

# Part III

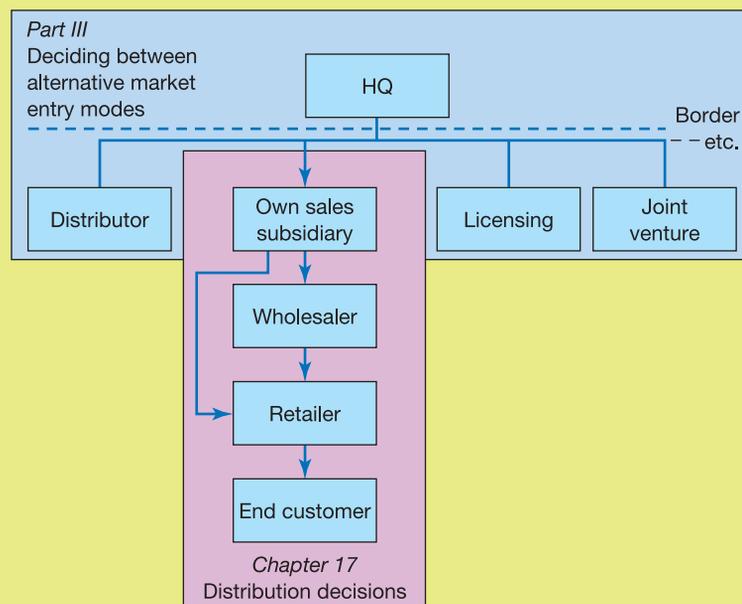
## MARKET ENTRY STRATEGIES

### Introduction to Part III

Once the firm has chosen target markets abroad (see Part II) the question arises as to the best way to enter those markets. In Part III we will consider the major market entry modes and criteria for selecting them. An international market entry mode is an institutional arrangement necessary for the entry of a company's products, technology and human capital into a foreign country/market.

To separate Part III from later chapters, let us take a look at Figure 1. The figure shows the classical distribution systems in a national consumer market.

**Figure 1** Examples of different market entry modes and the distribution decision



In this context the chosen market entry mode (here, own sales subsidiary) can be regarded as the first decision level in the vertical chain that will provide marketing and distribution to the next actors in the vertical chain. In Chapter 17 we will take a closer look at the choice between alternative distribution systems at the single national level.

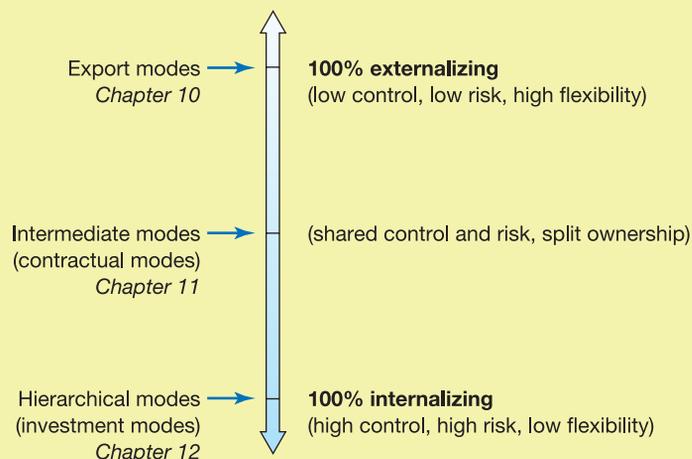
Some firms have discovered that an ill-judged market entry selection in the initial stages of its internationalization can threaten its future market entry and expansion activities. Since it is common for firms to have their initial mode choice institutionalized over time, as new products are sold through the same established channels and new markets are entered using the same entry method, a problematic initial entry mode choice can survive through the institutionalization of this mode. The inertia in the shift process of entry modes delays the transition to a new entry mode. The reluctance of firms to change entry modes once they are in place, and the difficulty involved in so doing, makes the mode of entry decision a key strategic issue for firms operating in today's rapidly internationalizing marketplace (Hollensen, 1991).

