



Near East University

INTERNATIONAL MARKETING

MARK 402

EXPORT EXPANSION

SESSION 5

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OUTLINE

- ◉ **Four Modes of Entry**
- ◉ **The Role of Entry Barriers**
- ◉ **Exporting Functions**
- ◉ **Direct Exporting and Local Distribution**
- ◉ **Importers as Trade Initiators**
- ◉ **Takeaways.**

FOUR BASIC MODES OF ENTRY

- ◉ **Exporting**

- Indirect Exporting
- Direct Exporting

- ◉ **Licensing**

- Incl. Franchising

- ◉ **Strategic Alliances (SA)**

- Joint ventures
- Collaborations between companies

- ◉ **Wholly Owned Manufacturing Subsidiary**

- The company commits investment capital in plant and machinery.

The Exporting Modes of Entry

Exporting

- ***Indirect*** exporting via piggybacking, export management companies, trading companies
- ***Direct*** exporting, using market country agent or distributor
- ***Direct*** exporting, using own *sales subsidiary*
- ***Direct marketing***, including mail order and telemarketing

The Licensing Modes of Entry

Licensing

- **Technical licensing**
- **Contract manufacture**
- **Original equipment manufacture**
- **Management contracts**
- **Turnkey contracts**
- **Franchising**

The SA and FDI Modes of Entry

Strategic alliance

- **Distribution alliance**
- **Manufacturing alliance**
- **R & D alliance**
- **Joint venture**

Wholly owned manufacturing subsidiary

- **Assembly**
- **Full-fledged manufacturing**
- **Research and development**
- **Acquisition**

The Role of Entry Barriers

ENTRY BARRIERS – any obstacle making it more difficult for a firm to enter a product/service market

TARIFF BARRIERS

- Customs duties enforced on imported products (final products or intermediate products)
- Different tariff rates for different countries and different products
- May be adjusted by political influence from trade associations

NON-TARIFF BARRIERS

- Include all other entry barriers
- E.g. transportation costs, slow customs procedures, etc.

