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Modes of Tapping into the Global Market

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Abstract

Never in the chronicle of the universe has the entrepreneurial spirit- the feel of adventure- has been more alive or in a more favourable position to reach out to the world of commercial enterprise. With the faster communication, shipping, and financial flows, the world are rapidly contracting. Products and services developed in one country are finding enthusiastic acceptance in others. More and more countries are becoming multicultural. Companies need to be capable to cut across boundaries within and outside their nation. This research report highlights the fact that the Earth has become a global village. It admits that although the world is getting flatter, on that point is even some "roundedness". Most of the nation integrates their terms and policies in the area of trading and provides a ready market for the merchandise of the other states. This clause says that although some concerns may want to wipe out foreign competition through protective legislation, the best path to contend is to continuously improve products at home and expand into foreign markets. This report determines the diverse modes of introducing into the world-wide marketplace. **Business can enter the global market by selling immediately to customers in export territories, marketing products through a local distributor, taking part in a joint venture, or selling through a web site.** Each of these strategies provides the business with a different degree of cost, risk and control.

Keywords: Global market, direct and indirect export, web strategy, licensing, joint venture, strategic alliances.

Introduction

Becoming engaged in international business activities, typically known as "Going Global" is a process. The process of going global will vary somewhat from company to company and by industry as well. In a global industry, competitors' strategic positions in major geographic or national markets are moved by their overall global positions. A global firm operates in more than one country and capture R&D, production, logistical, marketing and financial advantages not available to purely domestic competitors. At the widest point, companies internationalize to enhance competitive advantage and to seek development and earnings opportunities. International trade increases sales and profits, enhances the company's prestige, creates jobs and offers a valuable means for business owners to level seasonal fluctuations. For instance, India has been exporting spices to the universe for hundreds. High-quality carpets from Pakistan are well known about the globe. Bangladesh is an exporter of garments. Dilmah Tea from Sri Lanka possesses a firm presence in roughly 90 states. In the present epoch, it is likewise noted that an American businessman may wear an Italian suit to play a German friend at a Chinese restaurant, who later goes to a party and have a Russian vodka and see a French movie on an Indian TV. But companies must adjust their products and marketing mix when they live overseas. **Asea Brown Boveri (ABB)** uses the slogan: **"We are a global firm local everywhere."** **Royal Ahold, the giant Dutch food retailer,** has the brand philosophy, **"Everything the customer sees we localize. Everything they don't see, we globalize."**

A mode of entry into the international market is the channel which your organisation employs to gain an entry into the new international market. Most of the companies decide to engage in international business activities for one of the following reasons:-

- To develop export sales in overseas markets.
- To license technology.
- To sell franchises.
- To raise capital funds.
- To find strategic partners or venture partners.
- To find less expensive sources of raw material and/or components.

Choosing which method to use will depend upon a variety of factors such as what type of company and to some extent the dynamics of the particular industry.

Objective of the study

The main objective of carrying out the research study on this topic is to find out the various modes and means of tapping into the global market. There are a number of modes of entering but which mode to choose, again depends upon the nature of the company, degree of risk, cost, control etc.

Review of literature

According to **Terpstra and Sarthy**, International Marketing is finding out what customers want around the world and then satisfying these wants better than other competitors, both domestic and international. **Tarun Khanna and Krishna Palepu**, present a simple framework that strategies and investors can use to map the unique institutional context of any emerging markets. Infact, they say the possibility to expand a company's progress in developing economies is to first assess the area's lack of institutional infrastructure and then to formulate strategies around what the authors call "institutional voids" to the firm's advantage. **A.J. Sherman in the fourth edition of Franchising and Licensing: Two powerful ways to**

grow your business in any economy, covers all the strategic, legal, financial and operational aspects of these complex but highly profitable business strategies. **Michael Y. Yoshino (strategic alliances)**, states that in the highly competitive global arena, companies that do not forge strategic international partnerships will be left behind. Today, the old joint venture has given way to a new, more entrepreneurial globalization process. Drawing from the examples of successful alliances like Ford/Mazda, Toshiba/Motorola, and Whirlpool/Philips, the authors offer a road map for managing these entrepreneurial relationships and argue that the greatest challenge for top executives lies not in initiating such partnerships, but in continuously developing organizational process innovations to manage a global network of dynamic alliances. **L. Yadong in Entry and Co-operative Strategies in IB expansion age**, opined a number of strategies are there through which a business enterprise can enter into the global market, some of them are direct exporting, indirect exporting, licensing, franchising, joint venture, web strategy and strategic alliance etc.



