

# Internationalization & Export Management (IEM 6CFU)

## Entry modes

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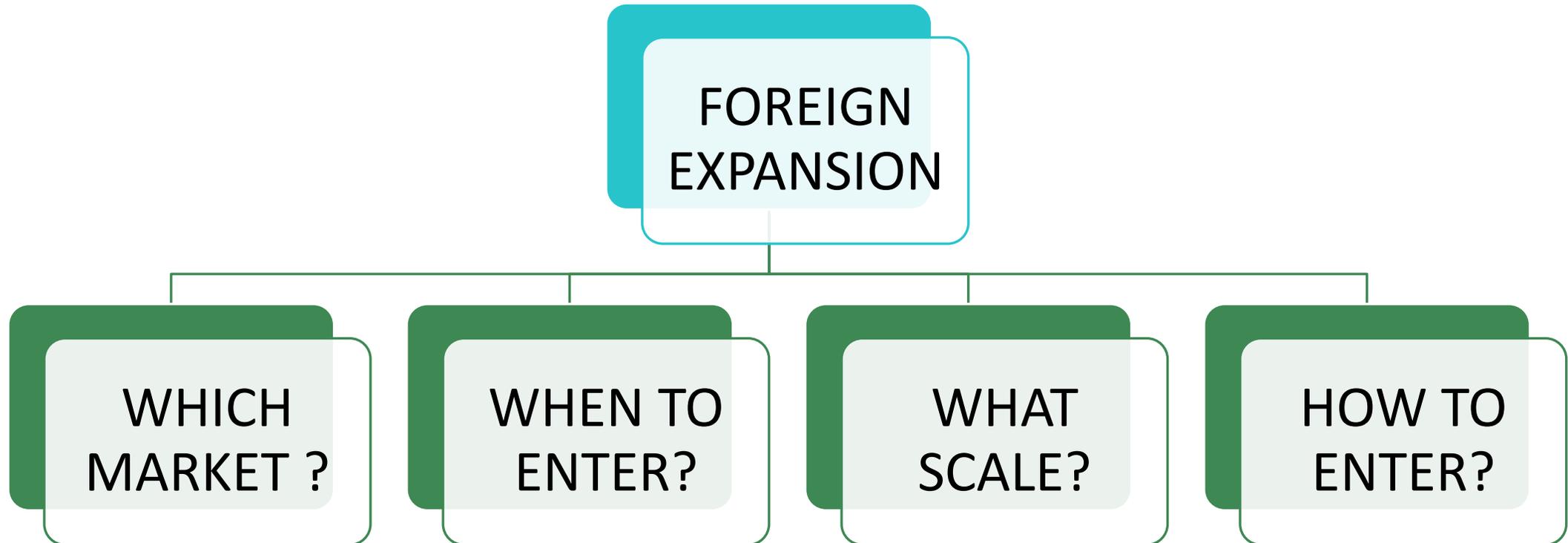
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# Basic Entry decision

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# Market choice

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- **Favorable benefit-cost-risk-trade-off:**
  - Politically stable developed and developing nations.
  - Free market systems
  - No dramatic upsurge in inflation or private-sector debt.
- **Unfavorable benefit-cost-risk-trade-off:**
  - Politically unstable developing nations with a mixed or command economy or where speculative financial bubbles have led to excess borrowing..

# TIME OF ENTRY

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## Early market entry

### ADVANTAGES:

- First-mover advantage.
- Build sales volume.
- Move down experience curve and achieve cost advantage.
- Create switching costs.

### DISADVANTAGES:

- First mover disadvantage - pioneering costs.
- Changes in government policy.

# SCALE OF ENTRY

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## ➤ **Large scale entry**

- *Strategic Commitments* - a decision that has a long-term impact and is difficult to reverse.
- May cause rivals to rethink market entry.
- May lead to indigenous competitive response.

## ➤ **Small scale entry:**

- Time to learn about market.
- Reduces exposure risk.

# THE CHOICE OF ENTRY MODE

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- The choice of mode for entering a foreign market is another major issue with which international businesses must wrestle
- There are several modes for enter in a foreign market: each of these options has pros and cons
- The magnitude of the advantages and disadvantages associated with each entry mode is determined by a number of factors and varies by situation

