

Week 6

Entry Strategy



Entry Modes

A firm considering entering a foreign market must decide the best means of doing so.

- Exporting
- Turnkey projects
- Licensing
- Franchising
- Joint Venture
- Wholly Owned Subsidiaries



Each entry mode has advantages and disadvantages. Managers need to consider these carefully when deciding which entry modes to use.

Exporting

- Producing goods at home and shipping them to the receiving country for sale.



Exporting

Advantages

1. Avoids the often substantial cost of establishing manufacturing operations in the host country.
2. Helps a firm achieve experience curve and location economies.



Exporting

Disadvantages

1. Lower-cost location manufacturing abroad
2. High transport costs
3. Trade Barriers
4. Problems with local marketing agent



Turnkey Projects

- Contractor handles every detail of the project for a foreign client, including the training of operating personnel, and then hands the foreign client the key to a plant that is ready for operation.

Turnkey Projects

Advantage

1. Ability to earn returns from process technology skills in countries where FDI is restricted.



Turnkey Projects

Disadvantages

1. Creating efficient competitors
2. Lack of long-term market presence
3. Firm's process technology is source of competitive advantage

Licensing

- Licensing agreement is an arrangement whereby a licensor grants the rights to intangible property to another entity (the licensee) for a specified time period in exchange for royalties.

Licensing

Advantage

1. Low development costs and risks



Licensing

Disadvantages

1. Lack of control over technology
2. Inability to realize location and experience curve economies
3. Inability to engage in global strategic coordination



Franchising

- A specialized form of licensing in which the franchisor sells intangible property to the franchisee and insists the franchisee agree to follow strict rules in operating the business.



Franchising

Advantage

1. Low development costs and risks



Franchising

Disadvantages

1. Lack of control over quality
2. Inability to engage in global strategic coordination



Joint Ventures

- Entails establishment of a firm that is jointly owned by two or more otherwise independent firms



Joint Ventures

Advantages

1. Access to local partner's knowledge
2. Sharing development costs and risks
3. Politically acceptable



Joint Ventures

Disadvantages

1. Lack of control over technology
2. Conflicts and battles for control between the investing firms
3. Inability to realize location and experience economies



Wholly Owned Subsidiaries

- Company in which the parent firm owns 100% of the stock



Wholly Owned Subsidiaries

Advantages

1. Protection of technology
2. Ability to engage in global strategic coordination
3. Ability to realize location and experience economies



Wholly Owned Subsidiaries

Disadvantage

1. High costs and risks

