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Research on Market Entry and Environment

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Abstract: *With the development of global economic integration, globalization has taken center stage in the modern marketing world. Many companies have explored overseas markets, and the motivation of companies to enter the overseas market includes proactive motives and reactive motives. Meanwhile, due to internal and external environment, many enterprises change their business strategy and optimize marketing strategies. In the context of global economic integration, how to effectively enter the overseas markets is a problem that companies need to attach great importance to, because blindly entering overseas markets will affect the development of companies. Therefore, this article will introduce several methods for companies to enter overseas markets, such as licensing operation, cooperative business operation and foreign direct investments. Also, the company need to analyze the advantages and disadvantages of different market entry methods and choose the best one. At the end, this article will analyze Tesla's entry into the Chinese market as a case study.*

Keywords: *market entry, global economy, overseas market*

1. Introduction

The willingness to globalize companies in the last decade has been as a result of technological advancements and also the increase in competition among organizations in the world[5].According to studies, the need to globalize a company and enter new markets is attributed to two types of motives in the market. These are proactive motives and reactive motives. Proactive motives are those motives that portray a company's willingness to enter new markets mainly to exploit some of its strengths in the market such as technology, integrated marketing communications strategies or even huge finance base. In this type of motive, the company is not compelled by any force to enter a foreign market[6]. On the other hand, reactive motives take place when a company is forced to enter new markets in the global economy due to external factors that are beyond its control. These may be pressures from competition in the home market or even saturation of the home market. There are several ways that companies can use to enter a new market when these motives are present in organizations[7]. The essay will focus on the various methods that a company can use to join an overseas market and their respective advantages as well as disadvantages.

2. Ways of Entering an Overseas Market and advantages and disadvantages

One of the most common methods of entering foreign markets that are being used by several companies in the modern corporate world is the strategy of exporting. In this case the company must involve two aspects. These are export selling and export marketing. This is considered as the form of market entry with the lowest costs involved with most of the costs being used up in the shipping exercise. It is important to note that most of the companies that export their products to new markets ship their products through 3PL companies[10].When it comes to the exportation of products in the market, the company may choose whether to use the same prices and marketing strategies used locally or to change them according to needs and the prevailing market conditions. The main advantage of this strategy is that the company will not have to invest in the production facilities in the foreign country as all the goods are produced from the parent country. It also shields the company from local foreign production costs such as license fees and business regulations as well as foreign taxation. Although this method involves the lowest cost in the market, it is important to note that rising transportation costs may raise the cost of operation along the supply chain in the market[3]. This method is also prone to damage of goods by fires and natural disasters due to the long supply chain involved.

Licensing is also another method that is being utilized by companies when it comes to foreign market entry. Licensing allows another company in the target country to use the local company's facilities or property. This property is mainly intangible. It may include trademarks, patents or even production techniques[4]. In this case the foreign company seeking to use the rights of the local company in the production process will have to pay a certain fee to the local company. Licensing has been found to utilize very little investments and has high returns on investments in the market. The other advantage is that the licensee will also take care of the marketing and production costs involved[8]. However, the main disadvantage of this approach to the market is that in some cases the foreign company may not produce goods with the same standards that the original company is producing, and this may lead to market loss and bad reputation of the products from the original company. Similarly, if the foreign company is facing a backlash such as due environmental pollution in sustainability-oriented countries, the original company will also suffer the same fate [2].

Organizations may also enter a foreign market through a special type of licensing called franchising. In most case franchising is like licensing with the only difference being that in franchising, property rights and other intellectual rights are sold to the franchisee. The terms of franchising are strict in that the company buying the rights must follow the processes and use the specific methods of production as stipulated in the rights of production. Franchising is a typical North American strategy for market expansion [1]. However, this method only works well for organizations with reputable business models such as food outlets that can be easily transferred into new markets. For this method to work in the market, the business model must be unique compared to that of other players in the market. It should also have strong brand recognition in the market[9]. It is important to note that when creating a foreign franchisee, a company may be creating its future competition in the market. This makes this method of market entry very risky in the 21st century.

In the 21st century, Foreign Direct Investments (FDIs) are also becoming more popular as ways of market entry. Joint ventures, in particular, have grown in popularity in the last decade [2]. In FDIs the company moving to the new market must invest in the facilities in the foreign market. This requires a lot of capital to cover costs such as premises technology and staff. In joint ventures, two companies will establish a joint-owned business. For example, a company in the US that wants to venture into the Singapore market might form a joint-owned business line with a Singapore based company. Control of the new business is shared by the two companies in the foreign market. This method works through the principle of 1+1=3 [5]. This is because two companies come together to form a new business line that is co-managed and controlled. A good example of a joint venture is the Sony/Ericsson cell phone.

