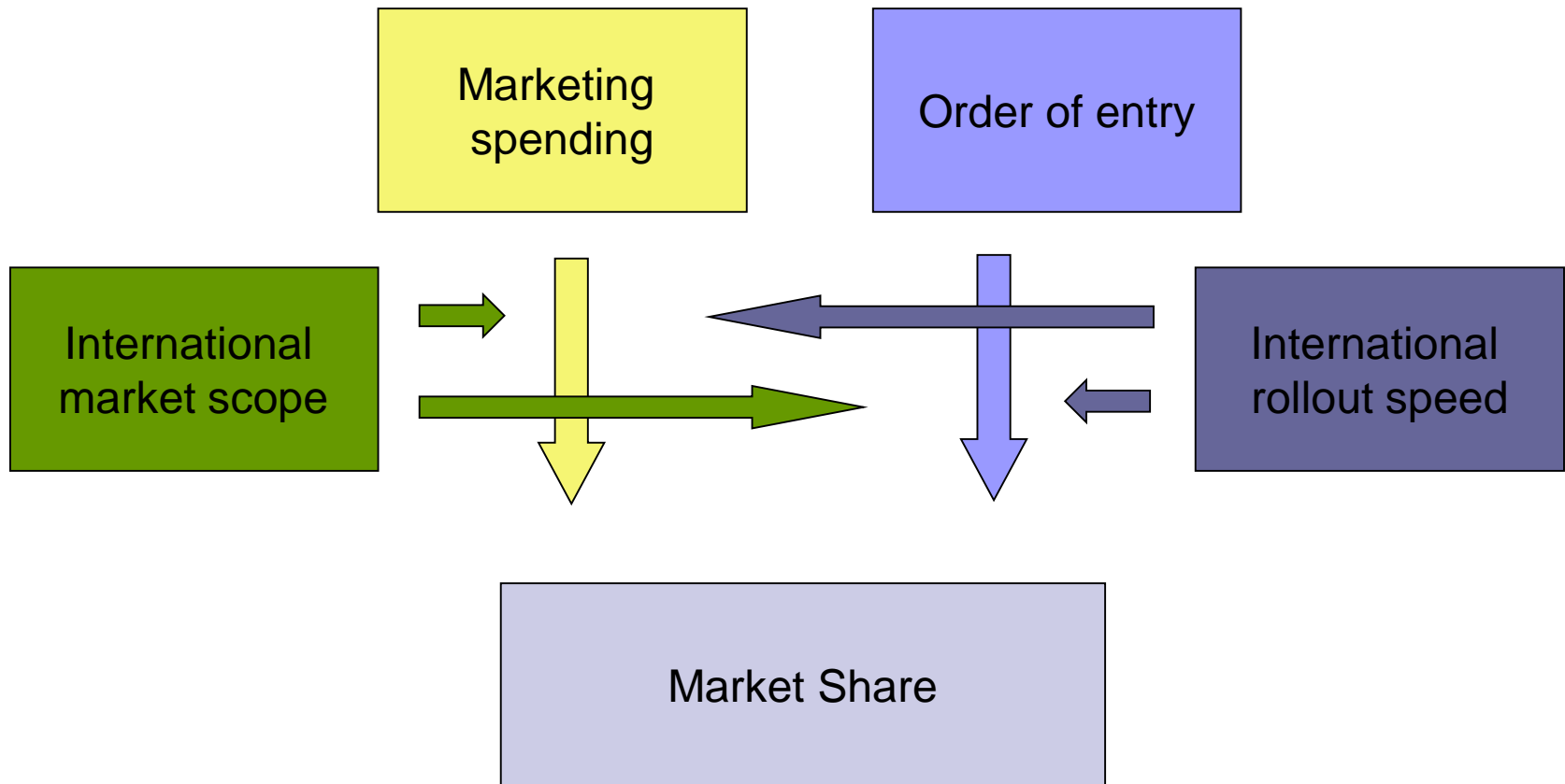
- Effect on:
  - Consumer preferences: International image and awareness (+)
  - Entry barriers: know-how, EOS (+)



- Effect on:
  - Consumer uncertainty: cross-country learning (-)
  - Relative innovativeness: improved via previous entries (-)
  - Organizational learning (-)



# Order of Entry *in a Market*: Joint effect on Marketing Effectiveness



From Fisher et al. (2005)

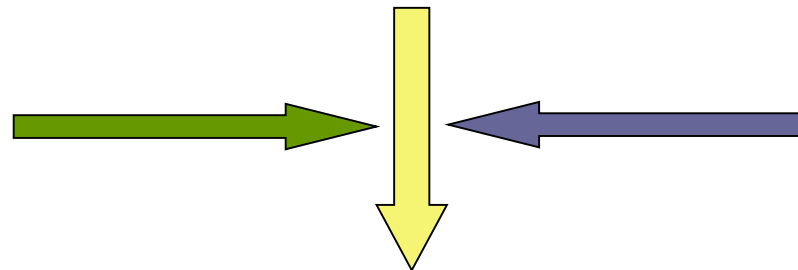
# Order of Entry *in a Market*: Joint effect on Marketing Effectiveness