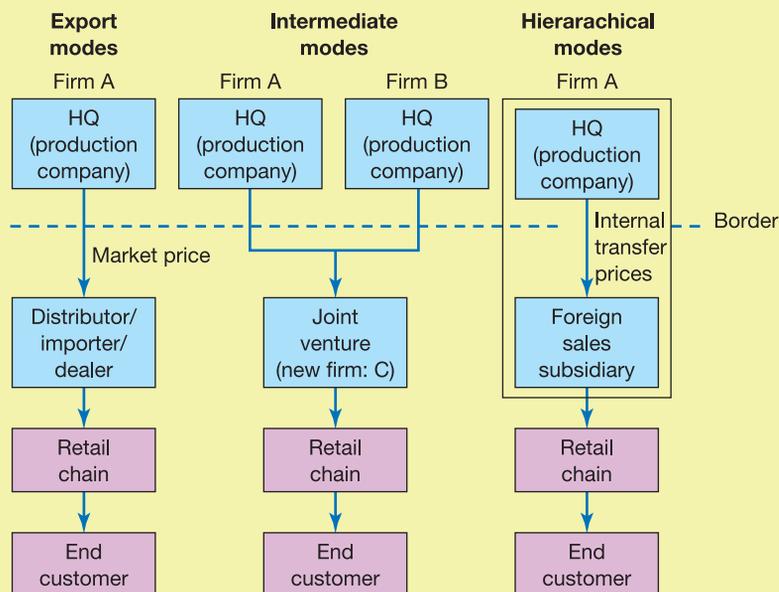
For most SMEs the market entry represents a critical first step, but for established companies the problem is not how to enter new emerging markets, rather how to exploit opportunities more effectively within the context of their existing network of international operations.

There is, however, no ideal market entry strategy, and different market entry methods might be adopted by different firms entering the same market and/or by the same firm in different markets. Petersen and Welch (2002) found that a firm often combines modes to enter or develop a specific foreign market. Such 'mode packages' may take the form of concerted use of several operation modes in an integrated, complementary way. In some cases a firm uses a combination of modes that compete with each other. Sometimes this occurs when a firm attempts a hostile takeover of an export market. The existing local distributor might be able to resist giving up the market, depending on the nature of existing obligations, but the exporter nevertheless may establish a wholly owned sales subsidiary.

As shown in Figure 2, three broad groupings emerge when one looks at the assortment of entry modes available to the firm when entering international markets. There are different degrees of control, risk and flexibility associated with each of these different market entry modes. For example, the use of hierarchical modes (investment modes) gives the firm ownership and thereby high control, but committing heavy resources to foreign markets also represents a higher potential risk. At the same time heavy resource commitment creates exit barriers, which diminish the firm's ability to

**Figure 2** Classification of market entry modes



**Figure 3** Examples of the different market entry modes in the consumer market

change the chosen entry mode in a quick and easy way. So the entry mode decision involves trade-offs, as the firm cannot have both high control and high flexibility.

Figure 3 shows three examples representing the main types of market entry mode. By using hierarchical modes, transactions between independent actors are substituted by intra-firm transactions, and market prices are substituted by internal transfer prices.

Many factors should be considered in deciding on the appropriate market entry mode. These factors (criteria) vary with the market situation and the firm in question.

Chapter 9 will examine the different decision criteria and how they influence the choice among the three main groupings of market entry modes. Chapter 10 (Export modes), Chapter 11 (Intermediate modes) and Chapter 12 (Hierarchical modes) will discuss in more detail the three main types of entry mode. A special issue for SMEs is how their internationalization process is related to their much bigger customers and their sourcing and entry mode decisions. This will be discussed further in Chapter 13. Finally in Chapter 14 (Global e-commerce) the special online entry modes will be discussed.

The simple version of the value chain (see Figure 1.10) will be used to structure the different entry modes in Chapters 10, 11 and 12.

## References

- Hollensen, S. (1991) 'Shift of market servicing organization in international markets: a Danish case study', in Vestergaard, H. (ed.), *An Enlarged Europe in the Global Economy*, EIBA's 17th Annual Conference, Copenhagen.
- Petersen, B. and Welch, L.S. (2002), 'Foreign operation mode combinations and internationalization', *Journal of Business Research*, 55, pp. 157–162.

# 9

## Some approaches to the choice of entry mode

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### Learning objectives

After studying this chapter you should be able to do the following:

- Identify and classify different market entry modes.
- Explore different approaches to the choice of entry mode.
- Explain how opportunistic behaviour affects the manufacturer/intermediary relationship.
- Identify the factors to consider when choosing a market entry strategy.

## 9.1 Introduction

### Entry mode

An institutional arrangement necessary for the entry of a company's products and services into a new foreign market. The main types are: export, intermediate and hierarchical modes.

We have seen the main groupings of **entry modes** which are available to companies that wish to take advantage of foreign market opportunities. At this point we are concerned with the question: what kind of strategy should be used for the entry mode selection?

According to Root (1994) there are three different rules:

- 1 *Naive rule.* The decision maker uses the same entry mode for all foreign markets. This rule ignores the heterogeneity of the individual foreign markets.
- 2 *Pragmatic rule.* The decision maker uses a workable entry mode for each foreign market. In the early stages of exporting the firm typically starts doing business with a low-risk entry mode. Only if the particular initial mode is not feasible or profitable will the firm look for another workable entry mode. In this case not all potential alternatives are investigated, and the workable entry may not be the 'best' entry mode.

