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Choice of market entry mode: A critical issue in international business

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Abstract
The research on entry modes to global environment has greatly attracted the attention of academia and business. Entry modes are specific form or ways of entering a target country to achieve strategic goals underlying international presence in that country. The present paper aims to highlight the benefits of internationalization and discusses the various modes of entering in the foreign market. This paper examines entry modes in three main groups: export modes, contract mode and investment modes. The last section of the paper provides the different factors which influence the decision regarding entry modes.

Keywords: internationalisation, entry mode, export mode, contract mode, investment mode

Introduction
In a world where there is intense competition, it is not the right strategy for a company to survive to adopt an activity based on the only domestic market. A company must therefore go abroad to search for opportunities. If not, the company can end up losing its own domestic market to local or multinational rivals. For this type of reason, companies can choose strategic entry modes abroad. The choice of entry mode is to select an institutional arrangement for the organization and execution of business transactions. It determines the extent to which the company participates in the development and implementation of the strategy in foreign markets, the level of control that the company enjoys in its business operations and the extent to which it succeeds in the target market. A company that contemplates foreign expansion must make three basic decisions: which market to enter, when and to what extent. The choice of entry mode is one of the most important decisions in international business.

Literature Review
Onyeka Uche Ofili (2016) [7] in his paper titled "Internationalization: Choosing The Right Entry Mode: Lessons From Ebay's Strategy In China" concluded that it is crucial for the company to make the right choice in selecting a country to expand to, decide whether or not to modify and adjust its products and services, and finally decide on the most appropriate mode of entry, taking into account the country's unique business environment dynamics

Anna Marie Dyhr, Ulrich Svend Hollensen, Britta Boyd (2014) in their paper titled "Entry Mode Strategies into the Brazil, Russia, India and China (BRIC) Markets" found that when entering the BRIC market, Danish companies prefer mainly low-commitment modes. The agent / distributor solution in Brazil and Russia is the most popular choice, while direct sales (to customers) are as popular in India and China. The subsidiary solution is a much more popular mode of entry than in other countries in China

Dr. Yakup Durmaz, Ahmet Taşdemir (2014) [5] in their paper titled "A Theoretical Approach to the Methods Introduction to International Markets" concluded that due to the many factors involved, the decision - making process for the optimal mode of entry for a company to enter international markets is a complex issue in international business. A company cannot afford to make poor decisions by allocating its limited resources to decreasing markets while avoiding the attractive ones or by using the wrong entry mode for the market selected. The choice of the right modes of entry based on the skills and economic power of a company is the most important stage for a company. The key to the company's success in identifying a right mode based on the skills and vision of companies to enter the right international markets for profit making and sustainable growth

Veronica Baena (2012) [11] in her paper titled "Master Franchising as Foreign Entry Mode: Evidences from the Spanish Franchise System" remarked that the choice to enter the Middle East via master franchising influences the number of franchisor characteristics and host country features. A company that sells products rather than services tends to have more structured control procedures. Such companies can therefore easily demonstrate to the franchisee how to perform various aspects of the business while controlling compliance, managing the inventory, etc. On the other hand, the human factor is much more important in service - based franchises and therefore more difficult to control and monitor formal mechanisms

Donglin Wu, and Fang Zhao (2007) [8] in their paper titled "Entry Modes for International Markets: Case Study Of Huawei, A Chinese Technology Enterprise" suggested that the structure / characteristics of the industry play an important role in deciding the foreign market entry mode of hi - tech companies. Compared with traditional manufacturing companies, high - tech companies tend to firm factor a less important role in choosing their entry mode. The internationalization of high - tech companies in developing countries is more difficult than those in developed countries. For technology firms in developing countries, the technological level and reputation of home countries have a significant influence on the internationalization of firms. Many high - tech companies choose to set up a research and development department or to register subsidiaries in developed countries to develop an international market share

