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C.14 International Market Entry Strategy

MARKETING PLANNING FOR INTERNATIONAL MARKET ENTRY

Introducing products into international markets requires marketing planning just as do domestic market entries. The **marketing planning process** provides an appropriate framework for developing the strategy for a product entering international markets (see GLOSSARY entry Ch. 4). This entry will focus on the differences likely to be encountered in developing a marketing strategy for international markets.

The International Market Opportunity Analysis. The first step in developing an international market entry strategy is to conduct an **international market opportunity analysis.** The objective of this analysis is to determine whether or not a market offers a marketing opportunity for a product and to determine the characteristics of that market that the entry strategy must address. The analysis should ordinarily examine the suitability of the product to international markets by examining the scope of the proposed market, the environment of the international market, the product's points of superiority over competition, and its ability to meet the needs of the international market consumer. The process for conducting an international market opportunity analysis is examined in detail in GLOSSARY entry A.8.

The International Market Entry Strategy. The second element in planning for international markets is to develop an international market entry strategy. The entry strategy, like the marketing strategy for a domestic product, has two components. The first sets broad strategic direction for the international market entry. This includes deciding how the product should be positioned, a key directional element in the entry strategy. In addition, it must be decided whether many or a few markets will be entered and with what intensity, and the extent to which the marketing effort will be globalized to achieve economies of standardization.

The second component in the international market entry strategy is to develop a marketing mix that will support entry into the international market. Formation of the marketing mix is guided by the strategic direction discussed above and is adapted to the characteristics of the market determined through the international market opportunity analysis. The marketing mix for international entry includes the variables normally considered, but the issue of distribution method tends to be broader and highly important. In many cases, because of the distances involved, marketing logistics also becomes a major consideration.

SETTING INTERNATIONAL MARKET ENTRY DIRECTION

After the decision has been made to enter international markets, broad strategic direction must be set to guide the entry and the marketing mix that will be implemented. Three elements of strategic direction are considered in this section.

Concentration versus Diversification. A first strategic decision is to decide how many countries and how many segments to enter.[1] Quickly entering many countries and several segments within each country is termed a strategy of **market diversification.** Focusing efforts and resources on only a few markets, with gradual expansion into additional areas is termed a strategy of **concentration.**

The choice between an entry strategy of concentration or diversification provides direction to the marketing mix that follows. A strategy of diversification and multiple market entry at one time means that marketing resources available for each market, assuming that resources are limited, would be low. The entry method would probably favor domestic production and the use of independent agents for distribution. There will be a tendency to favor a **skimming pricing** to maximize early financial returns. A strategy of concentration, by contrast, would mean greater marketing investment in each market entered, greater control over the distribution channel, and **penetration pricing** to build market share.

Ayal and Zif, the authors of this concept, suggest ten criteria to be used in choosing between a strategy of diversification and one of concentration.[2]

- *Sales Response.* If the sales response curve is believed to show diminishing returns, a strategy of diversification is preferred. (The **sales response curve** defines the rate at which sales increase in response to marketing effort.) If returns are believed to be first increasing and then decreasing, a policy of concentration is preferred.
- *Market Growth.* If industry growth rate in each market is low, diversification into many markets is preferred. If growth rates are high, greater sales growth will result from concentration.
- *Sales Stability.* When sales are unstable, a diversification strategy will reduce risk.
- *Innovative Product.* If a firm is an innovator with a product or is close behind the innovator, a strategy of diversification will be favored to establish the product widely while it has competitive advantage. Attacking an entrenched competitor calls for a policy of concentration.
- *Marketing Spillover.* If marketing efforts will tend to spillover from one country to another, a strategy of diversification should be favored.
- *Product Standardization.* If a standardized product is to be marketed in all international markets, market diversification will be favored as a means of increasing volume and realizing **experience curve** benefits.
- *Communication Adaptation.* If little change is required in the communications program from country to country, a strategy of diversification is favored.
- *Distribution Economies.* When distribution costs

[1]The discussion that follows is based on Igal Ayal and Jehiel Zif, "Market Expansion Strategies in Multinational Marketing," *Journal of Marketing* 43 (Spring 1979), pp. 84–94.

[2]Ibid., pp. 88–91.

are high and there are distribution economies of scale with increasing market share, then a strategy of concentration should be favored.