- EOS and spillover effects via standardization of the marketing mix (+)

Marketing spending

- Time required for learning transfer across countries (-)
- Allocation of resources (-)

International market scope



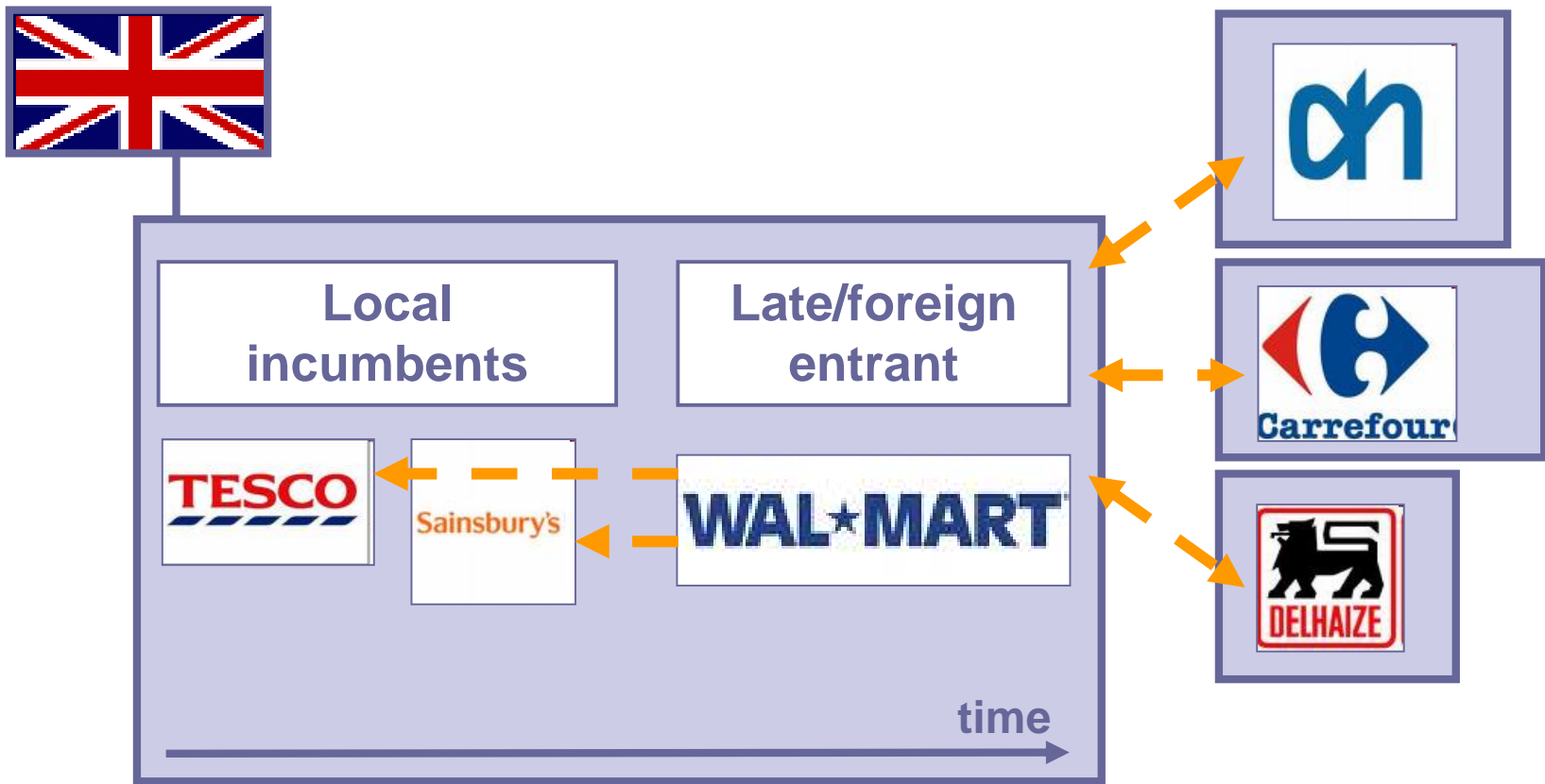
International rollout speed

- Customer feedback and experience in previous entries (+)
- Cross-national contagion (learning) among customers (+)