- (1) **EXPORTING:-** Exporting refers to the process of selling of goods and services produced in the home country into some other countries. While the reach of exportation is limited by transportation costs, govt. tariffs, market competition and local customs and demand, it eradicates the need for repackaging, marketing and infrastructure development that other models call for. Exporting goods into a new market allows a society to judge how well items will sell and what, if any modifications are needed to the existing product so that it does well. Exporting can be of two types:- Direct Export and Indirect Export.

DIRECT EXPORT: - Direct export represents the most basic way of exporting made by a company, capitalizing on economies of scale in production concentrated in the home country and affording better control over dispersion. It allows smaller businesses to withstand to their current model and merchandise line, while sending goods to the foreign market for distribution. The chief characteristic of the direct export entry model is that there are no mediators. **Direct exports can be further categorised into two types: Sales Representatives and Import distributors.** Sales representatives represent foreign suppliers in their local market for an established commission on gross revenue. They offer funding services to manufacturers regarding local advertising, local sales representatives, customs clearance formalities, and legal requirements. Importing distributors purchase products in their own right and resell it in their local market to wholesalers, retailers or both. Importing distributors are a good market entry strategy for products that are carried in inventory, such as toys, appliances and prepared food.

Advantages

- Control over selection of foreign markets and option of foreign representative firms.
- Good information feedback from the target marketplace, developing better relationships.
 - Better protection of trademarks, patents, goodwill, and other intangible property
 - Potentially greater sales, and therefore greater profit, than with indirect exporting.

Disadvantages

- Higher start-up costs and higher risks as opposed to indirect exporting
- Requires higher investments of time, resources and personnel.
- Greater information requirements
- Longer time-to-market as opposed to indirect exporting.

INDIRECT EXPORTS: - Indirect exports is the operation of exporting through domestically based export intermediaries. Types of indirect exports are Export Trading Companies, Export Management Houses, Export Merchants, Confirming houses and Non-Confirming Purchasing Agents.

Export trading companies (ETCs)

These provide support services of the entire export process for one or more providers. Attractive to suppliers that are not familiar with exporting as ETCs usually perform all the necessary work: locate overseas trading partners, present the product, quote on specific questions, and so on

Export management companies (EMCs)

These are similar to ETCs in the direction that they usually export for producers. Unlike ETCs, they rarely carry on export credit risks and carry one type of product, not representing competing ones. Usually, EMCs trade on behalf of their suppliers as their export departments.

Export merchants

Export merchants are wholesale companies that buy unpackaged products from suppliers/manufacturers for resale overseas under their own brand names. The advantage of export merchants is promotion. One of the disadvantages for using export merchants result in presence of identical products under different brand names and pricing on the market, meaning that export merchant's activities may hinder manufacturer's exporting efforts.

Confirming houses

These are intermediate sellers that work for foreign purchasers. They obtain the product demands from their guests, negotiate purchases, make delivery, and pay the suppliers/producers. An opportunity, here arises in the fact that if the customer likes the product it may become a trade representative. A potential disadvantage includes supplier's unawareness and lack of control over what a confirming house does with their merchandise.

Nonconforming purchasing agents

These are similar to confirming houses with the exception that they do not pay the suppliers directly – payments take place between a supplier/manufacturer and a foreign buyer.

Advantages

- Fast market access
- Concentration of resources towards production
- Little or no financial commitment as the clients' exports usually covers most expenses associated with international sales.
- Low risk exists for companies who believe their domestic marketplace to be more important and for companies that are still developing their R&D, marketing, and sales strategies.
- Export management is outsourced, alleviating pressure from management team
- No direct handle of export operations.

Disadvantages

- Higher risk than with direct exporting.
- Little or no control over distribution, sales, marketing, etc. as opposed to direct exporting
- Wrong choice of distributor, and by effect, market, may lead to inadequate market feedback affecting the international success of the society.
- Potentially lower sales as compared to direct exporting (although low volume can be a central aspect of successfully exporting directly). Export partners that incorrectly select a specific distributor/market may hinder a firm's functional ability.