- *Need for Control.* When the need for program control is great, such as for complex or custom-made products, a policy of concentration is advantageous.
- *Market Constraints.* In many foreign markets, there are constraints on the freedom of the market and on the availability of resources. Such barriers suggest a strategy of concentration in less constrained markets.

Globalization of the Marketing Effort. **Globalization** is a strategy of standardizing the marketing approach used to enter markets in different countries. A fully globalized strategy would offer the same product and the same marketing mix to each international market. The alternative to a global strategy is an approach that would adapt the product and other marketing strategy elements to the differences found in each country. Globalization is not an either/or decision. The question is: What marketing elements can be standardized and how standardized can they be?

The benefits from standardization are significant.[3] Most important are the reductions in cost that are realized by **experience curve** economies (see GLOSSARY entry A.19). The Japanese success with automobiles, as well as with a number of other products, stems in large part from offering standardized products in many countries. The production economies realized permit lower prices that, in turn, build market share and permit still further economies. Along with lower cost, standardization permits improved planning and control that can result in higher quality of product. The economies realized through standardization are not limited to production alone. Standardization can result in savings in packaging, advertising production, and distribution. Communicating a common product story takes advantage of promotional spillover among nations and markets so that customers hear a consistent message regardless of their location. Standardization also provides advantages by permitting broader use of creative promotional and positioning ideas.

Levitt suggests that opportunities for globalization have come about from technological improvements in communication, travel, and transport that have made consumers around the world aware of new products. Differences in taste and product preference are disappearing as worldwide communication improves.[4] Nonetheless, there are also barriers to a standardized marketing approach.[5]

- *Market Barriers.* Standardization may be limited if the physical environment among markets is very different, the countries are in different stages of economic development, or the cultures, as related to product use, are different.
- *Industry Conditions.* If the product category is in different stages of the product life cycle in different countries and if the level of competition differs, standardization may be difficult.
- *Marketing Institutions.* Differences in the availability of marketing infrastructure needed for the marketing effort, such as distribution outlets or advertising media, can be a barrier to standardization.
- *Legal Restrictions.* The presence of legal restrictions within a country that prohibit use of some of the elements of a marketing strategy would be a barrier to introduction of a standardized marketing program.

Quelch and Hoff suggest that the degree of standardization that is appropriate requires consideration of four dimensions: the function to be standardized, the nature of the product, the marketing mix element to be standardized, and the characteristics of the country where the product is to be marketed.[6] These four elements, together with

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[3]See Robert D. Buzzell, "Can You Standardize Multinational Marketing?" *Harvard Business Review* (November–December 1968), pp. 102–13.

[4]Theodore Levitt, "The Globalization of Markets," *Harvard Business Review* (May–June 1983), pp. 92–102.

[5]Suggested by Buzzell, "Can You Standardize?" pp. 108–13.

[6]John A. Quelch and Edward J. Hoff, "Customizing Global Marketing," *Harvard Business Review* (May–June 1986), pp. 59–68.

the barriers listed above, provide criteria for making the globalization decision.

- *Business Function.* Ease of standardization varies with the business function. The production and finance functions are easier to standardize than is marketing.
- *Product Characteristics.* Products that realize lower costs as the scale of production increases are better candidates for standardization. Durable goods are candidates for standardization because they realize greater cost benefits from standardization than do consumables.

  Products that are linked to cultural differences are not good candidates for standardization. Since cultures vary among countries, products closely bound to traditional practices may require marketing adaptation by country.
- *Marketing Mix Element.* The degree of standardization possible varies between elements of the marketing mix. Creating a standard product design offers the greatest standardization benefit. Scale economies from other marketing mix elements are likely to be less. However, significant benefits can accrue from identifying superior marketing ideas that have been keys to the product's success and trying to use them in other countries. Execution-oriented marketing mix elements, such as a particular television commercial, are more difficult to standardize.
- *Country Characteristics.* The desirability of a standardized approach depends, in part, on the characteristics of the country to be entered. Large countries with strong local managements will be less willing to follow standardized approaches, but the benefits to the firm will be greater if they do. Markets in the same region or at the same stage of economic development are more susceptible to standardization of marketing approach.