- 3 *Strategy rules.* This approach requires that all alternative entry modes are systematically compared and evaluated before any choice is made. An application of this decision rule would be to choose the entry mode that maximizes the profit contribution over the strategic planning period subject to (a) the availability of company resources, (b) risk and (c) non-profit objectives.

Although many SMEs probably use the pragmatic or even the naive rule, this chapter is mainly inspired by an analytical approach, which is the main principle behind the strategy rule.

## 9.2 The transaction cost approach

The principles of transaction cost analysis have already been presented in Chapter 3 (section 3.3). This chapter will go into further details about ‘friction’ and opportunism.

The unit of analysis is the transaction rather than the firm. The basic idea behind this approach is that in the real world there is always some friction between the buyer and seller in connection with market transactions. This friction is mainly caused by opportunistic behaviour in the relation between a producer and an export intermediary.

In the case of an agent, the producer specifies sales-promoting tasks that the export intermediary is to solve in order to receive a reward in the shape of commission.

In the case of an importer, the export intermediary has a higher degree of freedom as the intermediary itself, to a certain extent, can fix sales prices and thus base its earnings on the profit between the producer’s sales price (the importer’s buying price) and the importer’s sales price.

No matter who the export intermediary may be, there will be some recurrent elements that may result in conflicts and opportunistic actions:

- stock size of the export intermediary;
- extent of technical and commercial service that the export intermediary is to carry out for its customers;
- division of marketing costs (advertising, exhibition activities, etc.) between producer and export intermediary;
- fixing of prices: from producer to export intermediary, and from the export intermediary to its customers;
- fixing of commission to agents.

### Opportunistic behaviour from the export intermediary

In this connection the export intermediary’s opportunistic behaviour may be reflected in two activities:

- 1 In most producer–export intermediary relations a split of the sales promoting costs has been fixed. Thus statements by the export intermediary of too high sales promotion activities (e.g. by manipulating invoices) may form the basis of a higher payment from producer to export intermediary.
- 2 The export intermediary may manipulate information on market size and competitor prices in order to obtain lower ex-works prices from the producer. Of course, this kind of opportunism can be avoided if the export intermediary is paid a commission of realized turnover (the agency case).

## Opportunistic behaviour from the producer

In this chapter we have so far presumed that the export intermediary is the one who has behaved opportunistically. The producer may, however, also behave in an opportunistic way, as the export intermediary must also use resources (time and money) on building up the market for the producer's product programme. This is especially the case if the producer wants to sell expensive and technically complicated products.

Thus the export intermediary carries a great part of the economic risk, and will always have the threat of the producer's change of entry mode hanging over its head. If the export intermediary does not live up to the producer's expectations it risks being replaced by another export intermediary, or the producer may change to its own export organization (sales subsidiary), as the increased transaction frequency (market size) can obviously bear the increased costs.

The last case may also be part of a deliberate strategy from the producer: namely, to tap the export intermediary for market knowledge and customer contacts in order to establish a sales organization itself.

### What can the export intermediary do to meet this situation?

Heide and John (1988) suggest that the agent should make a number of further 'offsetting' investments in order to counterbalance the relationship between the two parties. These investments create bonds that make it costly for the producer to leave the relationship: that is, the agent creates 'exit barriers' for the producer (the principal). Examples of such investments are as follows:

- Establish personal relations with the producer's key employees.
- Create an independent identity (image) in connection with selling the producer's products.
- Add further value to the product, such as a BDA (before–during–after) service, which creates bonds in the agent's customer relations.

If it is impossible to make such offsetting investments Heide and John (1988) suggest that the agent reduces its risk by representing more producers.

These are the conditions that the producer is up against, and when several of these factors appear at the same time the theory recommends that the company (the producer) internalizes rather than externalizes.

