International Market Entry Modes: Toward an Increased Marketing Viewpoint and Conceptualization

Rohan Laksiri
Head; Department of Marketing
Faculty of Management and Finance
University of Ruhuna
Matara; SRI LANKA

International Market Entry Mode is a widely used concept in international management, strategy and marketing literature, where it has been applied to explain the degree of internationalization, risk, and the performance of the firm. The present paper explains the inappropriate use of this concept within current international marketing literature. The comprehensive framework for looking at the international market entry modes will be presented in order to correctly use the concept.

For explanatory purposes I will divide the concept of *International Market Entry Mode (IMEM)* into three parts: *international*, *market* and *entry mode*.

International:

The term *international* has several meanings and is used differently; generally, it is concerning or belonging to all (or at least two) nations, and is used as an adjective (examples: international company, international product, and international affairs). This adjective by nature explains incidents both moveable and immovable. In their discussion of the international management domain, Boddewyn (1999) and Boyacigiller and Adler (1997) argued that by definition, international is contextual. It specifically includes the environment external to the domestic in which firms conduct business. As Boddewyn stated (1997, 1999) international means the crossing of national borders.

Market:

In marketing, the term *market* refers to a group of consumers or organizations interested in a product, has the resources to purchase the product, and is permitted by law and other regulations to acquire the product (Kotler & Armstrong (1993, 2010, McCarthy & Perreault, 1990). Consumer market and business markets are two different types of markets generally discussed within marketing literature. Consumer markets are the *end-users* of the product or service, and include individuals and households that are potential or actual buyers of products and services. Business markets include individuals and organizations that are potential or actual *buyers* of goods and services that are used in, or in support of, the production of other products or services that are supplied to others. The term *market* by definition covers both buyers and end users. In essence, a *market* is a set of actual and potential buyers of a product (Kotler & Armstrong, 2010, Levens, 2010). Since a market is a collection of human elements, market by definition is a moveable element.

Entry Modes:

In a broad and general sense, entry modes or operation methods refer to the way of operating in the foreign market (Welch, Benito, and Petersen, 2007). In reaching strategic objectives, firms may choose from various entry modes. Typical modes of entry include exporting, licensing, joint ventures, acquisitions, and green-field investments (Davis , Desai and Francis, 2000). Examining different types of entry modes, Welch, Benito, and Petersen (2007) classify entry modes into contractual, exporting and investment modes.

Figure 1: Classification of Entry Modes

Contractual Modes	Exporting	Investment Modes
• Franchising	• Indirect	• Minority Share
• Licensing	• Direct	• 50/50
• Management contracts	• Own sales office/subsidiary	• Majority Share
• Subcontracting		• 100% owned
• Project operations		
• Alliances		

Source: Welch, Benito, and Petersen, (2007)

Each mode involves different resource deployment patterns (Agarwal & Ramaswamy, 1992), levels of control and risk (Kim & Hwang, 1992), and political and cultural awareness (Dalli, 1995).

International market entry mode research has long neglected the meaning of *"market"*. Most of the literature on international markets does not indicate the real meaning of the concept. They treat the adjective (international), blindly ignoring the real meaning of the concept "*market*". The literature on international market entry modes or the foreign market operation modes have adversely hinged on the non-marketing based definition of market; sadly, marketing literature also borrows this definition.

From initiation of foreign market operation methods by Stephen Hymer (1972), studies on entry modes discuss two different types of moves, namely capital and product. By international capital movements Hymer (1972) refers to the direct investment of corporations in their overseas branches and subsidiaries. In Hymer's definition of international capital movements, the author does not discuss anything related to the market (buyers). It truly depends on what type of market we are discussing. Marketing meaning "of market" refers to a market made up of buyers of products and services. In finance, there is "capital" market for money flow. However, while Hymer's definition of market is correct for finance, it is incorrect for marketing. Anderson and Gatignon (1986) developed a model of market entry choice mode based on transaction cost theory. Focusing mainly on control considerations, they suggested that the degree of control inherent in a given operation method is a function of ownership structure. Thus, licensing and various other contractual arrangements are low-control modes, while a fully- owned subsidiary would allow the internationalizing firm to enjoy a high degree of control over a foreign operation. When the firms focus on the entry modes in a binomial choice (full control and shared control), transaction cost theory is appropriate for explaining why the firms prefer full ownership vs. shared ownership (Azofra, Bobillo and Martinez, 1999). Nonetheless, although it is an important view of looking at foreign operation methods, it does not take the customer into account; thus, it is more of an economic view with less focus on marketing. Product movement in entry mode discussion is quite hidden. By definition exporting is this kind of market entry mode, but it is not the only one. Franchising and licensing also have some similar characteristics, but movement is only a part of the product, and it is most likely either one or a very few parts of the core, tangible and augmented product.