The main advantage of this method is that it allows for risk-sharing both political and financial[6]. Since the two companies are working together in the new business line, they share external risks such as market loses due to the fact that they share to costs equally or depending on the agreement. Joint ventures also provide opportunities for foreign companies to learn more about the new environment. They also provide an opportunity to provide synergy by pooling together of resources in the new markets. Through this companies are able to create a competitive advantage that is unmatched in the market. In cases where exports are difficult to carry out due environmental factors such as the current US-China trade war, joint ventures offer a direct method of entering markets through the lowest costs possible[1].

Joint ventures are also prone to disadvantages. Compared to a licensing agreement between companies, joint ventures require more capital investments in the market. Most of a company's failures are shared by foreign companies between the two companies, which can cause the company to suffer losses due to the actions of another partner[1]. Joint ventures also require strong coordination and, in most cases, controlling the business is always a problem[7]. This leads to conflicts between the partners in the market and the partner may also become a competitor.

Mergers and acquisitions (M&A) are a market entry strategy that is mainly used by multinationals and conglomerates in the modern world. Although mergers are discussed together with acquisitions, these are two different methods used by companies in the process of new market entry. In mergers, two companies combine to become one while in the acquisition process one company is absorbed by a more dominant company in the market[1]. The moral behind this strategy is that two companies can come together in a market and have more resources and competitive advantage than they would have as individual companies. The main objective of M&A is wealth maximization. Mergers and acquisitions can take place in the following ways. These are, by purchasing assets, exchanging shares and assets, purchasing common shares and through the exchange of shares and assets[8].

Mergers take place in two main ways. It can be through absorption and or through consolidation[7]. From an economic perspective, mergers can be described in three categories. There are vertical mergers that involve two companies at different value chains or different production stages, horizontal mergers involving the two companies in the same industry and finally the conglomerates which involve mergers

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from companies in different industries. From a legal perspective merger can also be, short-form mergers, statutory mergers, mergers of equals and also subsidiary mergers. Recent mergers and acquisitions in the corporate world are the acquisition of PT Aritmin Indonesia by Tata. There is also the acquisition of 70% stake of Skoda Motors by Volkswagen[10].

The main advantage of M&A in the modern world is that companies are able to leap the economies of scales as bigger firms are more efficient. M&A has a high potential of return on investment, and this creates a situation where the firms involved have a huge financial base that helps them in the R&D processes in the market[3]. Struggling firms that are acquired by dominant forms benefit from new management styles, technology, and new methods of production. M&A, however, has several drawbacks in the marketing world, to the customers, the formation of mergers and acquisitions in the market creates monopolies that control the market prices [1]. The results are that prices can be manipulated to exploit the customers in such a market. Large companies are also prone to diseconomies of scale. These can be in the form of communication difficulties and management difficulties.

It is important to note that when companies are considering the best method to choose when moving to new markets, they should consider some factors such as the vision of the company. According to the "Born Global" theory, some companies were established to venture into the international market, and this is an important factor to consider when venturing into new markets[6]. The company's attitude towards risks is also important. In a company that has no intention of taking huge risks in the market, then exports and licensing can be the way to go since these methods involve the lowest risks among the market entry strategies. Other factors include the amount of control that the company wants to have in its marketing strategies[9]. For example, if a company is not worried about control, then a joint venture can be a good option for such a company. On the other hand, a company that is more concerned about control of its operations and the involved products can choose either a merger or an acquisition. It is important to point out that these factors are not considered individually, and a company has to assess all these factors in the process of choosing a suitable market entry strategy.

3. Market Environment and Market Entry

The external environment of a market affects the entry method used by foreign companies. The environment may be trade-related, political/legal or even economical [1]. The geography of a country also plays a critical role in the market entry strategy in the modern world.