Pavlína Haršťáková in his paper titled "analysis of entry mode strategies into emerging markets" suggested that companies willing to expand to foreign markets have to choose the right entry strategy mode through many decision steps. The environment of emerging markets as host countries affects this process and makes this more complex than the developed economies which provides stable markets. The companies operate in an uncertain environment in which uncontrollable forces occur. The company must respond to these changes at the right time and with the appropriate strategy. Because of the rapid pace of globalization processes and the rapid growth of emerging markets around the world, market selection and the choice of strategic modes must be carried out without delay. Many factors must be analyzed by the company before the optimal entry mode is applied. It is necessary not only to identify external factors such as the macroeconomic political situation, market potential, cultural and institutional distance and local industry, but also internal factors such as the intended level of control, the nature of the company's own resources, the level of commitment to resources, the internal agents of the host company and the product situation.

Despite of several studies conducted on the modes of market entry, analysis has not been done in dept. The academic attention given to this topic still remains limited. Hence, the research gap is relevant.

Research Methodology
Secondary literature sources related to international business, entry- level strategies and internalization theories are taken into account. To understand the research problem, the works of leading authors have been studied and compared. The research will be descriptive in nature.

Objectives
After going through the existing literature, the following objectives are framed
- To understand the benefits of internationalization
- To discuss the various modes of entry in international markets
- To analyse the different factors which influence the choice of mode of entry in the international business.

Benefits of Internationalisation
- **Diversification:** Many companies are expanding internationally to diversify their assets, which can protect the bottom line of a company from unforeseen events. For example, companies with international operations can compensate for negative growth in one market by successfully operating in another market. Companies can also use international markets to introduce unique products and services that can help keep the revenue stream positive.
- **Access to talent:** Another major advantage of becoming global is access to new talent pools. International labor in many cases can offer companies unique advantages in terms of increased productivity, advanced language skills, a wide range of educational backgrounds and more. Furthermore, international talent can also improve the company's innovation output.
- **Competitive advantage**: Companies also choose to expand internationally to gain a competitive advantage over their opponents. For example, companies expanding in markets where their competitors do not operate often have a first-mover advantage that enables them to develop a strong brand awareness with consumers in front of their competition. International expansion can also help companies gain access to new technologies and industry ecosystems that can make their operations significantly better. International business can also increase the perceived image of a company, as global operations can help to build brand recognition in order to support future business scenarios, such as contract negotiations, new marketing campaigns or even further development.
- **Foreign investment opportunities:** Companies that consider international expansion should not forget the additional investment opportunities offered by foreign markets. For example, many companies are capable of developing new resources and forging important links in global markets. Multinational companies can also take advantage of lucrative investment opportunities that may not exist in their country of origin.
- **Use government incentives:** Many countries worldwide offer incentives for companies to expand their operations internationally, as they bring new businesses to their countries. A common incentive is the reduction of taxes following deductions. For this reason, many U.S. Companies take advantage of the opportunity to expand overseas to reduce their total income tax rates.
- **New revenue potential**: Companies can gain access to a much larger customer base, resulting in increased revenue from these new customers in various countries

Entry Modes

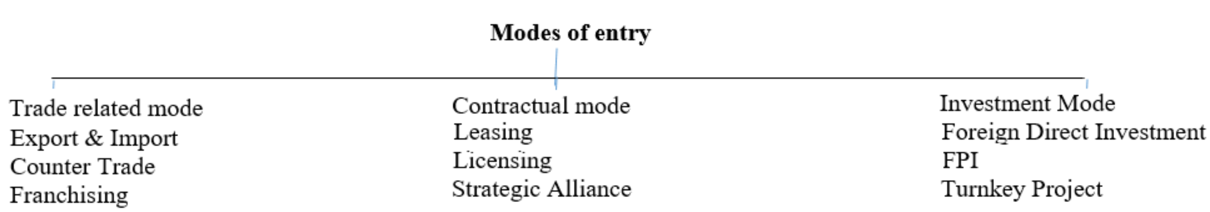

Fig 1

The different entry modes are discussed below

- **Export and Import:** It is natural for most firms to get their start in international expansion through exporting in which the firm maintains its production facilities at home and sell its product abroad. Through exporting, the firm gains expertise about operating internationally and specific knowledge concerning the individual countries in which it operates.
- Generally, exporting is a type of international entry open to virtually any size or kind of firm whereas other types of entry modes tend to demand greater resources and involve more risk. Overtime accumulated experience with exporting often prompts a firm to become more aggressive in exploiting new international exporting opportunities or to consider FDI in the country to which it previously exported.

