INTERNATIONAL MANAGEMENT

4TH. PART: ENTRY TO THE FOREIGN MARKET

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4. Entry to the Foreign Market

4.1 Definition of the multinational company

4.2 Forms of the entry to the foreign market

4.3 Models of the entry to the foreign market

4.1 Definition of the Multinational Company

The basic question:

How can we entry (expand into) to the foreign market?

4.1 Definition of the Multinational Company

Multinational company

- Three conditions of multinational company:
    - fields of action in different countries through branches;
    - interaction between individual branches;
    - sharing resources and information between branches.

- Influencing the development of the international economy.

4.1 Definition of the Multinational Company

- Reasons for multinational character of companies:
  - Active reasons:
    - access to new resources;
    - economies of scale;
    - use of investment incentives.
  - Protecting reasons:
    - secondary investment;
    - satiety of the domestic market.

4.1 Definition of the Multinational Company

- Three degrees of integrity of cooperation in an international environment:
  - outsourcing:
    - cooperation in the field of support processes;
  - strategic alliance:
    - exchange of part of ownership concerns;
    - the benefit of business synergy between both entities;
    - low flexibility;
  - joint venture:
    - creating a new entity from two or more companies;

4.2 Forms of Foreign Market Entry

1. **Capital entry:**
    a) foreign branch;
    b) foreign affiliated company;
    c) joint ventures.
2. **No-capital entry:**
    a) export;
    b) license;
    c) franchising.

4.2 Forms of Foreign Market Entry

- **Foreign branch:**
  - limited decision-making authority;
  - balance sheet is part of the balance sheet of the controlling company;
  - the same legal person as the controlling company;
  - the same name as the controlling company.

4.2 Forms of Foreign Market Entry

- Foreign affiliated company:
    - part of the controlling company's assets;
    - separate legal entity;
    - most common division:
        - Subsidiaries (subsidiary company) - the ownership interest is greater than 50 %;
        - Outlet - the ownership interest is less than 50 % and more than 10 %.

4.2 Forms of Foreign Market Entry

- Joint ventures
  - agreement about corporate production on the basis of corporate ownership;
  - a multinational company transforms a local company into a subsidiary;
  - benefits for multinational company:
    - fast entry to the foreign market;
    - diversification of financial risks;
  - benefits for local company:
    - stronger financial background;
    - attractiveness for the customer due to the connection with a strong multinational brand.

4.2 Forms of Foreign Market Entry

- Export
  - the simplest form of the foreign market entry;
  - solution of contradiction "Tied capital - direct foreign investment"
  - two kinds:

a) direct;

b) indirect.

4.2 Forms of Foreign Market Entry

- Export
  - ad a) direct export:
    - direct sale to consumers of a foreign country;
    - distribution channels:
      - foreign representation;
      - sales representative;
      - export department;
    - benefits:
      - direct relation with the consumer;
      - contact with the foreign market;
      - assurance of knowledge of the product by the seller;
      - product checking.

4.2 Forms of Foreign Market Entry

- Export
  - ad b) indirect export:
    - sales through third-party companies;
    - benefits:
      - reducing the financial risks associated with investing in the creation of distribution channels;
      - linguistic and territorial knowledge of the seller;
      - easier export finishing;
      - less damage to the loss of reputation.

4.2 Forms of Foreign Market Entry

- License
  - permission to use an intangible asset;
  - payment of the license fee;
  - benefits for provider:
    - fast entry to the foreign market;
    - economically advantageous entry to the foreign market;
  - disadvantage for the provider:
    - the risk of damaging the goodwill of the licensor;
    - the risk of creating his competitors.

4.2 Forms of Foreign Market Entry

- Franchising
  - permission to use the subject of business;
  - the acquirer rents the entire business concept;
  - the acquirer indebted to respect the culture and business policy of the provider;
  - benefits for providers:
    - fast entry to the foreign market;
    - economically advantageous entry to the foreign market;
    - percentage income from profit.
  - disadvantage for the provider:
    - risk of damaging the reputation of the licensor;

4.3 Models of the Entry to the Foreign Market

Stopford's model of internationalisation:

- Evolutionary model - companies enter the foreign market gradually.
- Example of particular phases:
    1. export;
    2. license;
    3. foreign branch.
- Two criteria of the capital lockup:
    - market knowledge;
    - importance of the market.
- Some companies have more phases, others are omitting some phases.

4.3 Models of the Entry to the Foreign Market

Uppsala model of internationalisation:

- It follows and exemplifies the Stopford model.
- The principle of learning and gaining experience:
    1. The experiences from the foreign markets where the company is expanding now have an impact on the choice of the next expansion market;
    2. growing expansion experience increases the probability of capital form of the next entry to the foreign market (the next expansion).

4.3 Models of the Entry to the Foreign Market

Daniels' model of internationalisation:

- Five levels of internationalisation:

a) motivation for internationalisation (for expansion):

- active;
- passive;

b) ways of managing foreign processes:

- internal;
- external;

c) degree of similarity between the domestic and the foreign markets:

- similar;
- different;

4.3 Models of the Entry to the Foreign Market

Daniels' model of internationalisation:

- Five levels of internationalisation:

  a) number of foreign countries of the expansion:

  - one
  - more

  b) the phase (step, rate) of expansion:

  - export;
  - license;
  - subsidiary company etc.

Thank You for Your attention