## 9.3 Factors influencing the choice of entry mode

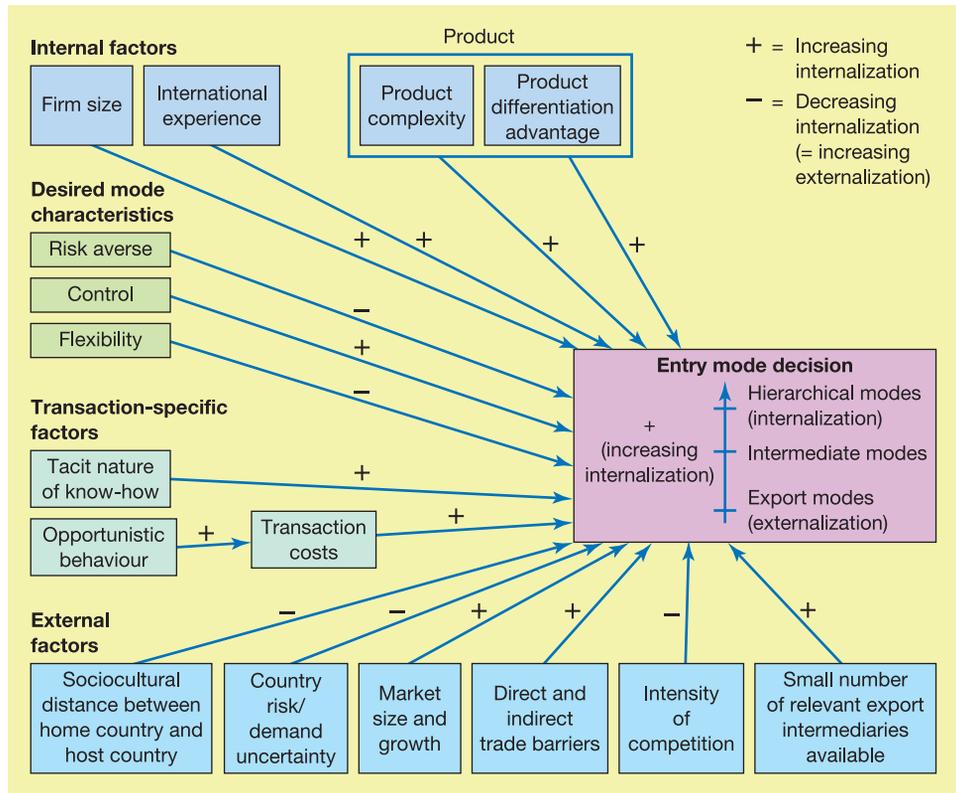
A firm's choice of its entry mode for a given product/target country is the net result of several, often conflicting forces. The need to anticipate the strength and direction of these forces makes the entry mode decision a complex process with numerous trade-offs among alternative entry modes.

Generally speaking the choice of entry mode should be based on the expected contribution to profit. This may be easier said than done, particularly for those foreign markets where relevant data are lacking. Most of the selection criteria are qualitative in nature, and quantification is very difficult.

As shown in Figure 9.1, four groups of factors are believed to influence the entry mode decision:

- 1 internal factors;
- 2 external factors;

**Figure 9.1** Factors affecting the foreign market entry mode decision



- 3 desired mode characteristics;
- 4 transaction-specific behaviour.

In what follows a proposition is formulated for each factor: how is each factor supposed to affect the choice of foreign entry mode? The direction of influence is also indicated both in the text and in Figure 9.1. Because of the complexity of the entry mode decision the propositions are made under the condition of other factors being equal.

## 1 Internal factors

### Firm size

Size is an indicator of the firm's resource availability; increasing resource availability provides the basis for increased international involvement over time. Although SMEs may desire a high level of control over international operations and wish to make heavy resource commitments to foreign markets, they are more likely to enter foreign markets using export modes because they do not have the resources necessary to achieve a high degree of control or to make these resource commitments. Export entry modes (market modes), with their lower resource commitment, may therefore be more suitable for SMEs. As the firm grows it will increasingly use the hierarchical model.

### International experience

Another firm-specific factor influencing mode choice is the international experience of managers and thus of the firm. Experience, which refers to the extent to

which a firm has been involved in operating internationally, can be gained from operating either in a particular country or in the general international environment. International experience reduces the cost and uncertainty of serving a market, and in turn increases the probability of firms committing resources to foreign markets.

In developing their theory of internationalization Johanson and Vahlne (1977) assert that uncertainty in international markets is reduced through actual operations in foreign markets (experiential knowledge) rather than through the acquisition of objective knowledge. They suggest that it is direct experience with international markets that increases the likelihood of committing extra resources to foreign markets.

### Product/service

The physical characteristics of the product or service, such as its value/weight ratio, perishability and composition, are important in determining where production is located. Products with high value/weight ratios, such as expensive watches, are typically used for direct exporting, especially where there are significant production economies of scale, or if management wishes to retain control over production. Conversely, in the soft drinks and beer industry, companies typically establish licensing agreements, or invest in local bottling or production facilities, because shipment costs, particularly to distant markets, are prohibitive.

The nature of the product affects channel selection because products vary so widely in their characteristics and use, and because the selling job may also vary markedly. For instance, the technical nature of a product (high complexity) may require service both before and after sale. In many foreign market areas marketing intermediaries may not be able to handle such work. Instead firms will use one of the hierarchical modes.