Market Share

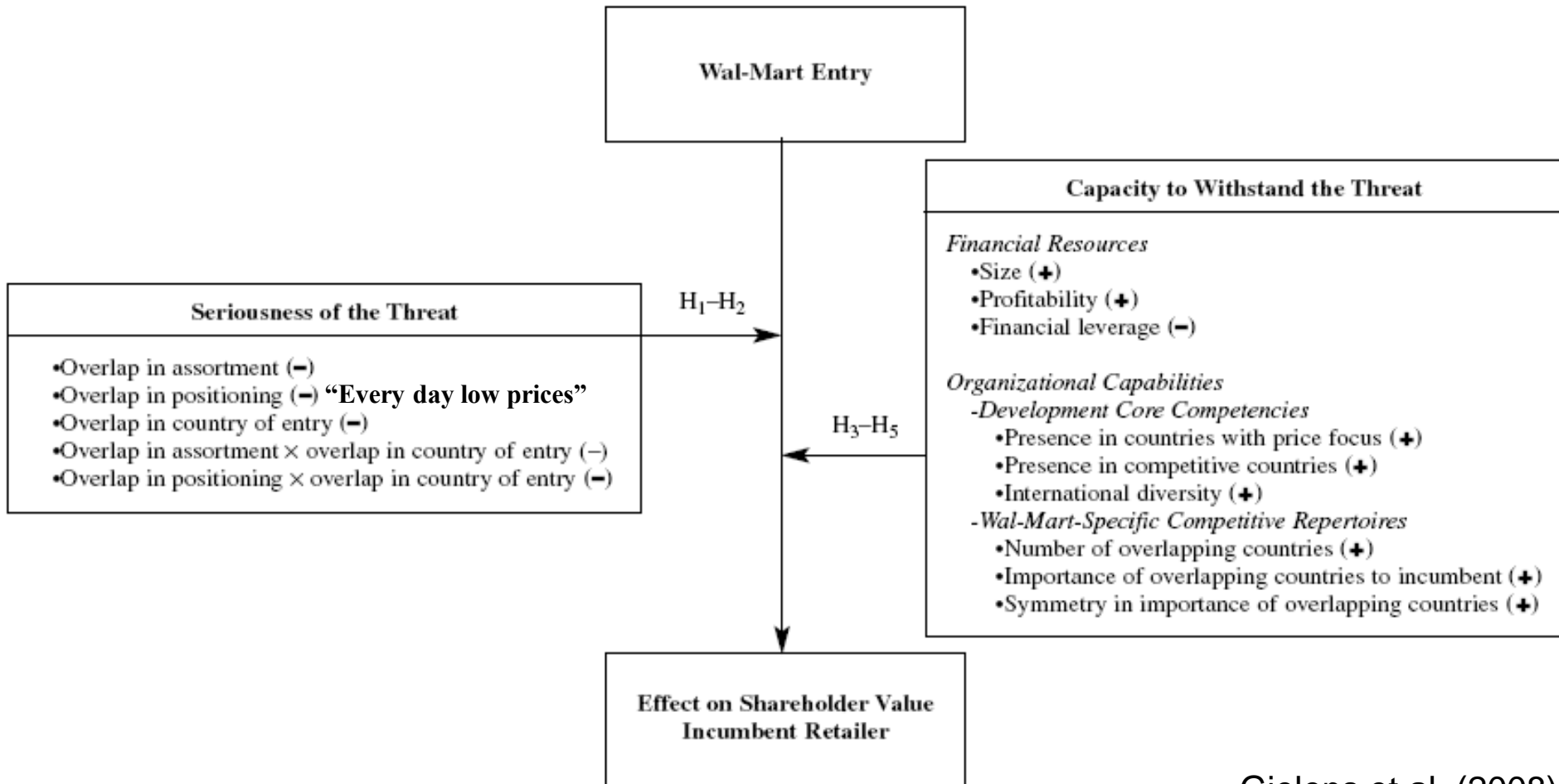
- Competition increase over time (+)
- Risk of copycats (+)