- (2) **LICENSING:** - The practice of licensing is a means to let out into foreign markets while building a presence on the soil. It entails granting permission to a separate company to manufacture goods or offer services in your company's name. An international licensing agreement allows foreign firms, either only or non-exclusively to manufacture a proprietor's product for a fixed term in a specific marketplace. Summing up, in this foreign market entry mode, a licensor in the home country makes limited rights or resources available to the licensee in the host nation. The rights or resources may include patents, trademarks, managerial skills, technology, and others that can make it possible for the licensee to manufacture and sell in the host country a similar product to the one the licensor has already been producing and selling in the home country without calling for the licensor to open a new operation overseas. While licensing eliminates many of the expenses and time involved with expanding overseas, it does need constant monitoring, training, permits and renewal and may still want a spokesperson from your company on the site to do the operations. The licensor earnings usually take forms of one time payments, expert fees and royalty payments usually calculated as a percent of gross revenue. As this mode of introduction, the transference of knowledge between the parent company and the licensee is strongly present, the decision of forming an international license agreement depends on the respect the host government show for intellectual property and on the power of the licensor to choose the right partners and avoid them to compete in each other market. Licensing is a relatively flexible work arrangement that can be customized to meet the demands and interests of both, licensor and licensee. In the conclusion, you can stop up with satellite companies in markets close to the globe and a global brand at little to no danger.

Advantages

- Obtain extra income for technical know-how and services.
- Reach new markets not accessible by export from existing installations.
- Quickly expand without much hazard and large cap investment.
- Pave the path for future investments in the marketplace.
- Retain established markets closed by trade restrictions.
- Political risk is minimized as the licensee is usually 100% locally owned.
- Is highly attractive for companies that are new in international business.

Disadvantages

- Lower income than in other entry modes.
- Loss of control of the licensee manufacture and selling operations and drills contributing to deprivation of quality.
- Risk of having the trademark and reputation ruined by an incompetent partner.
- The foreign partner can also become a competitor by selling its production in places where the parental company is already in.

- (3) **FRANCHISING:** - Franchising is another kind of licensing. The franchising system can be defined as: "A system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system." Here the organisation puts together a package of the 'successful' ingredients that made them a success in their

home market and then franchise this package to overseas investors. Franchising involves the organization (franchiser) providing branding, concepts, expertise, and in fact most facets that are required to work in an overseas market, to the franchisee. The Franchise holder may help out by supplying training and selling the services or product. Management tends to be held by the franchiser. **Examples include Domino's Pizza, Coffee Republic and McDonald's Restaurant.** Compared to licensing, franchising agreements tends to be longer and the franchisor offers a wider bundle of rights and resources which normally includes: equipment, management organizations, procedure manual, initial trainings, site approval and all the backing necessary for the franchisee to operate its business in the same manner it is practiced by the franchisor. In accession to that, while a licensing agreement involves things such as intellectual property, trade secrets and others while in franchising it is limited to trademarks and operating know-how of the clientele.

Advantages

- Low political risk
- Low cost
- Allows simultaneous expansion into different regions of the world
- Well selected partners bring financial investment as well as managerial capabilities to the operation.

Disadvantages

- Franchises may turn into future contenders
- Demand of franchisees may be scarce when starting to franchise a company, which can contribute to making agreements with the wrong prospects
- A wrong franchisee may ruin the company's name and reputation in the marketplace
- Comparing to other styles such as exporting and even licensing, international franchising requires a bigger financial investment to attract prospects and support and manage franchises

- (4) **JOINT VENTURE:** - Joint Ventures tend to be equity-based, i.e. a young fellowship is set up with parties owning a proportion of the new line. To portion out the danger of market entry into a foreign market, two systems may get together to organize a company to work in the host state. The two companies may share knowledge and expertise to help them in the development of Company, of course profits will have to be apportioned between the two houses. Parties to an international joint venture share the costs and burdens of operations while profiting equally from a marketplace share in both nations. Your partnership will permit you to trade your goods and helps in your partner's home country and vice versa. The solutions include double financial power, twice the marketing power, twice the sales in some events and entry into a market that might not otherwise be receptive to you. On the other hand, such an endeavor requires that you hand over, some say in your business operations to a foreign partner and allows some other company to possess more or less command over the state and sale of your brand in a positioning where you may receive little if any influence. At that place are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government rules. Other benefits include political connections and distribution channel access that may depend on relationships. Such alliances often are favourable when:

- The partners' strategic goals converge while their competitive goals diverge
- The partners' size, market power, and resources are minuscule compared to the Industry leaders
- Partners are able to learn from one another while limiting access to their own proprietary skills

The key issues to conceive in a joint venture are ownership, control, length of agreement, pricing, technology transfer, local firm capabilities and resources, and government intentions.