Blomstermo *et al.* (2006) distinguish between *hard* and *soft services*. Hard services are those where production and consumption can be decoupled. For example software services can be transferred into a CD, or some other tangible medium, which can be mass-produced, making standardization possible. With soft services, where production and consumption occur simultaneously, the customer acts as a co-producer, and decoupling is not viable. The soft-service provider must be present abroad from their first day of foreign operations. Blomstermo *et al.* (2006) conclude that there are significant differences between hard- and soft-service suppliers regarding choice of foreign market entry mode. Managers in soft services are much more likely to choose a high control entry mode (hierarchical mode) than hard services. It is important for soft-service suppliers to interact with their foreign customers, thus they should opt for a high degree of control, enabling them to monitor the coproduction of the services.

Products distinguished by physical variations, brand name, advertising and after-sales service (e.g. warranties, repair and replacement policies) that promote preference for one product over another may allow a firm to absorb the higher costs of being in a foreign market. Product differentiation advantages give firms a certain amount of impulse in raising prices to exceed costs by more than normal profits (quasi rent). They also allow firms to limit competition through the development of entry barriers, which are fundamental in the competitive strategy of the firm, as well as serving customer needs better and thereby strengthening the competitive position of the firm compared to other firms. Because these product differentiation advantages represent a 'natural monopoly' firms seek to protect their competitive advantages from dissemination through the use of hierarchical modes of entry.

## 2 External factors

### Sociocultural distance between home country and host country

Socioculturally similar countries are those that have similar business and industrial practices, a common or similar language, and comparable educational levels and cultural characteristics.

Sociocultural differences between a firm's home country and its host country can create internal uncertainty for the firm, which influences the mode of entry desired by that firm.

The greater the perceived distance between the home and host country in terms of culture, economic systems and business practices, the more likely it is that the firm will shy away from direct investment in favour of joint venture agreements. This is because the latter institutional modes enhance firms' flexibility to withdraw from the host market, if they should be unable to acclimatize themselves comfortably to the unfamiliar setting. To summarize, other things being equal, when the perceived distance between the home and host country is great, firms will favour entry modes that involve relatively low resource commitments and high flexibility.

### Country risk/demand uncertainty

Foreign markets are usually perceived as riskier than the domestic market. The amount of risk the firm faces is a function not only of the market itself but also of its method of involvement there. In addition to its investment the firm risks inventories and receivables. When planning its method of entry the firm must do a risk analysis of both the market and its method of entry. Exchange rate risk is another variable. Moreover, risks are not only economic; there are also political risks.

When country risk is high a firm would do well to limit its exposure to such risk by restricting its resource commitments in that particular national domain. That is, other things being equal, when country risk is high, firms will favour entry modes that involve relatively low resource commitments (export modes).

Unpredictability in the political and economic environment of the host market increases the perceived risk and demand uncertainty experienced by the firm. In turn this disinclines firms to enter the market with entry modes requiring heavy resource commitments; on the other hand, flexibility is highly desired.

### Market size and growth

Country size and rate of market growth are key parameters in determining the mode of entry. The larger the country and the size of its market, and the higher the growth rate, the more likely management will be to commit resources to its development, and to consider establishing a wholly-owned sales subsidiary or to participate in a majority-owned joint venture. Retaining control over operations provides management with direct contact and allows it to plan and direct market development more effectively.

Small markets, on the other hand, especially if they are geographically isolated and cannot be serviced efficiently from a neighboring country, may not warrant significant attention or resources. Consequently they may be best supplied via exporting or a licensing agreement. While unlikely to stimulate market development or maximize market penetration this approach enables the firm to enter the market with minimal resource commitment, and frees resources for potentially more lucrative markets.

### Direct and indirect trade barriers

Tariffs or quotas on the import of foreign goods and components favour the establishment of local production or assembly operations (hierarchical modes).

Product or trade regulations and standards, as well as preferences for local suppliers, also have an impact on mode of entry and operation decisions. Preferences for local suppliers, or tendencies to 'buy national', often encourage a company to consider a joint venture or other contractual arrangements with a local company (intermediate modes). The local partner helps in developing local contacts, negotiating sales and establishing distribution channels, as well as in diffusing the foreign image.

Product and trade regulations and customs formalities similarly encourage modes involving local companies, which can provide information about and contacts in local markets, and can ease access. In some instances, where product regulations and standards necessitate significant adaptation and modification, the firm may establish local production, assembly or finishing facilities (hierarchical modes).

The net impact of both direct and indirect trade barriers is thus likely to be a shift towards performing various functions such as sourcing, production and developing marketing tactics in the local market.

### Intensity of competition

When the intensity of competition is high in a host market firms will do well to avoid internalization, as such markets tend to be less profitable and therefore do not justify heavy resource commitments. Hence, other things being equal, the greater the intensity of competition in the host market the more the firm will favour entry modes that involve low resource commitments (export modes).

### Small number of relevant intermediaries available

In such a case the market field is subject to the opportunistic behaviour of the few export intermediaries, and this will favour the use of hierarchical modes in order to reduce the scope for opportunistic behaviour.