Positioning the Product in International Markets. Just as in the case of domestic products, the positioning of a product for international market entry gives important guidance to formation of the marketing mix (see GLOSSARY entry B.1 on **positioning**). The process for positioning a product for international markets follows the usual process of segmenting the market, selecting a target market, and positioning. However, some considerations differ.

- *International Market Segmentation.* The opportunity for standardizing the marketing effort is enhanced if the same segmentation base can be used in all countries (see GLOSSARY entry B.3). Levitt suggests that greatly improved communication among countries has tended to make market segments the same from country to country.[7] It has also been suggested that there are good opportunities for cross-national segmentation using subcultures, such as businessmen or housewives, who increasingly share problems and outlooks.[8]
- *International Target Markets.* The criteria for selecting target markets suggested in GLOSSARY entry B.4 are applicable to products in international markets. However, the **market coverage** decision may well be different. If the overseas market is considerably smaller than the domestic one, it may be necessary to cover the total market or several segments to generate sufficient volume to make the market viable and retain distribution. The market diversification/market concentration decision discussed above will give further guidance on target market coverage.
- *Positioning International Products.* If the market segmentation base and target market coverage are standardized, there is an opportunity for standardization of the product **positioning** (see GLOSSARY entry B.1). If the positioning is a unique and proven one, it is advantageous to use this idea in expansion markets. Johansson and Thorelli found evidence of country stereotyping that requires adjustment of positioning by country.[9] **Country stereotyping** is a biased way of thinking about products from a particular country. The biases can be positive or negative, but they influence the way that people of a country relate products from different countries to each other.

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[7]Levitt, "Globalization," p. 94.

[8]Susan Douglas and Bernard DuBois, "Looking at the Cultural Environment for International Marketing Opportunities," *Columbia Journal of World Business* (Winter 1977), p. 105.

[9]Johny K. Johansson and Hans B. Thorelli, "International Product Positioning," *Journal of International Business Studies* 16 (Fall 1985), pp. 57–75.

DEVELOPING THE INTERNATIONAL MARKETING MIX

With strategic direction set, the final step in developing an international market entry strategy is to formulate a **marketing mix** (see GLOSSARY entry C.16). As is normal in marketing planning, the marketing mix is guided by the product's positioning, but in this case it also relies on the market concentration/diversification decision and the globalization decision. Other differences in developing an international marketing mix are suggested below.

Determining Entry Method. A decision that is unique to marketing internationally is to determine the method of entering the overseas market. The two broad choices are to manufacture at home and export the product or to manufacture in the foreign market.

- *Export Marketing.* If the product is manufactured at home for export, it must then be distributed in the overseas market by foreign sales agents or distributors or the firm must establish its own sales offices. Most firms begin international marketing through export. The investment and the risk are far less than in establishing overseas manufacturing. Export entry will more likely meet a diversification objective.

  In choosing between foreign sales agents or distributors and own sales force, similar criteria apply. Agents or distributors will give quicker entry to the market, especially to the new exporter not yet familiar with the market. Use of the firms's own sales force requires greater investment, but the product will get greater attention, market penetration is more feasible, and control over marketing activities is far better. A frequent pattern is to start with agents or distributors and move to the firm's own sales force once the product has become established.

- *Foreign Production.* The alternative to export marketing is to produce the product in the foreign market. Foreign production can be achieved by licensing agreement, through a joint venture with a foreign partner, or through a wholly owned facility. Foreign production is most attractive when markets are large and the strategy is one of penetration. Foreign manufacture is also favored when tariffs on imported goods are high and when regulations or consumer attitudes discriminate against foreign products. Establishing foreign manufacture reduces flexibility and increases risk of loss from unfavorable government action. For foreign manufacture to be viable, a pool of acceptable personnel, raw materials, and other resources must be available. Foreign production becomes more essential to realize cost efficiencies as a product advances in the **international product life cycle** (see GLOSSARY entry A.8).

  Licensing is a means of gaining some of the advantages of foreign production without direct investment. By licensing a product for foreign production and sale, quick entry into foreign markets is gained and the licensee, if carefully chosen, provides local market expertise. Joint venturing offers a compromise between manufacturing and licensing.[10] Developing a manufacturing facility with a foreign partner offers participation in income and growth, but the investment requirement and risk are lessened. The presence of a foreign partner may result in less discrimination against the product and the foreign partner can provide local information and access.