Potential problems include:

- Conflict over asymmetric new investments
- Mistrust over proprietary knowledge
- Performance ambiguity - how to split the pie
- Lack of parent firm support
- Cultural clashes

Thither are many reasons why companies set up Joint Ventures to assist them to introduce a new international market:

- Access to engineering science, core competences or management sciences. For example, Honda's relationship with Rover in the 1980's.
- To make entry into a foreign marketplace. For instance, any business wishing to get in China needs to source local Chinese partners.
- Access to distribution channels, manufacturing and R&D are the most common kinds of Joint Venture.

- (5) **WEB STRATEGY:** - The Internet is a new groove for some organizations and the sole channel for a smashing act of groundbreaking new organizations. Trading your merchandise through a website is a simple, low-cost means of entering the global marketplace. Clients and prospects around the globe can visit your site at whatever time to take the product and post orders. The e-Marketing space consists of young Internet companies that have emerged as the Internet has developed, as considerably as those pre-existing societies that now employ e-Marketing approaches as part of their overall marketing program. For some companies the Internet is an extra channel that enhances or replaces their traditional channel. For others the Internet has provided the opportunity for a new online company. To better your prospects of success in key export

markets, prepare website pages specific to the district. Offer product information in the local terminology, with prices in the local currency. Selling to global customers through a website is suited for products that do not require demonstration or explanation by a sales representative.

(6) STRATEGIC ALLIANCES: -Strategic alliances is a condition that draws a solid series of different relationships between companies that market internationally. Sometimes the relationships are between competitors. A strategic alliance is a character of cooperative arrangements between different firms, such as shared research, formal joint ventures, or minority equity participation. Essentially, Strategic Alliances are non-equity based agreements, i.e. companies remain independent and freestanding. The advanced phase of strategic alliances is becoming more and more popular and has three distinguishing features:

1. They are frequently between firms in industrialized countries.
2. The focus is often on creating new products and/or technologies rather than distributing existing ones.
3. They are often only created for short term durations.

There are many examples including:

- Shared manufacturing e.g. Toyota Ayago is also marketed as a Citroen and a Peugeot.
- Research and Development (R&D) arrangements.
- Distribution alliances e.g. iPhone was initially marketed by O2 in the United Kingdom.
- Marketing agreements.

Advantages:

▪ **Technology or knowledge exchange**

This is a major objective for many strategic alliances. The cause for this is that many breakthroughs and major technological inventions are based on interdisciplinary and/or inter-industrial advances. Because of this, it is more and more hard for a single firm to have the necessary resources or capacities to direct their own effective R&D efforts. This is also perpetuated by shorter product life cycles and the need for many companies to remain competitive through innovation. Some industries that have become centers for extensive cooperative agreements are:

- Telecommunications
- Electronics
- Pharmaceuticals
- Information technology
- Specialty chemicals

▪ **Global competition is fierce**

Thither is a rising perception that global battles between corporations be fought between teams of players aligned in strategic partnerships. Strategic alliances will become key instruments for companies if they want to stay competitive in this globalized environment, especially in industries that have dominant leaders, such as cell phone manufacturers, where smaller companies need to ally in order to stay competitive.

▪ **Industry convergence**

As industries converge and the traditional lines between different industrial sectors blur, strategic alliances are sometimes the lone means to acquire the complex skills necessary in the time frame needed. Alliances become a means of shaping competition by decreasing competitive intensity, excluding potential entrants, and isolating players, and building complex value chains that can work as roadblocks.

▪ **Economies of scale and reduction of hazard**

Pooling resources can give greatly to economies of scale, and smaller companies especially can benefit greatly from strategic alliances in terms of cost reduction because of increased economies of scale.

Conclusion

In that respect are various nuances in dealing new markets and modes of entrance. A thorough market research can allow you with obvious solutions that would lead compelling decisions. A good market research company can execute that task for you. Hence it is necessary to pin down on good firms who can prepare your task more comfortable. A clearly written market entry strategy plan includes short- and long-term goals, a defined target market, accurate market pricing, quality distribution channels, and a clear marketing plan.

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