## 3 Desired mode characteristics

### Risk averse

If the decision maker is risk averse they will prefer export modes (e.g. indirect and direct exporting) or licensing (an intermediate mode) because they typically entail low levels of financial and management resource commitment. A joint venture provides a way of sharing risk, financial exposure and the cost of establishing local distribution networks and hiring local personnel, although negotiating and managing joint ventures often absorb considerable management time and effort. However, modes of entry that entail minimal levels of resource commitment and hence minimal risks are unlikely to foster the development of international operations and may result in significant loss of opportunity.

### Control

Mode-of-entry decisions also need to consider the degree of control that management requires over operations in international markets. Control is often closely linked to the level of resource commitment. Modes of entry with minimal resource commitment, such as indirect exporting, provide little or no control over the conditions under which

the product or service is marketed abroad. In the case of licensing and contract manufacturing management needs to ensure that production meets its quality standards. Joint ventures also limit the degree of management control over international operations and can be a source of considerable conflict where the goals and objectives of partners diverge. Wholly-owned subsidiaries (hierarchical mode) provide the most control, but also require a substantial commitment of resources.

### Flexibility

Management must also weigh up the flexibility associated with a given mode of entry. The hierarchical modes (involving substantial **equity** investment) are typically the most costly but the least flexible and most difficult to change in the short run. Intermediate modes (contractual agreements and joint ventures) limit the firm's ability to adapt or change strategy when market conditions are changing rapidly.

#### Equity

Some investment of a defined financial value.

## 4 Transaction-specific factors

The transaction cost analysis approach was discussed in Chapter 3 (section 3.3) and earlier in this chapter. We will therefore refer to only one of the factors here.

### Tacit nature of know-how

When the nature of the firm-specific know-how transferred is **tacit** it is by definition difficult to articulate. This makes the drafting of a contract (to transfer such complex know-how) very problematic. The difficulties and costs involved in transferring tacit know-how provide an incentive for firms to use hierarchical modes. Investment modes are better able to facilitate the intra-organizational transfer of tacit know-how. By using a hierarchical mode the firm can utilize human capital, drawing upon its organizational routines to structure the transfer problem. Hence, the greater the tacit component of firm-specific know-how, the more a firm will favour hierarchical modes.

#### Tacit

Difficult to articulate and express in words – tacit knowledge has often to do with complex products and services, where functionality is very hard to express.

### Exhibit 9.1 Konica Minolta Printing Solutions Europe B.V. makes its 'entry mode' decision for the Belgium market<sup>1</sup>

*(Based on the outcome of Exhibit 8.1. Read Exhibit 8.1 for an introduction to Konica Minolta Printing Solutions Europe B.V.)*

*Konica Minolta wishes to take advantage of the foreign market opportunities in Belgium. At this point the question is: What kind of mode should be used for entering the Belgian market?*

There are four groups of factors influencing the entry mode decision:

- 1 Internal factors
- 2 Desired mode characteristics
- 3 Transaction-specific behaviour
- 4 External factors.

(See also Figure 9.1 earlier.)

#### Internal factors

- **Complexity of the product:** The products that Konica Minolta markets in the Belgian market are colour laser printers. A printer is high-complex product and the management wishes to retain control over production and technology.

**Table 9.1** Factors affecting Konica Minolta entry mode decision in Belgium

	Factors	Score
Internal factors	Complexity of the product	++
	Product differentiation advantages	-
	Firm size	++
	International experience	++
Desired mode characteristics	Risk averse	+
	Control	+
	Flexibility	--
Transaction specific factors	Tacit nature of know-how	+
	Opportunistic behaviour	-
External factors	Socio-cultural distance	+
	Country risk/demand uncertainty	+
	Intensity of competition	-
	Market size and growth	-/+
	Direct and indirect trade barriers	-/+
	Small number of relevant export intermediaries available	+
<b>Average</b>		<b>+</b>

- *Product differentiation advantage*: Konica Minolta has not enough product differentiation advantages to limit competition. This would therefore favour externalization more than internalization – see Table 9.1.
- *Firm size*: Konica Minolta can definitely be called a LSE (large scale enterprise), which indicates a high degree of resource availability. Increasing resource availability provides the basis for increased international involvement over time.
- *International experience*: Konica Minolta has been and still is, highly involved in many international operations. The company has experience in markets in the whole EMEA region. International experience reduces the cost and uncertainty of serving a market and increases the probability of firms committing resources to foreign markets.

