

Strategies to enter new foreign markets

There are many ways in which a Company can find a route to an overseas market. There is no single market entry that works for all International markets. For many businesses direct exporting may be the best strategy while in another it may be suitable to set up a joint venture and in another it may be effective to license the manufacturing. Many factors will determine the choice of strategy, including, but not limited to, tariff rates, the degree to which you need to adapt your product, marketing and transportation costs. These factors may well increase cost to market but it would be expected that the increase in sales will offset these costs.

The following Market entry strategies can be regarded as the main options for companies:

Direct Exporting

The most common form of exporting, it's selling directly into the chosen market using your own resources initially. Many companies once they have established a sales programme turn to agents and/or distributors to represent them in that market. Distributors and Agents work closely with the company in representing the company's interests and it's critical that much time is spent in deciding the choice of agent / distributor. A good distributor / agent could transform chances of success in a chosen market and vice versa.

Acquisition of an Overseas Company

For some companies operating who want to enter a market the purchase of an existing business may be the most appropriate strategy. This may be because the company has large market share, may be a direct competitor or due to government regulation this is the only option for the company to enter the market. It will be certainly costly to acquire a business and determining the value of a company in a foreign market will require competent financial due diligence. The up-side is this market entry strategy will instantly provide the company with the standing of being a local company and will receive all the benefits of local knowledge, an established customer base and be treated by the local government as a local business.

Licensing

Licensing is quite a sophisticated arrangement where a firm transfers the rights to the use of a product or service to another company. It's a particularly beneficial if the purchaser of the license has a large share in the market that the company wants to enter. Licensing can be both for marketing or production.

Franchising

Very common in North America it's a process for rapid market expansion but it can be seen to be expanding globally. Franchising works particularly well for companies that have a good brand that has repeatable business. For example, food outlets which can be easily relocated into other markets. Two points of importance are required when considering using the franchise strategy. First, is that your business model should be unique or have a strong brand that can be leveraged internationally. The second is that you may run the risk of creating your future competition in your franchisee.

Joint Ventures

Joint Ventures are a particular form of partnership that involves creating a third independently managed company. Two companies agree to work together in a particular market, either geographic or product and create a third company to action this. Risks and profits are normally shared equally. Some good examples of a successful joint ventures are Sony/Ericsson the mobile phone company, Jaguar Land Rover sealed a joint venture with Chinese company Chery Automobile marking £1.1bn of investment into China.

Partnering

Partnering can be almost a necessity when companies enter certain foreign markets, for example Asia. Partnering can be a simple co-marketing arrangement or a sophisticated strategic alliance for manufacturing. Partnering can work well in those markets where the culture, both business and social is vastly different that the company's home market. The local partners will bring local market knowledge, contacts and even potential customers.

Turnkey Projects

Turnkey projects are normally associated to companies that provide services such as environmental consulting, architecture, construction and engineering. A turnkey project is where the facility is built from scratch and turned over to the customer and ready to

go – turn the key and the factory is operational. This can be a good way to enter foreign markets as the customer is normally a government and often the project is being financed by an international financial agency such as the World Bank so the risk of not being paid is dramatically reduced.

Piggybacking

Piggybacking is a fairly unique method of entering the international marketplace. If a company has a particularly interesting and unique product or service that they sell to large domestic companies who operate on foreign markets, it may be worth approaching them to see if a product or service can be included in their sales portfolio for international markets. This reduces the risk and costs because you are essentially selling domestically and the larger company is marketing your product or service for the company internationally.

Greenfield Investments

Greenfield investments require the greatest involvement in international business. A greenfield investment is where a company purchases the land, builds the facility and operates the business on an ongoing basis in a foreign market. It's certainly the most costly option and holds the greatest risk but some markets may require companies to undertake the cost and risk due to government regulations, transportation costs and the ability to access technology or skilled labour.