Logistics for International Markets. Because of the distances and costs involved in supplying foreign markets, the **marketing logistics system** plays an important role in the marketing mix of exporters (see GLOSSARY entry C.15). Inventory levels maintained in foreign markets need to take into account the longer replenishment cycle when shipping to and clearing through foreign markets. Some countries provide free-trade zones or free ports that provide unloading and warehouse facilities that can be used by exporters as places to unpack, sort, assemble, and store goods. No tariff is due as long as the goods stay in the free-trade zone.

In most cases, transportation to foreign markets, if they are overseas, will require use of combination transportation methods such as truck-ship or truck-air (see GLOSSARY

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[10] Kingston F. Berlew, "The Joint Venture—A Way into Foreign Markets," *Harvard Business Review* (July–August 1984), pp. 48–54.

entry C.40). For overseas shipments, the use of special packing or export containers is often required to protect the product from damage, spoilage, or pilferage.

Promotion in Foreign Markets. Promotion, especially where it plays an important part in the marketing mix, is one of the most difficult elements for the marketer to develop for foreign markets and one of the most difficult to standardize among markets.

Advertising copy must be particularly sensitive to cultural differences in foreign markets. Differences in language, the level of literacy, the meaning of terms, and symbolic meanings must be considered market by market as copy is prepared. Many international marketers handle this problem by using advertising agencies located in foreign markets.

Media selection in foreign markets can be difficult. The wide range of media available in the U.S. market is frequently not found or is not available to advertisers in foreign markets. Newspapers are widely available, but magazines, particularly business and specialized periodicals, are not. Broadcast media are controlled by the government in many foreign markets and advertising is restricted or prohibited.

Sales promotion, which is so widely used in U.S. markets, is much less widely used in foreign markets. Sales promotion faces legal problems in many countries and is not an accepted part of the culture in many others.

Pricing in International Markets. The process for setting prices in international markets is the same as in domestic markets. Pricing objectives must be set, pricing determinants analyzed, and a pricing method selected and applied to determine price (see GLOSSARY entry C.23).

In pricing for international markets, some of the price determinants will be different from the domestic market and different in each foreign market. Pricing has to be considered market by market. Some of the determinants likely to differ in foreign markets are these.[11]

- *Product Cost.* Transportation, tariffs, distributor charges, and promotional costs are just some of the costs that are likely to be considerably different in foreign markets and they will affect price. Strong inflation in some countries complicates pricing products and requires constant local supervision.
- *Product Demand.* The level of demand for products in foreign markets will differ from domestic markets and from each other. Important factors determining demand in foreign markets are the level of consumer income and culturally developed attitudes toward the product. Demand can be influenced by biases for or against the products of other countries.
- *Competitive Prices.* Each foreign market will present a different array of competition, each priced in terms of local conditions. Each market, as a result, will have a different average price to which the international marketer must relate. In some foreign markets, price is less frequently used as a part of the marketing strategy as the competitors adhere to a stable market price.
- *Government Regulation.* Government is more likely to play an active role in regulating prices in foreign markets. Some price cutting activities may be prohibited along with promotional pricing. Retail price maintenance, a thing of the past in U.S. markets, is still the law in some foreign markets.
- *Stage in the International Product Life Cycle.* As a product moves toward the mature stage of the **international product life cycle,** the product technology becomes more widely available and production gravitates to low-cost producers. With this, there is a downward pressure on prices as the low-cost producers attempt to build market share and realize more cost economies. To remain competitive, international marketers must meet these price challenges (see GLOSSARY entry A.8).

The Product for International Markets. The major decision to be made with regard to product is the degree to which the product must be adapted to foreign markets. The advantages of standardization of product have already been covered and will not be repeated here. In addition to standardizing the product, there are also advantages in using a common brand name in all companies, a standard logotype, and standard packaging. Regulatory requirements in foreign coun-

[11]See Vern Terpstra, *International Marketing,* 2d ed. (Hinsdale, Ill.: Dryden Press, 1978), chap. 14.

tries are likely to require some adaptation in all of these product elements.

SUGGESTIONS FOR FURTHER READING

AYAL, IGAL, and JEHIEL ZIF. "Market Expansion Strategies in Multinational Marketing." *Journal of Marketing* 43 (Spring 1979), pp. 84–94.

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