### Desired mode characteristics

- *Risk averse*: Konica Minolta is a financial solid company and is not risk averse. It is not afraid to take a chance, considering the fact that it sells laser printers in many countries. This factor is not a barrier to investing in a Belgian subsidiary; on the contrary. Therefore it is ‘+’ in Table 9.1.
- *Control*: Mode entry decisions need to consider the degree of control that management requires over operations in international markets. Control is often closely linked to the level of resource commitment. Konica Minolta has a high resource commitment and wishes to have high control of the conditions under which the printers are marketed abroad.
- *Flexibility*: Konica Minolta wants to maintain a high degree of flexibility (it is therefore ‘-’ in Table 9.1). In the personal selling process the company is already quite flexible because selling takes place in the local environment. However its marketing department as well as its production department are less flexible – these departments are partly controlled by other parties.

### Transaction-specific factors

- *Tacit nature of know-how*: The technology is based on explicit know-how, therefore it is easy to copy.
- *Opportunistic behaviour*: The potential for opportunistic behaviour by Konica Minolta is not high. The objectives of the company are clear and at the same time it tries to transfer its company values to the distributors, which makes them more loyal towards the company. This also decreases the costs necessary for monitoring distributors. There would therefore be no reason for using hierarchical modes (so, ‘-’ in Table 9.1).

## Exhibit 9.1 continued

## External factors

- *Socio-cultural distance*: The perceived distance between Konica Minolta's home country and Belgium in terms of culture, economic systems and business practices is small. The cultures are quite similar in The Netherlands and Belgium. However, Belgium has quite a closed culture. It is sometimes hard to enter and get in contact with Belgian companies. But, all in all, this factor would favour internalization (and is therefore '+' in Table 9.1).
- *Country risk/demand uncertainty*: Foreign markets are usually perceived as riskier than the domestic market. But Belgium is not a very risky market. Belgium is also member of the EU, which means that selling in the country is quite easy.
- *Market size and growth*: Country size and rate of market growth are key parameters in determining the mode of entry. The size of the colour printer market in Belgium is not that large, but the market is concentrated in a relatively small area and it is growing very fast. This enables Konica Minolta to enter the market with minimal resource commitment and it also makes resources available for potentially more lucrative markets. (Overall '+/'-' in Table 9.1.)
- *Direct and indirect trade barriers*: Product or trade regulations and standards have an impact on the mode of entry and operation decisions. For export to Belgium there are no trade barriers, because of the open borders between the EU member states. (Therefore '-/'+' in Table 9.1.)
- *Intensity of competition*: The intensity of competition is high in Belgium. A high intensity of competition in the host market will favour an entry mode that involves low resource commitment (externalization – therefore '+' in Table 9.1).
- *Small number of relevant export intermediaries available*: There are intermediaries available, but they are not especially familiar with the printers of Konica Minolta. This favours internalization and therefore is '+' in Table 9.1.

## Conclusion

In Table 9.1 all factors are measured with plus signs and minus signs, depending on, whether the factor points in the + (plus) direction of internalization (hierarchical mode) or in the – (minus) direction of externalization (see also Figure 9.1, earlier).

The end conclusion from the table is that the plus signs are in a majority. The entry mode that fits with this result is the hierarchical mode and more specifically *a sales subsidiary in Belgium*.

<sup>1</sup> The exhibit does not necessarily reflect the current strategy of Konica Minolta Printing Solutions Europe B.V.

Sources (and special thanks to): Fontys University Eindhoven – Department of Marketing Management; BA Project 'From Sales to Customer Relation Management', prepared by Roderick Akihary, Jan van Raamsdonk, Kim van Oostwaard, Sylwia Wróblewska, Martijn Hassouna and Natascha Ramautar, Tutor: Geert Timmers, Docent, Fontys University Eindhoven, College Year 2005/2006; A special thanks to Konica Minolta Printing Solutions Europe for contributing its input.

## 9.4 Summary

Seen from the perspective of the manufacturer (international marketer), market entry modes can be classified into three groups:

- export modes: low control, low risk, high flexibility;
- **intermediate modes** (contractual modes): shared control and risk, split ownership;
- hierarchical modes (investment modes): high control, high risk, low flexibility.

It cannot be stated categorically which alternative is the best. There are many internal and external conditions which affect this choice and it should be emphasized that a manufacturer wanting to engage in global marketing may use more than one of these methods at the same time. There may be different product lines, each requiring a different entry mode.

**Intermediate modes**

Somewhere between using export modes (external partners) and hierarchical modes (internal modes).

CASE  
STUDY  
9.1

## Jarlsberg: The king of Norwegian cheeses is seeking new markets

Jarlsberg cheese ([www.norseland.com](http://www.norseland.com)) has been well received in the US market. Nearly 40 years after entering the United States it is now the imported cheese with the biggest market share of its category in the competitive US supermarkets. The total export of Norwegian cheese to the United States in 2001 was approximately 7,000 tonnes, of which the majority was Jarlsberg. This means that the quota, which the WTO has set up between Norway and the United States, was full. Therefore Jarlsberg has to find other ways of selling cheese in the United States.