As discussed earlier, one of the properties of the market is its active and alive nature. Since it is a collection of buyers, a market can be moved, just as humans move one place to another. Moreover, adjectives such as *international* or *foreign* intend to express ownership of the noun to another country. Thus *international market* seen from an appropriate marketing view means *buys from another country*. International buyers (market) can be served in many ways. The main property of the prevailing entry mode discussion or the hidden assumption is that market is a country; this logic goes largely unnoticed but is supported by marketing textbooks and journals. There are certain situations where this assumption is explicit in certain texts; for example, Bradley and Gannon (2000) write “Foreign market entry (FME) is a complex decision for a firm, which first involves whether to enter foreign markets. A positive decision leads to the question of which country or countries to enter and in what sequence…”.

Illusion of this assumption can be found within the services marketing literature. Although they do not change the holistic way of looking at prevailing market entry modes, services marketers such as Lovelock, Yip (2007, 1996, 1999*)*, Ball, Lindsay, Rose (2008),McLaughlin and Fitzsimmons (1996) treat *market* based on its real marketing definition. As *Lovelock and Yip (2007)* point out, the nature of interaction between the customer and service organization determines the available options for service delivery. Part of the reason why they detail actual service delivery options is due to the perishability, variability, inseparability, and intangibility characteristics of services. The various modes of delivery are as follows: customers visit the service site, service providers go to their customers and service transactions are conducted remotely (at arm’s length). Discussing the differences among the services, Lovelock and Yip recognise alternative distribution methods for services. People-processing services firms that require direct contact with the customer have several options: (1) export the service concept (2) import customers and (3) transport customer to new locations (e.g., new airline routes). Possession-processing services involve services to physical possessions such as maintenance, and require an ongoing local presence. Crew or equipment may need to be flown in to enable service completion. Information-based services can be distributed in several ways: (1) export the service to a local service factory (2) import customers and (3) export the service via telecommunications and transform it locally. Electronic channels such as virtual stores (e.g., Amazon.com) and online banking offer an alternative to traditional physical entry modes for reaching buyers of the information-based services. Although Lovelock and Yip (2005, 2007) consider these to be international distribution methods, in the tangible goods business we talk about wholesalers and retailers as well as various logistics/distribution related functions. As implied earlier, entry mode research usually does not look into downstream wholesaling/retailing issues. In other words, we should do more research on wholesaling and retailing. Regarded from a marketing viewpoint, they are methods of reaching international market and thus international market entry modes.

Based on the existing literature, alternative ways of looking at the market entry modes can be found. The simplified idea of this paper can be presented as in figure 2. The two- by- two classifications of entry modes in figure 2 recognises four different types of market entry modes.

Figure 2: Market Entry Mode Matrix

Mode Matrix		**Firm or Product**	
		Move to Foreign Country	**Stay Domestic**
Customer (Market)	**Move to Foreign Country**	**Dual Move** target Imported Customers in a third country	**Type A: Single Move** Importing Customers
	Stay Domestic	**Type B: Single Move** target customers of host country	**International Market entry through channels and employees**

Dual Move: In order to support reaching customers of third country/ies, multi- national company or its` product might want to move from a home country to a second country (so, foreign). In this kind of move, the original firm (through direct investment modes) or its products (market modes) is sent into the second country, and an emerging type of market entry is known as the *dual move*. The market and the product/firm (later firm) from the original destination are moved to the new, foreign environment. In order to successfully perform this kind of move, a firm may face more strategic challenges than any other type of moves. There are few supported market entry modes that qualify as a dual move type. The most common type is the FDI-based move, where a new investment is made in the second country to serve third country customers. This type of market entry mode can be found in international hotel chains, whose main target market is customers from a third country. Club Med has combined dual move strategies by creating a network of varied vacation sites around the world. A more simple type is the franchising-based move, where a domestic business concept is moved to a second country to serve buyers of a third country.

Type A Single Move: A firm that decides to retain its location and attract customers from around the world or selected third country/ies will be considered as Type A, single move e.g., specialized hospital care to foreign customers. It is single since only one element (market) of the matrix moves. Prevailing classifications may consider these types of firms as domestic since they operate domestically, but they should be considered as international since they target international customers.

Type B: Single Move: A firm that decides to move its location and/or products to a second country in order to serve the host country customers will be considered as Type B, single move. Almost all past literature on classification of entry modes discusses the entry modes related to Type B: Single Move. Movement of capital through foreign direct investment modes and movement of the company’s final offer fall under this classification. All market to hierarchical modes discussed within the transaction cost literature can be considered as Type B Single move, since its hidden assumption is reaching the host country buyers.

International Market entry through technology and employees: Electronic channels such as virtual stores (e.g., Amazon.com) and online banking offer an alternative to traditional physical entry modes without movement of either firm or customer for entering the international market. Increasing international transportation infrastructure with fast and low cost allows more and more firms to use traditional door- to-door marketing strategies in which company representatives visit the host country and perform the selling function. Movement in this case happens with the employees. This type of market entry strategy can be found within services organizations such as engineering and construction.

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