More Entry Barriers

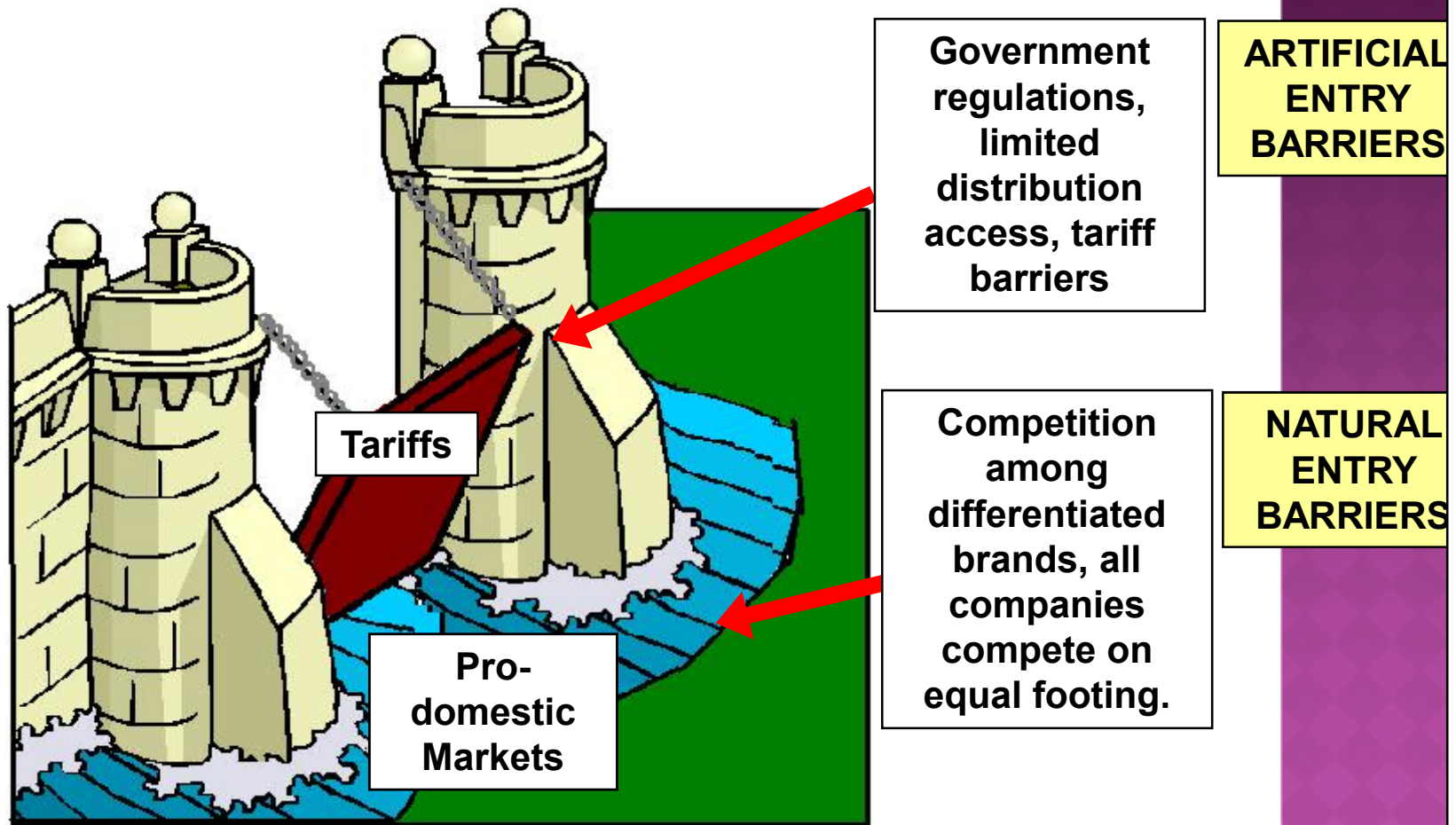
ARTIFICIAL ENTRY BARRIERS

- Limited distribution access
- Bureaucratic inertia
- Government regulations
- Limited access to technology
- Local monopolies

NATURAL ENTRY BARRIERS

- Intense competition among several differentiated brands
- Strong brand names charging a premium price over generic competitors
- Pro-domestic sentiment favoring local brands

Entry Barriers Protect Domestic Turf



Barriers and Mode of Entry

- **When barriers are low, the firm will be likely to enter via exporting.**
- **When barriers are high, alternative modes of entry have to be chosen:**
 - **License a local producer**
 - **Create a joint venture**
 - **Engage in a distribution alliance**
 - **Invest in a wholly owned subsidiary**

THE EXPORTING OPTION

◉ Indirect Exporting

- Export management companies perform all the transactions relating to foreign trade for the firm and are independent agents working for the firm in overseas markets, going to fairs, and contacting distributors
 - The advantage is that the firm avoids the overhead costs and administrative burden involved in managing their own export affairs
 - The disadvantage is that the skills and know-how developed through experiences abroad are accumulated outside the firm, not in it

◉ Direct Exporting

- The firm is able to more directly influence the marketing effort in the foreign market
 - Advantage over indirect exporting is the control of operations

EXPORTING FUNCTIONS

◉ Product Shipment

■ Transportation

- The shipment of the product to the border of the country is usually handled by an independent freight forwarder

■ Clearing through Customs

- Unloaded at the national border, the product will go from the ship or airline to a customs-free depot before being processed through customs

■ Warehousing

- After entering the country, the goods will often require storage

Terms of Shipment

- **EX-WORKS (EXW) at the point of origin** – seller agrees to deliver goods at point of origin or some specified place, all other charges are borne by the buyer.
- **FREE ALONGSIDE SHIP (FAS) at a named port of export** – price for goods includes charges for delivery of the goods alongside a vessel.
- **FREE ON BOARD (FOB) at a named port of export** – in addition to FAS, the seller loads the goods on the vessel.
- **COST & FREIGHT (CFR) to a named overseas port** – price for goods includes cost of transportation to a named overseas port.
- **COST, INSURANCE & FREIGHT (CIF) to a named overseas port** – price includes insurance and all transportation and miscellaneous charges to the port of disembarkation for the ship or aircraft.