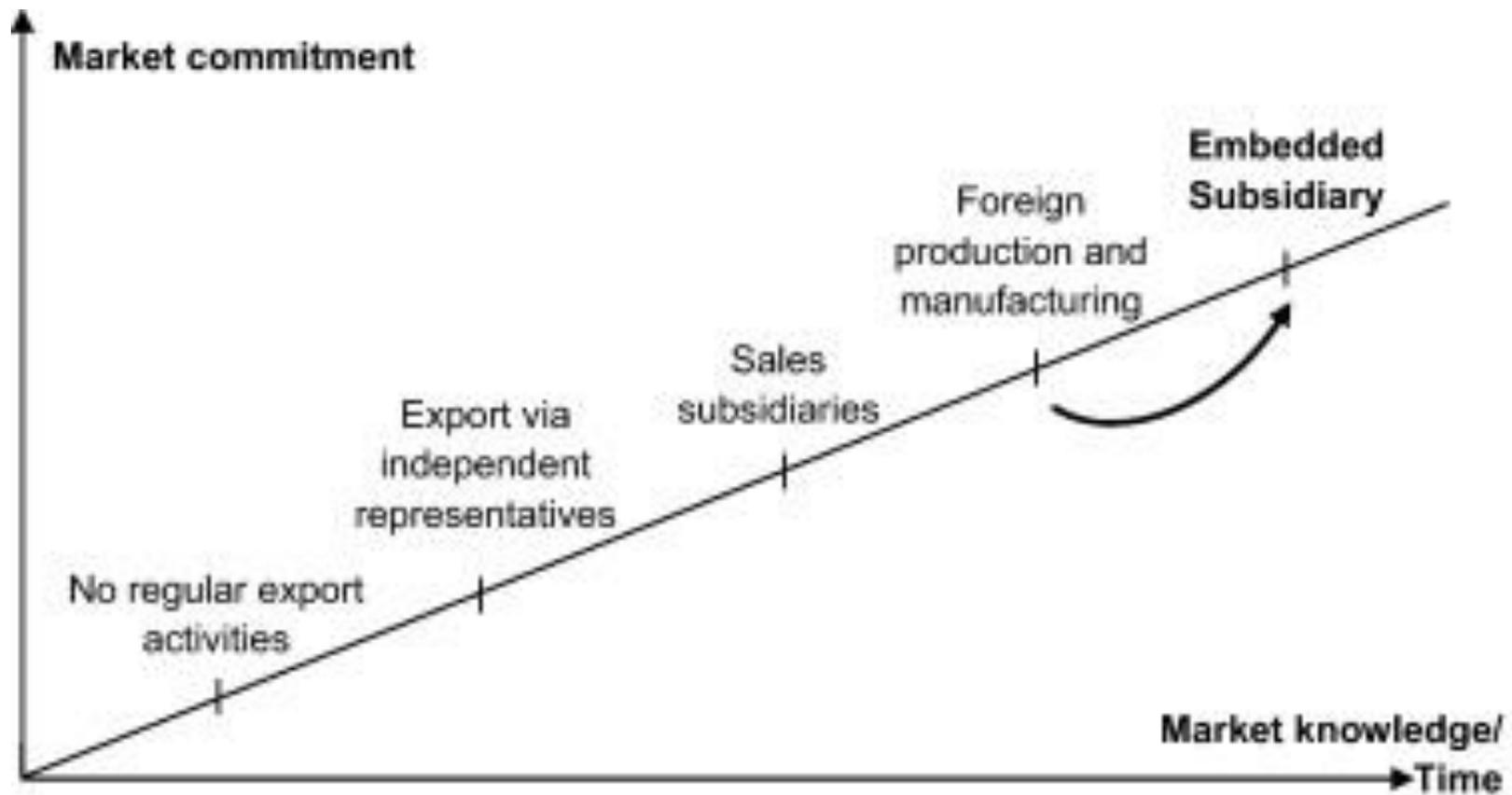
# PORTFOLIO OF ENTRY MODES

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<b>EXPORTING</b>	The strategy of producing products or services in the home country, and selling and distributing them to customers located in other countries. Exporting can be both indirect and direct.
<b>LICENSING</b>	An arrangement in which the owner of intellectual property grants another firm the right to use that property for a specified period of time in exchange for royalties or other compensation.
<b>FRANCHISING</b>	An arrangement where the firm allows another firm the right to use an entire business system, in exchange for fees, royalties or other forms of compensation.
<b>ALLIANCES</b>	An agreement and collaboration between a firm in the home market and a firm located in a host country to share activities in the host country.
<b>JOINT VENTURES</b>	A form of collaboration between two or more firms to create a jointly owned enterprise through equity investment. A partner in a joint venture may enjoy minority, equal or majority ownership
<b>ACQUISITIONS</b>	A direct investment to purchase an existing company or facility
<b>GREENFIELD</b>	A direct investment to build a new manufacturing, marketing or administrative facility, as opposed to acquiring existing facilities

# ESTABLISHMENT CHAIN

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# FACTORS THAT AFFECT ENTRY CHOICES

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## ➤ **EXTERNAL FACTORS:**

- SOCIO-CULTURAL DISTANCE
- COUNTRY RISK/DEMAND UNCERTAINTY
- MARKET SIZE AND GROWTH
- DIRECT AND INDIRECT TRADE BARRIERS
- INTENSITY OF COMPETITION
- NUMBER OF INTERMEDIARIES

## ➤ **INTERNAL FACTORS**

- FIRM SIZE
- INTERNATIONAL EXPERIENCE
- PRODUCT/SERVICE