# Order of Entry *in a Market:* *Effect on Local and Intl. Incumbents*





# Order of Entry *in a Market:* *Effect on Local and Intl. Incumbents*

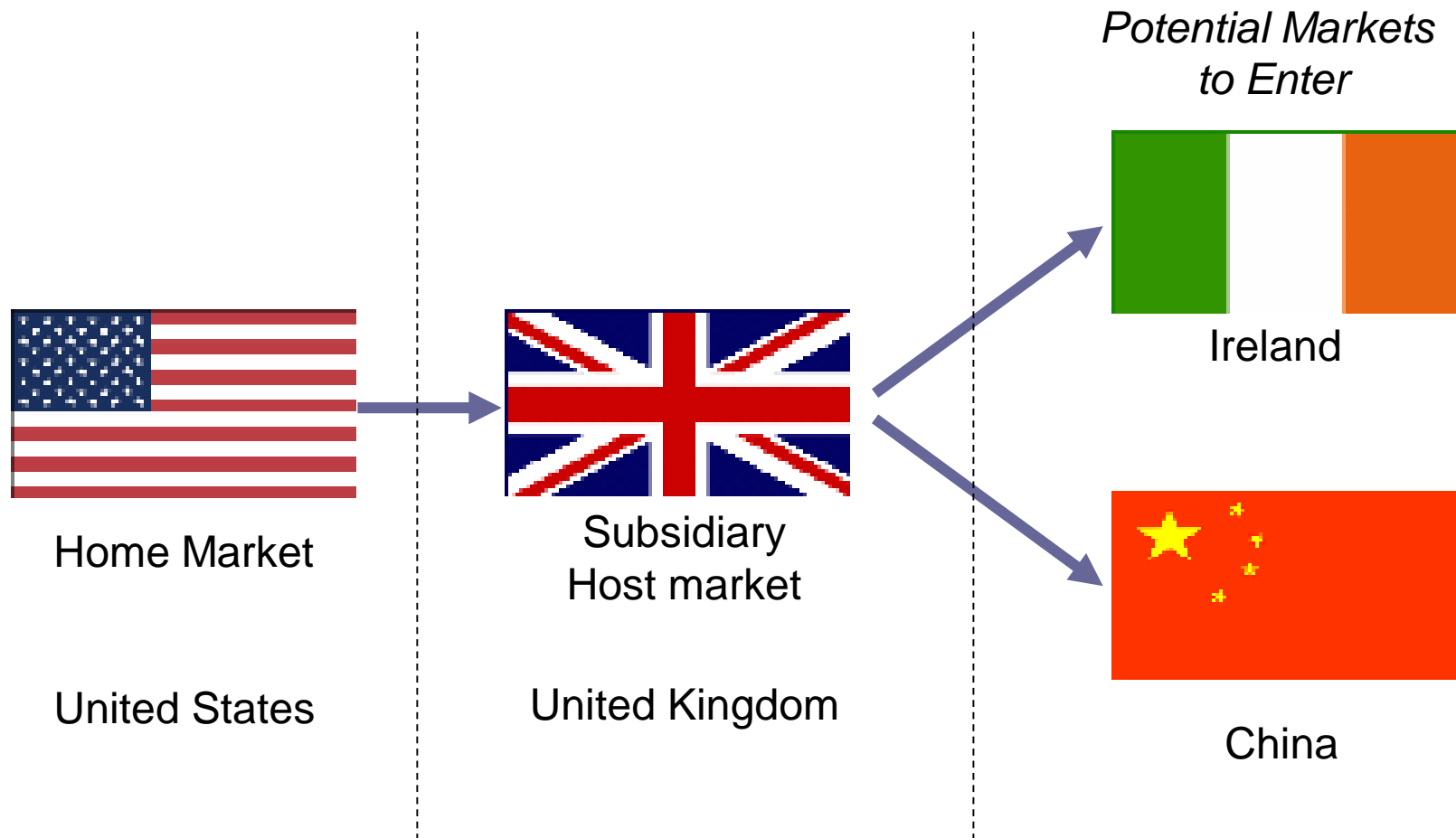


Gielens et al. (2008)

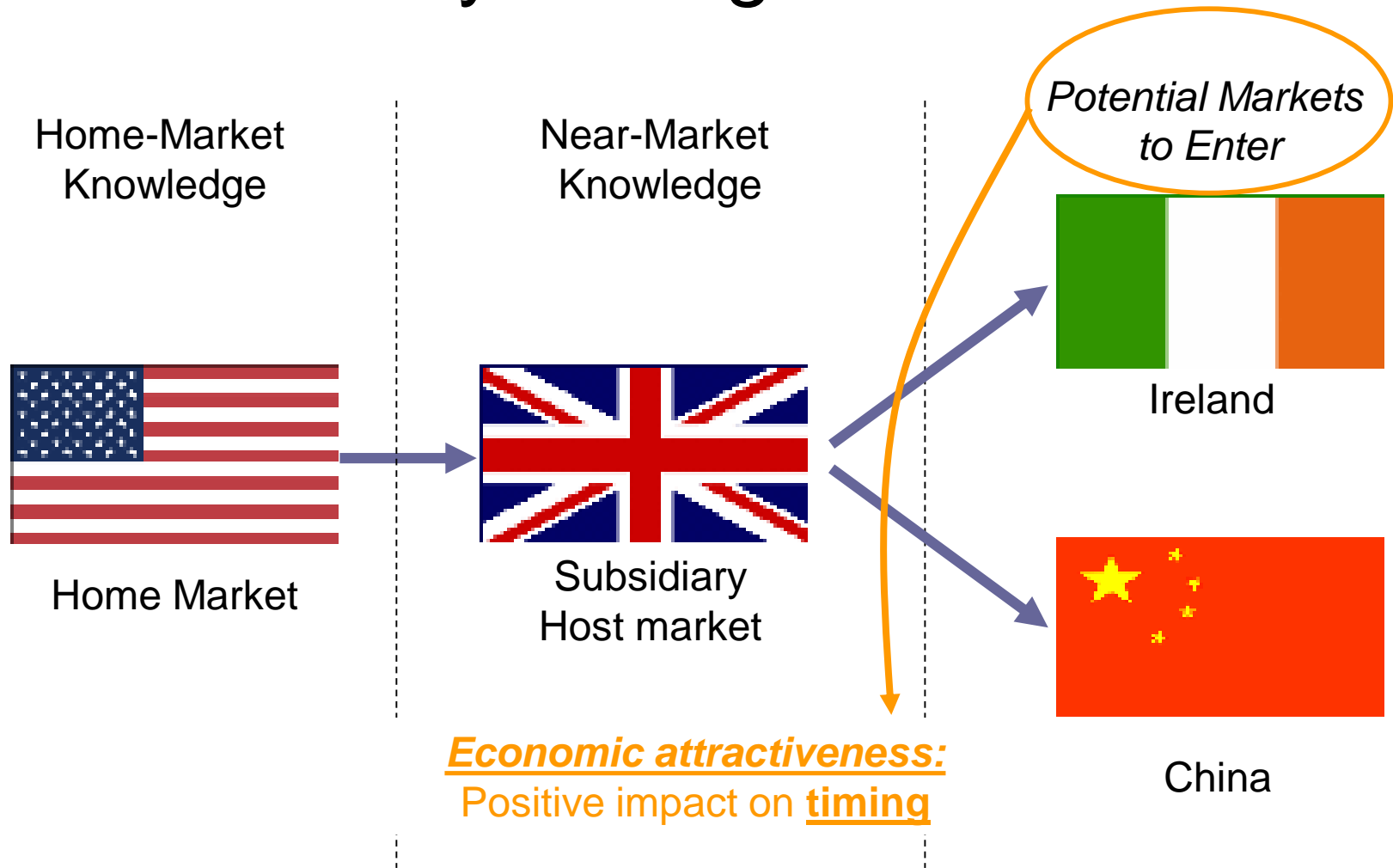
# Order of Entry *among Markets*:

- Existence of cross-country learning or spillover effects
- Home- and near-market knowledge:
  - Home-market knowledge: knowledge gained at home
  - Near-market knowledge: knowledge gained by a subsidiary located in a market that is *close* to the market to be entered
    - Close in terms of culture: cultural distance
      - ➔ Near-market cultural knowledge
    - Close in terms of economy: economic distance
      - ➔ Near-market economic knowledge

# Order of Entry *among Markets*:

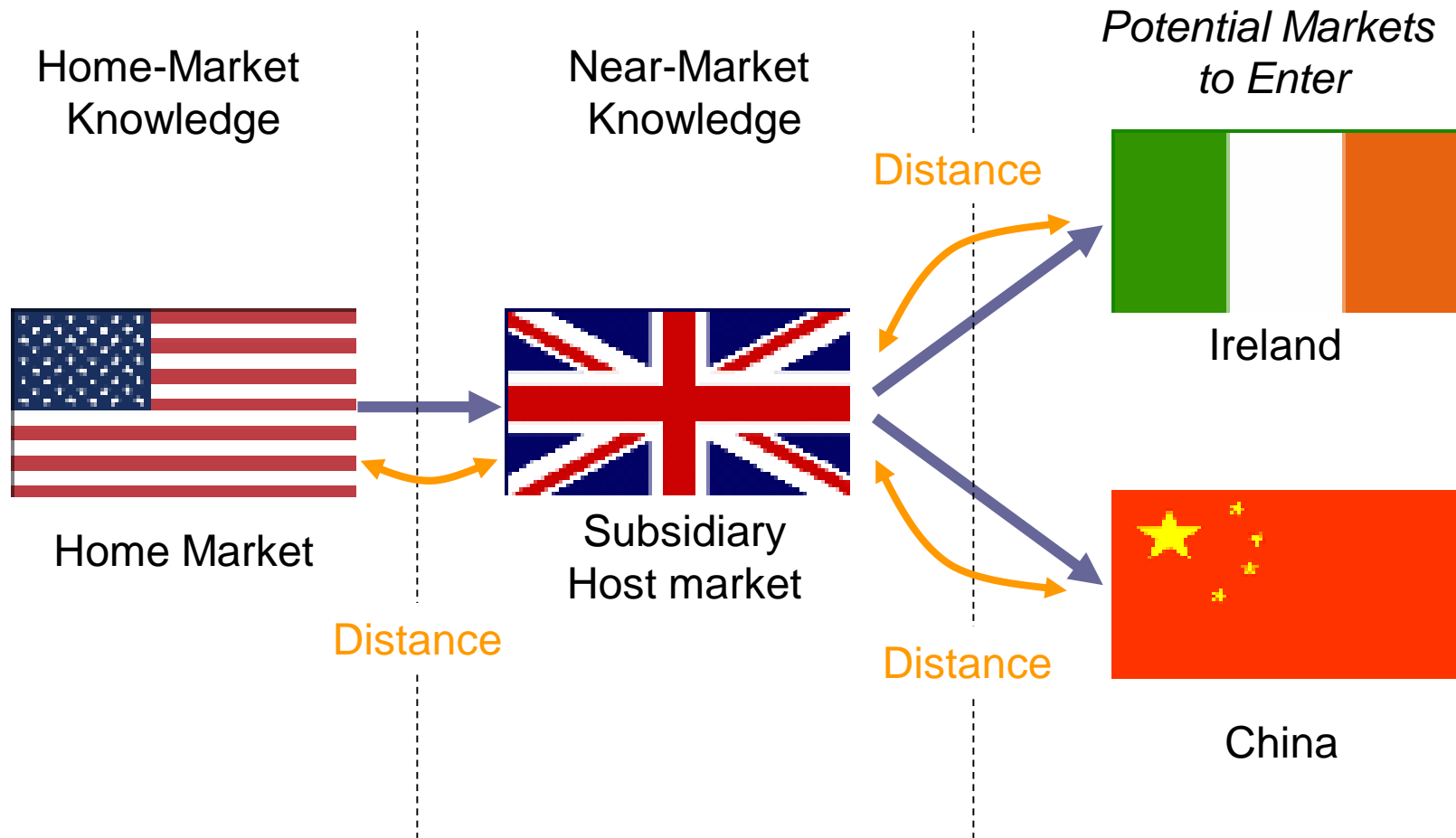


# Order of Entry *among* Markets:



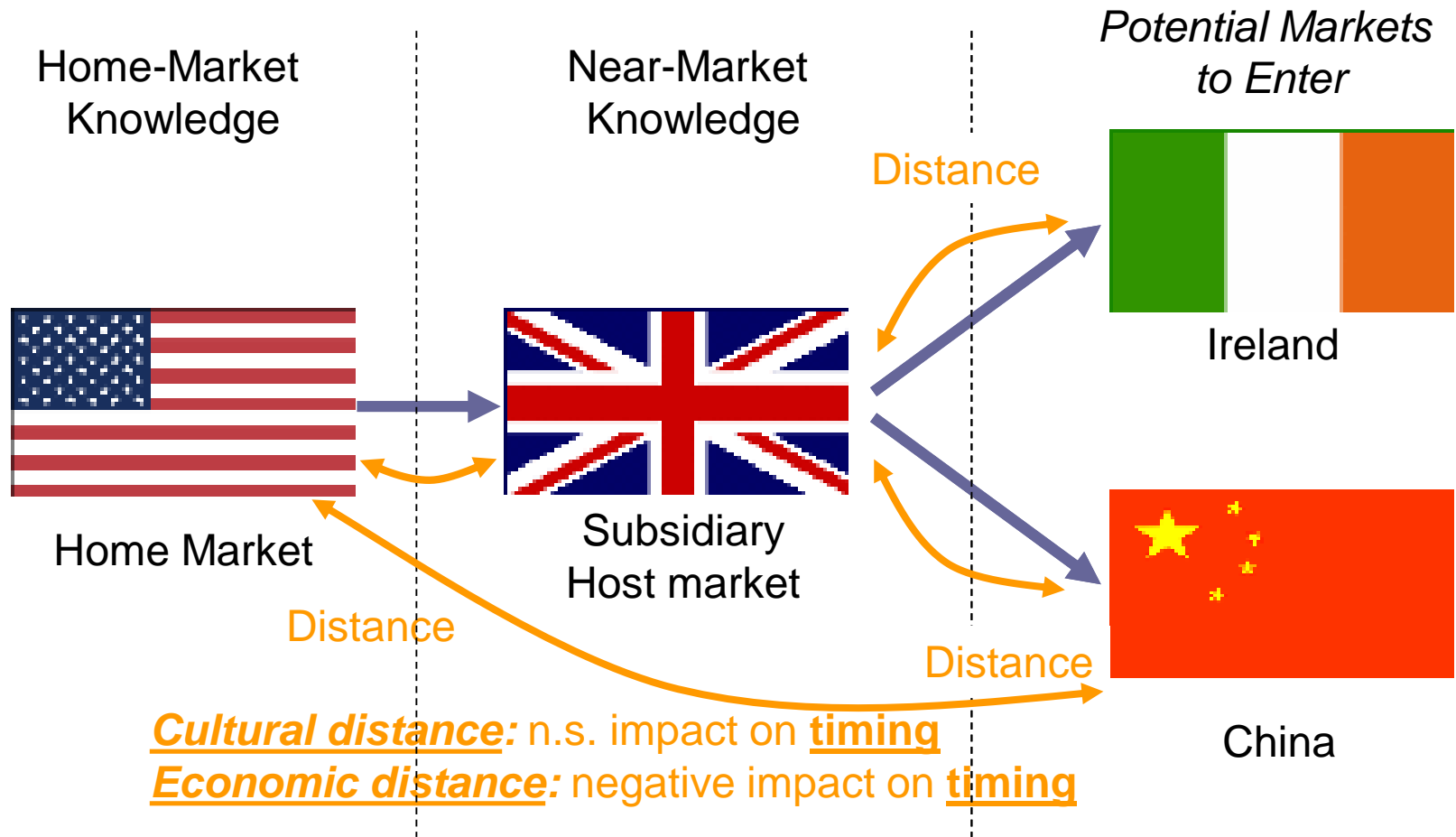
From Mitra and Golder (2002)