Starting with the geographical environment in the market, this is one of the most unique factors when it comes to the market entry methods [2]. The geography mainly the strategic location of a country on the world map determines the easiest ways and methods that a company uses to venture into the market. For example, exporting goods to countries like Chad which are surrounded by other African countries will involve a high cost of shipping since the products will have to be transported by road or train from the ships. This increases the cost of managing the supply chain and through increased customs along the borders of various countries. In such a case the only method that can be used in such a country when it comes to export is the use of direct flights[7]. Shipping by planes is one of the most expensive shipping delivery processes in the 21st century. For this reason, most of the companies that want to ship their products to such markets will prefer joint ventures, mergers, and acquisitions.

The international trade environment is also another environmental factor that is affecting the market entry strategies in the 21st century[8]. Taking the example of the prevailing trade relations between the US and the Chinese companies especially in the tech industry, exports between the two countries have been affected by the sanctions and tariffs that both companies are imposing on each other. Under such circumstances, Chinese companies cannot freely export their products to the US market, and their peers cannot freely export their products to China. While the market conditions have not prohibited trade between the two countries, tariffs and other forms of trade barriers have made exportation of products between the two countries an expensive exercise[1]. This is affecting the profitability of the company when exports are made. For this reason, most of the US companies are establishing wholly owned entities after acquiring Chinese companies in China. For example, U.S. coffee multinational Starbucks has established a wholly-owned entity in China. It is not affected by the current trade war between the two countries[7].

The economic environment can also affect market entry methods[1]. With the fluctuation of currencies in the international market taking place every day, companies from countries with high valued currencies such as the US dollar and the Euro or even the sterling pound have an advantage when it comes to the cost of market entry[6]. For example, the cost of an American company entering the Japanese market

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through joint ventures or even wholly-owned entities as a result of acquisition is lower. The fact that the US dollar is superior against the Japanese Yen makes it cheaper for American companies to venture into the Japanese market. In this case, such companies can afford to merge or acquire Japanese companies. On the other hand, Japanese companies may find it hard to acquire American companies since they have to spend more on the acquisition of American firms. This presents a situation where the American and Japanese firms will use different methods because of the prevailing economic conditions.

The political environment or the legal environment may also affect the market entry methods in the modern corporate world. For example, in a country where the establishment of a new entity has very strict regulations such as in the US and the UK, companies may prefer exporting products to such countries compared to the establishment of wholly-owned entities in the market[9]. On the other hand, is there are political differences between two countries, then exporting the products to such countries will be costly due to tariffs and other political barriers. Most of the political differences between countries when it comes to trade are as a result of regimes trying to protect local companies against foreign imported cheap products. In such a case export will be costly and are more likely to suffer heavy taxation which will lead to such products being attached a high price in the market [2]. To avoid all these, companies will prefer entering the market through joint ventures, licensing or even franchising to evade the heavy taxation and hostile political environment.

4. Tesla Case Study

Various organizations in the automotive industry have used various methods to venture into different markets in the world. For example, Tesla Motor Inc. an American automaker has entered into a partnership deal with Mercedes in Germany where the company will use Mercedes's property and supply chain the German market penetration[12]. This comes as a result of high competition and rivalry between the US and German automakers. According to the CEO of Tesla, Elon Musk, the German market is one of the most competitive automotive industries in the world. German cars have a reputation in the global market in terms of quality and durability as well as efficiency. For this reason exporting the products of tesla to the German market would not have given the company a competitive advantage[11]. With such a volatile market, Tesla does not want to risk a wholly-owned entity in the German market and hence the partnership deal with Mercedes.

At the same time, the company has used exportation as the main method of market entry in the Asian market. Currently the company has established Tesla stores and service shops in Asian countries such as China and Singapore[13]. Currently, there is a trade deal between tesla and Chinese automakers. Tesla has built a super factory in Shanghai that integrates products research and development, manufacturing, sales, and other functions. This is also Tesla's first overseas factory. Tesla has decided that exports to China from neighboring Australian manufacturing center are a suitable solution since the Australian goods are not subject to the tariffs that the Chinese government has imposed on the US products [11]. This makes the exportation of goods cheaper in the Chinese market.

5. Conclusion

In conclusion, there are a variety of ways that an organization to enter a foreign market. With mergers and acquisitions taking center stage among the multinationals, the small companies are using exports, licensing and franchising as well as joint ventures. Some factors should be considered before choosing a method of entering a new market. The company should evaluate its risk-taking propensity and flexibility, the opportunity in the new market and most importantly its financial position. Various methods involve considerable amount of risk and it important for the companies to consider these factors. Economic, political/legal and geographic factors, as well as competition, are some of the common factors that are affecting the market entry methods in the 21st century.

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