  A firm can either export directly to foreign customers or buyers which is called direct exporting or through an intermediary which is known as indirect exporting .Export intermediaries are third parties that specialise in facilitating imports and exports. These intermediaries may offer limited services such as handling only transportation, documentation and customer claims or they perform more extensive including taking ownership and responsibility for marketing and financing exports.
- **Counter Trade:** It is a form of trade in a seller and a buyer from different countries exchange merchandise with little or no cash or cash equivalent, changing hands. Counter trade accounts for about 20% of the world trade. It includes barter (direct and simultaneous exchange of goods without a cash transaction), counter purchase, offset and buyback.
- **International Leasing**: It is an entry mode in which the foreign firm (lessor) leases out its new or used machines or equipment to a local company. It arises because developing country manufactures (lessee) do not have financial capability or lack of foreign currency to pay for the equipment. In many cases, the leased equipment sits idle but is in good operational condition, thus have market in developing countries. In this mode, lessor retains ownership of the property throughout the lease period during which the local user pays a leasing fees. Its advantages includes easy access to international market, accumulating experience, reduction in cost of using foreign equipment, mitigation of operational and investment risk.
- **International Licensing:** It is an entry mode in which a firm transfers its intangible property such as expertise, knowhow, blueprints, technology and manufacturing design to its own unit or to another firm for a specified period of time in exchange for royalty fee. It is generally taken with the objective to expand quickly in the foreign market, to generate additional income and build goodwill in the international market.
- **International Franchising:** Under this mode of entry, a foreign franchisor grants a specified intangible property rights (e.g. Trademarks or brand name) to local producer who must follow strict and detailed rules as to how it does business. Compared to licensing, franchising involves longer commitments, offers greater quality control and includes a broader package of rights and resources. The franchisor generally maintains the right to control the quality of products and services so that the franchisee cannot damage the company's image. Mostly franchising is used in food industries and in exchange franchisor receives a royalty payment
- **Turnkey projects:** Turnkey projects are also called build operate transfer (BOT) is an investment in which a foreign investor assumes responsibility for the design and construction of entire operation and upon completion of the project ,turns the project over the purchaser and hands over the management to local personnel whom it has trained . In return for completing the project, the investor receives periodic payments that are normally guaranteed. These projects are especially useful for large scale long term infrastructure projects such as power generation, airport, dams, expressways, chemical plants and steel mines.
- **Foreign Direct Investment:** FDI refers to investment in the assets of the company for the purpose of control. Accordingly, firms undertaking FDI will control overseas operation and economic activites.This mode is more sophisticated and involve higher risk and long term contribution.
- **Foreign Portfolio investment (FPI):** FPI is investment in financial instruments such as stocks and bonds through stock exchange and other financial markets only to earn a return on investment. It does not provide the investor with direct ownership of financial assets and is relatively liquid according to market volatility.
- **Strategic Alliance:** It refers to the mode in which two or more firms from different countries agree to pursue a set of agreed upon goals or to co-operate in any value chain activity. It aims for synergy where each partner hopes that the benefit from the alliance will be greater than those from individual efforts. This includes entry in the form of joint ventures, co-operative alliances or risk sharing.