# Order of Entry *among Markets*:



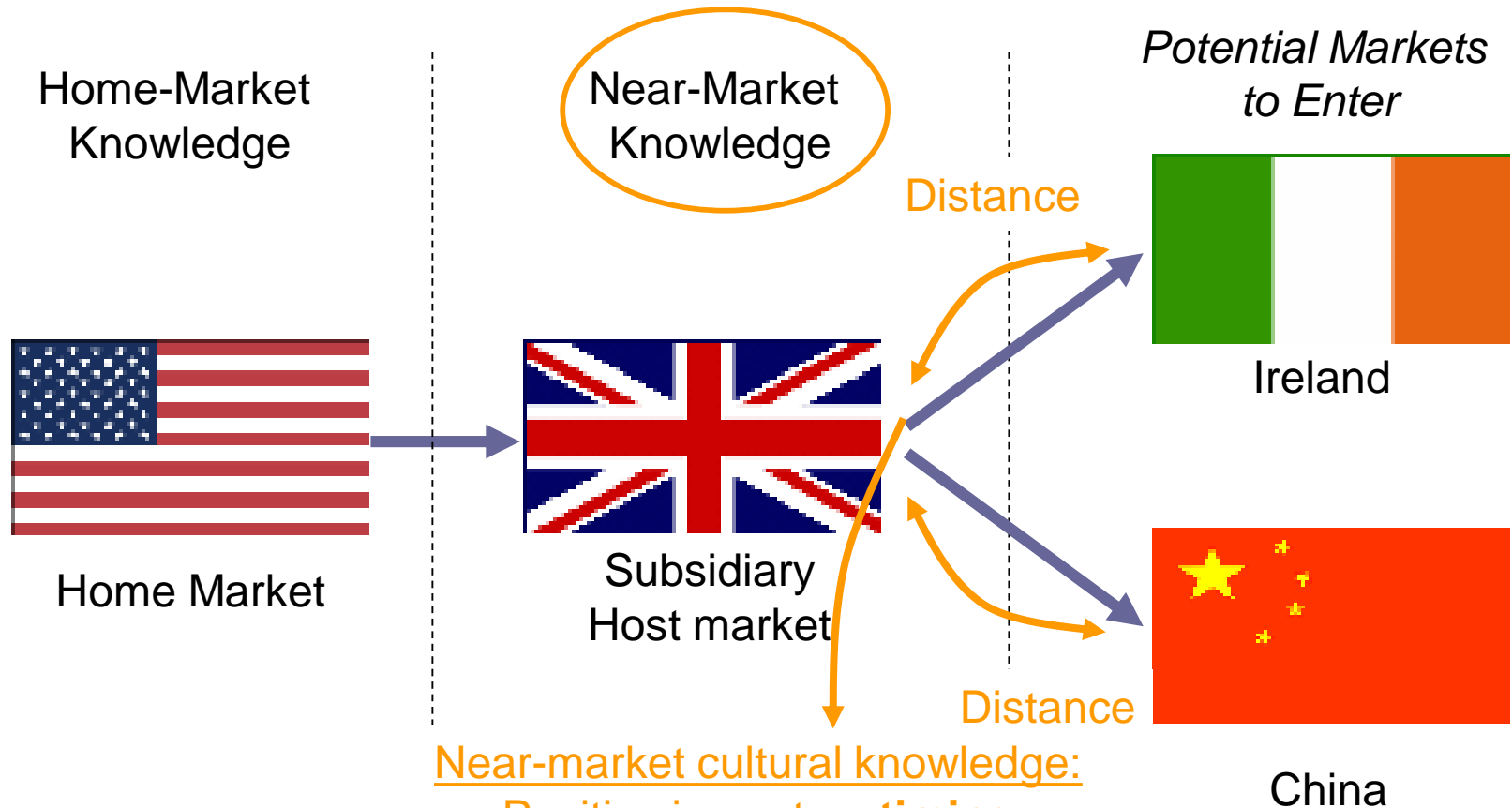
From Mitra and Golder (2002)

# Order of Entry *among Markets*:



From Mitra and Golder (2002)

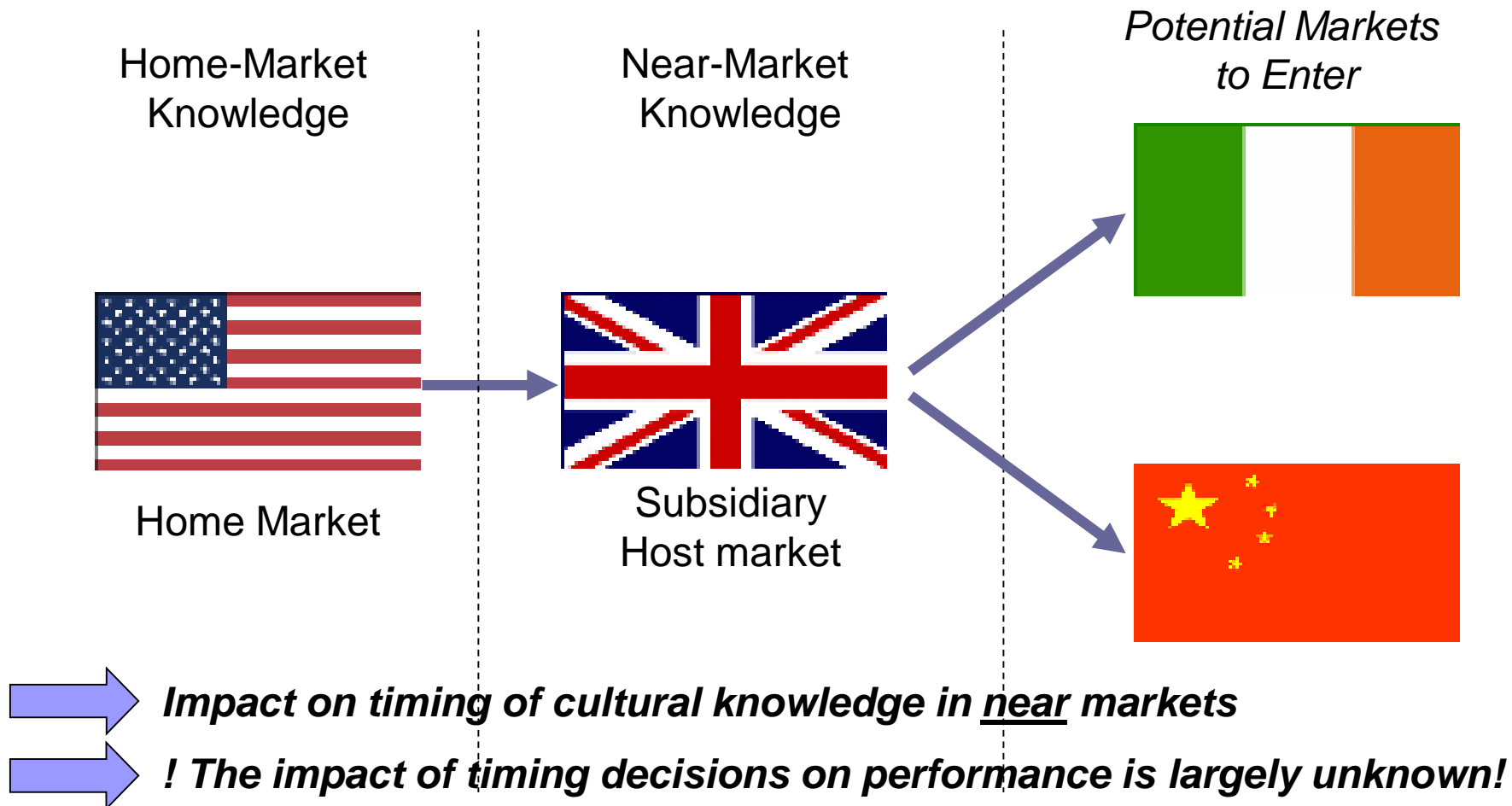
# Order of Entry *among Markets*:



Near-market cultural knowledge:  
Positive impact on **timing**  
Near-market economic knowledge:  
Positive impact on **timing**

From Mitra and Golder (2002)

# Order of Entry *among Markets*:



From Mitra and Golder (2002)



# Allocation of Resources

## ■ Uniform strategy

- Equal distribution of the marketing efforts among the markets

## ■ Support-the-strong strategy

- Distribution of the marketing efforts proportionally to the number of adopters in the markets

→ *May miss business opportunities in new markets*

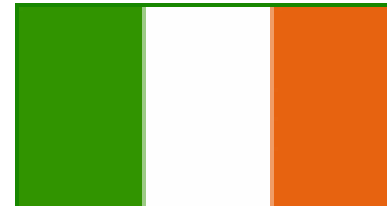
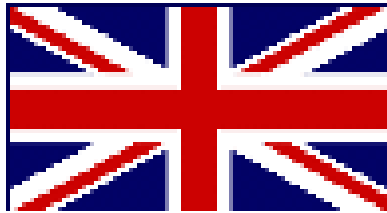
## ■ Support-the-weak strategy

- Distribution of the marketing efforts proportionally to the number of remaining market potential

→ *May slow penetration in the main markets*

*Libai, B., E. Muller and R. Peres (2005). The role of seeding in multi-market entry. International Journal of Research in Marketing, 22, 375-393.*

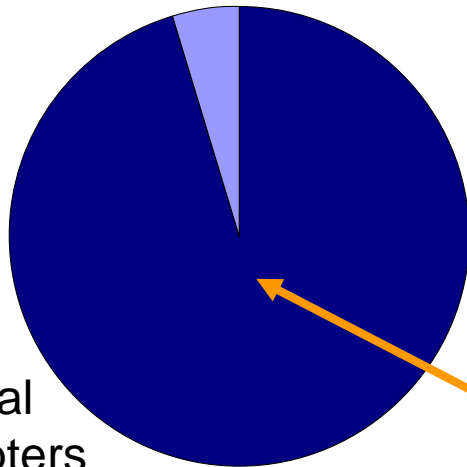
# Example: Two Markets



Remaining potential adopters

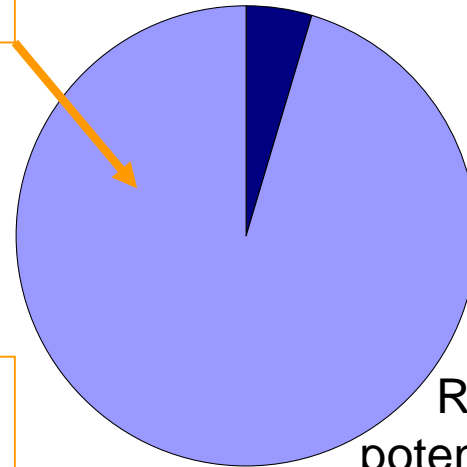
*Support-the-weak*

Actual adopters



Actual adopters

*Word-of-mouth*



Remaining potential adopters

# Allocation of Resources

- ***In presence of moderate entry costs:***
  - Disperse marketing efforts (uniform or support-the-weak) tend to perform better in terms of the net present value of number of adopters
  
- ***In presence of high entry costs:***
  - A support-the-strong strategy becomes more profitable