THE EXPORTING OPTION: DUMPING

- ◉ **Dumping: Selling goods in some markets below cost**
 - **Reverse Dumping**
 - Refers to the practice of selling products at home at prices below cost
 - **Countervailing Duty**
 - An assessment levied on the foreign producer that brings the prices back up over production costs and imposes a fine
 - The usual penalty for manufactures found to violate antidumping laws
 - **Illegal but common reason for dumping:**
 - Entry into a large competitive market by selling at very low prices when a company has overproduced and wants to sell the product in a market where it has no brand franchise.

DUMPING AND THE WTO

- ◉ **New World Trade Organization trade rules regarding dumping**
 - Intended to support emerging countries exports
 - Features include
 - Stricter definitions of injury
 - Higher minimum dumping levels needed to trigger imposition of duties
 - More rigorous petition requirements
 - Dumping duty exemptions for new shippers

EXPORTING: PAYMENT

◉ Payment issues

- Local Currency
- Creditworthiness
- Letter of Credit
- Converting Funds
- Repatriation, Hedging

DIRECT EXPORTING: LEGAL ISSUES

◉ Legal Issues

- Export License
- Transferring Title
- Insurance
- Hiring an Agent

DIRECT EXPORTING: SERVICE

◉ After-Sales Support

- Service, Parts Supply, Training
 - Often managed by the distributor, aided by the agent
- Sales Subsidiary
 - The decision to establish a sales subsidiary, staffed with locals and a few top managers from headquarters is often made because after-sales service is important - and requires training
 - Ex. Automobiles, Computers, Hi-tech electronics.

DIRECT EXPORTING: LOCAL DISTRIBUTION

- Finding a Distributor
 - The most common approach is to use existing channels, found via
 - assistance of governmental agencies
 - trade fairs and international conventions
- Screening Distributors
 - On key performance criteria
 - The financial strength of the distributor is less important if the entering firm can support the company in the start-up period

Local distributors: Screening criteria

- **Previous experience (products handled, area covered, size)**
- **Services offered (inventory, repairs, after-sales service)**
- **Marketing support (advertising and promotional support)**
- **Financial strength**
- **Relations with government**
- **Cooperativeness**
- **Whether or not handling competing products**

DIRECT EXPORTING: LOCAL DISTRIBUTION

- **Personal Visit by a Manager**
 - Talk to the ultimate users of the equipment to find out from which distributors they prefer to buy and why
 - Visit the preferred distributors and see which would be able to sign up
 - Look for the distributor who has the key person for your line
- **Negotiating a Contract**
 - Specific terms as to the rights and obligations of the manufacturer and the distributor, the length of the contract, and conditions for its renegotiation

Importers as trade initiators

- **Usually the exporter or market entrant is the initiator of a trading relationship**
- **Importers can also initiate trade**
- **E.g. Nike in Asia, Volkswagen in Portugal**
- **local businesspeople are quicker to see opportunities within their country market**

Takeaway

The four main entry modes are:

- Exporting
- Licensing
- Strategic alliances
- Wholly Owned Manufacturing Subsidiary

Takeaway

Barriers to entry include:

- tariffs, quotas, customs procedures
- restrictive government regulations
- limited access to distribution channels
- pro-domestic consumer biases

Takeaway

Exporting is rarely the preferred mode of entry when trade barriers such as transportation costs, tariffs, preferential duties, and anti-foreign sentiments are high.

Takeaway

Export operations involve activities that are new to a domestic marketer. Many of these activities force the firm to either develop new skills or – the typical case – rely on independent middlemen.

The firm can let its agent & distributor handle the local marketing, or it can establish a foreign sales subsidiary.

Takeaway

An exporter needs good interpersonal skills to work effectively with foreign agents, local distributors & partners who may also be selling competitive brands in some product markets.