Factors influencing modes of entry decision

External factors

1. **Size of the market**: Market size is one of the key factors that the international marketer must take into account when selecting the entry mode. Countries with a large market size justify entry modes with a long - term commitment requiring higher investment levels, such as wholly owned subsidiaries or equity interests.
2. **Market growth**: The majority of the large, established markets, such as the US, Europe and Japan, have more or less reached a saturation point for consumer goods such as automobiles and consumer electronics. The growth of these countries ' markets therefore shows a decreasing trend. From a long - term growth perspective, therefore, companies invest more resources in high growth potential markets.
3. **Government Regulations**: The selection of a market entry mode is largely affected by the overseas legislative framework. The governments of the majority of the Gulf countries made it compulsory for foreign companies to

have a local partner. The UAE, for example, is a lucrative market for Indian companies, but most companies have a local partner there.

4. **Competition level**: The presence of competitors and their level of participation in the overseas market is another crucial factor in deciding the entry mode in order to respond effectively to competitive market forces. This is one of the main reasons for the establishment of car companies in India and other emerging markets in order to respond effectively to global competition.
5. **Physical Infrastructure**: The level of physical infrastructure development, such as roads, railways, telecommunications, financial institutions and marketing channels, is a prerequisite for a company to commit more resources to the foreign market. The level of infrastructure development in Singapore, Dubai and Hong Kong (both physical and institutional) was responsible for major investments. As a result, these locations in the Asian region have become international marketing hubs.
6. **Production and shipping costs**: markets with significant shipping costs, such as low - value high - volume goods, may increase the cost of logistics.
7. **Lower production cost**: it can also be one of the key factors in companies that decide to set up manufacturing operations in foreign countries.
8. **Risk level**: a company should evaluate the following risks from the point of view of entry mode selection:
   a. Political risk: political instability and turmoil dissuade companies from committing more resources to the market.
   b. Economic risk: economic risk may arise due to exchange rate volatility in the currency of the target market, upheavals in balance of payments situations that may affect the cost of other production inputs and marketing activities in foreign markets. It is difficult for international companies to operate in markets where the inflation rate is extremely high.
   c. Operational risk: If the marketing system in a foreign country is similar to that of the company's home country, the company has a better understanding of the foreign market's operational problems.

Internal Factors

1. **Company Objectives**: Companies with limited aspirations in domestic markets generally enter foreign markets due to a reactive approach to international marketing opportunities. In such cases, companies receive unsolicited orders from foreign-based acquaintances, companies and relatives and try to fulfill these export orders.
2. **Company resource availability**: the entry into international markets requires a substantial commitment of financial and human resources and therefore the choice of the entry mode depends on a company's financial strength. It can be observed that Indian companies with good financial strength entered international markets through wholly owned subsidiaries or equity interests.
3. **Commitment level**: In view of the market potential, the company's willingness to commit resources to a particular market also determines the choice of entry mode. Companies must evaluate different investment options to allocate scarce resources. However, the commitment of resources in a specific market also depends on how the company perceives and reacts to competitive forces.
4. **International Experience**: A company that is well exposed to the dynamics of the international marketing environment would be at ease when deciding to enter highly intensive international markets such as joint ventures and wholly owned subsidiaries.
5. **Flexibility**: When entering international markets, companies should also bear in mind exit barriers. A market that is currently attractive may not necessarily continue to be attractive in the next ten years. Changes in the political and legal structure, changes in customer preferences, the emergence of new market segments or changes in the competitive intensity of the market could be responsible.

Conclusion

It may be necessary to expand abroad to build a large, globally competitive organization. The expansion to foreign countries allows the organization to take advantage of potential opportunities in its original market. It should be noted, however, that going abroad presents enormous risks and that failing international expansion can be very costly for the company. The key to the company's success is to identify a right mode based on the skills and vision of companies to enter the right international markets for profit making and sustainable growth. Choosing a foreign market is therefore an important business decision. It determines the strategic orientations of a company, the extent to which the company has control over its operations and the extent to which the company succeeds on foreign markets. Many factors have to be analysed by company before applying the optimal entry mode which includes political risk, taxes, market size, infrastructure, production cost, flexibility and firm’s resources. In general, it is necessary to consider the factors and the unstable environment of emerging markets in order to absorb uncertainty.

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