INCONEXT

Internatiolization Consulting

INTERNATIONAL MARKET ENTRY STRATEGIES

Training material

Part 3

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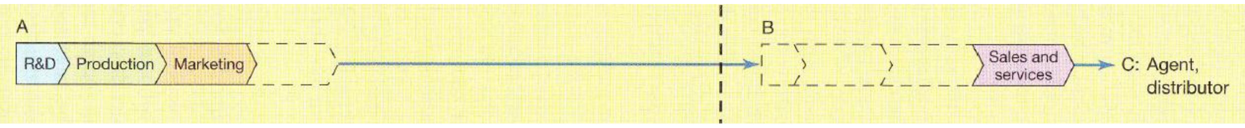
DIRECT EXPORT ENTRY MODES

Direct exporting means direct sales of producer's goods to buyer located in foreign market – figure 7. This way of exporting requires much more efforts such as to make market research in selected country or countries, to build contacts with local partners, to develop marketing strategies and plans, etc. Direct export modes include export through distributors and foreign based agents.

Figure 7 Direct export mode



A - producers in home country; B – independent intermediary in home country; C – customer. Source: Hollensen S. (2007), p.312

Distributors – in most cases they are exclusive representatives of company and are the main importers of company's product to that particular market. They are responsible for spreading company's goods in the market selecting customers and setting sales conditions. Usually distributors have their own wholesale or retailers networks, services facilities. They can represent producers in proper way in sales or service and this could be an argument to seek exclusive rights to represent producer in selected area.

Distributers make their profit from the difference between selling price of stocked products and their buying price from producer.

Agents – independent companies that sell on to customers on behalf of the manufacturer. They can have:

- Exclusive rights to work in specified sales territory.
- Semi-exclusive rights, when sells exporter's products together with not competing products from other producers.
- Non-exclusive rights, when sells exporter's products together with other products that may compete with them.

They are paid producers by commissions on pre-agreed basis.

Agents and distributors are well familiar with local markets, customs requirements, have established business contacts but they are not interested in market development for selected product. Producer should have designed clear profile of distribution partner and could always evaluate potential partners according to selected criteria.

There are few rules common for intermediaries of all nations:

- Agent cannot sell product for the higher price than it was agreed without principal permission.
- Agent should keep confidentiality and support producer with all relevant information from the market.

The business results of bought parts producer and intermediary depend on respect to rules and agreements.

Advantages and disadvantages of direct export entry modes:

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Access to local market experience and contacts with potential customers.	Little control over market price because of tariffs a lack of distribution control (especially with distributors).
Shorter distribution chain (compared to indirect exporting).	Some investment in sales organization required (contact from home base without distributors or agents).
Market knowledge acquired.	Cultural differences providing communication problems and information filtering (transaction costs occur).
More control over marketing mix (especially with agents).	Possible trade restrictions.
Local selling support and services available.	

ALTERNATE MODES OF ENTRY

Sometimes export is not the best solution for the company’s domestic production sales in the foreign markets. Using intermediate entry modes, a company creates possibilities to transfer skills and knowledge to other countries and in this way to expand sales possibilities in the foreign market. There are several factors encouraging a company to start production abroad:

- Local production allows better interaction with local customers need.
- Foreign production costs are lower.
- Transportation costs can increase products cost and make competition impossible.
- Government can protect own market with tariffs and quotas.
- In some countries there is government preference for national suppliers.

Contract manufacturing – manufacturing is outsourced to an external partner, specialized in production and production technology. Contract manufacturing lets company to develop and control R&D, marketing, distribution, sales of products in international markets, while handling over responsibility for production to local company. Contract manufacturing offers substantial flexibility. Depending on the duration of the contract, if the company is not satisfied with the product quality it can make contract to the other producer. It is necessary to control product quality meets company's standards.

Licensing – establishing local production in foreign market without capital investment. Licensing usually is longer term agreement with grater responsibilities for the national company. It becomes responsible not only for production, but for marketing and sales too.

Licensing can be seen from two viewpoints – licensor (licensing out) and licensee (licensing in). The most important reasons for licensing out are:

- Licensor makes priority for technologically superior in its product development and concentrates on core competencies, then outsource production to other companies.
- Licensor is too small to make investments in foreign markets.
- The product is at the end of its life cycle in developed markets, but total life cycle can be extended in less developed markets.
- Licensing out helps when government regulation is too strict or there are some political risks.

The most important reason for licensing in is establishment, maintenance and total costs.

Franchising – the franchisor gives a right to the franchisee to use total business concept including use of the brands. There are two main types of franchising:

- Product and trade name franchising – it is a distribution system in which suppliers make contracts with dealers to buy or sell product. Dealers use the trade name, trade mark and products lines.
- Business format package franchising. The package can contain: trade mark or trade name, copyright, designs, patents, trade secrets, business know-how, geographic exclusivity, design of store, market research for the area, location selection.

Differences between licensing and franchising are presented in table 2.

Table 2 Licensing and franchising comparison

Licensing	Franchising
The term 'royalties is normally used.	'Management fees' is regarded as the appropriate term.
Products, or even a single product, are the common element.	Covers the total business, including know-how, intellectual rights, goodwill, trademarks and business contacts. (Franchising is all-encompassing, whereas licensing concerns just one part of the business.)
Licenses are usually taken by well-established businesses.	Tends to be a start-up situation, certainly as regards the franchisee.
Term of 16–20 years are common, particularly where they are relate to	The franchise agreement is normally for 5 years, sometimes extending to 11 years.

technical know-how, copyright and trademarks. The terms are similar for patents.	Franchises are frequently renewable.
Licensees tend to be self-selecting. They are often established businesses and can demonstrate that they are in a strong position to operate the license in question. A licensee can often pass its license on to an associate or sometimes unconnected company with little or no reference back to the original licensor.	The franchisee is very definitely selected by the franchisor, and its eventual replacement is controlled by the franchisor.
Usually concerns specific existing product with very little benefit form from ongoing research being passed on by licensor to its licensee.	The franchisor is expected to pass on to its franchisees the benefits of its ongoing research programme as part of the agreement.
There is no goodwill attached to the license as it is totally retained by the licensor.	Although the franchisor does retain the main goodwill, the franchisee picks up an element of localized goodwill.
Licensees enjoy substantial measure of free negotiation. As bargaining tools they can use their trade muscle and their established position in the marketplace.	There is a standard free structure and any variation within an individual franchise system would cause confusion and mayhem.

Joint venture – an equity partnership typically between two partners. Strategic alliance has more than one partner. Companies form a partnership to share the cost of investment, risk and long-term profits. An equity joint venture involves the creation of new company for sharing ownership and control.

There are two basic forms of collaboration and mixed one in joint ventures:

- Upstream-based collaboration – companies collaborate on R&D and production.
- Downstream-based collaboration – companies collaborate on marketing, distribution, sales and service.
- Upstream/downstream-based collaboration – companies have different but complementary competences at each end of the value chain.