### The story

Professor Ole M. Ystgaard and his employees at the Norwegian Agricultural School developed Jarlsberg in the 1950s. The cheese is based on traditions from Swiss cheese makers, who developed cheese with holes in the 1830s.

Jarlsberg cheese arrived in the United States in 1963. In the beginning, the Jarlsberg management team travelled around the country to demonstrate how the cheese could be used for 'everyday' meals and at parties. After just two years Jarlsberg had a sales volume of 450,000 kg in the market, and the managers understood they had a 'hot' product.

Jarlsberg has become a 'high status' product, served by celebrities at 'high society' parties.

### Norseland Inc.

Norseland Inc. was founded in 1978. The purpose of the company was to market and distribute Jarlsberg and other Norwegian cheese in the United States. The company is a wholly-owned subsidiary of TINE Norwegian Dairies, which has the main responsibility for the production and marketing of Jarlsberg cheese. In 2002 Norseland had net sales of US\$130 million, about half of this derived from imported Norwegian Jarlsberg, about 25 per cent from Jarlsberg produced in Ohio and the remainder from sales of products from other companies, among them Danish Tholstrup Cheese and French Unilever Boursin. Norseland's strategy is to sell exclusive cheeses only, and the company commands respect in the US retail trade where a 90 per cent distribution coverage has been achieved. Norseland has a

regional office in Montreal, Canada, where an additional 800 tonnes of Jarlsberg were sold in 2001.

### The US cheese market

The total market for 'hard cheese' is approximately 400,000 tons, but the market also consumes a lot of 'soft cheese'. Though Jarlsberg only has a small market share in the total cheese market this represents the largest market share in the Swiss-like cheese category.

The largest producer of cheese for the US market is Philip Morris, including the company Nabisco which Philip Morris bought in December 2000. The most well-known brands from Philip Morris come from Kraft, which markets the popular 'soft cheese', Philadelphia. The second largest cheese producer for the US market is Con Agra, which had total sales of US\$26 billion in 2001.

In general, the tendency to consume cheese is higher in the eastern part of the United States, whereas 'healthy' food products are focused on more in the western part of the country. There is a tendency to eat more imported cheese as personal income increases.

### Jarlsberg's customers and marketing

Jarlsberg cheese has some snob appeal. Customers want to show they have 'good taste'. Without complaining they accept the higher price of Jarlsberg compared to other competitive products. The mild and creamy taste appeals to Americans, and many think that the taste of the traditional Swiss cheese, Emmenthale, is too sharp.

Characteristics of the typical Jarlsberg buyer are as follows:

- female;
- earning more than US\$80,000 per year;
- over 40 years old.

It is important to buyers that it is an imported cheese. That it is a Norwegian cheese plays a minor role and Norseland does not use this fact in its marketing.

Norseland has the objective of attracting new and younger consumers for its Jarlsberg cheese. To

achieve this objective it wants to make contracts and deals with retail chains like 7-Eleven, which also sells sandwiches, etc.

Besides its own sales force Norseland uses nearly 500 'brokers' (distributors), who sell all over the United States. These are 'external' sales representatives who visit shops, retail chains and restaurants in order to sell and market products, among them Jarlsberg.

Five years from now Jarlsberg aims to be present in at least five new countries, either through local

production, supplied from Norway, or from other locations of production.

**Questions**

- 1 Which kind of market entry mode would you generally suggest for Jarlsberg
  - (a) in Scandinavia?
  - (b) in Asia?
- 2 What are the general motives for choosing a hierarchical mode (own subsidiary) in the United States?

**CASE STUDY**  
9.2

**Ansell condoms: Is acquisition the right way for gaining market shares in the European condom market?**

Ansell Limited is the new name of the company formerly known as Pacific Dunlop Limited.

The company's name was changed in April 2002 as a result of its strategic repositioning to concentrate on its core business, protective products and services in a broad health care context, and following the disposition of a series of other business units that did not fit within the strategy. Ansell Limited is an Australian publicly listed company with its corporate head office located in Richmond, Australia.

In 1905 Eric Ansell, a former Dunlop employee, took the machinery and set up his own company, The Ansell Rubber Company, in Melbourne, Australia, manufacturing toy balloons and condoms. The rest is history, as Ansell made strategic acquisitions and expansions and invested in the research and development necessary to bring a number of products to the world market.

Today Ansell Limited is a global leader in barrier protective products. With operations in the Americas, Europe and Asia, Ansell employs more than 12,000 people worldwide and holds leading positions in the natural latex and synthetic polymer glove and condom markets.

Ansell Condom brands are marketed globally through the Personal Healthcare division of Ansell Healthcare, with main office in Red Bank, NJ, USA. This 100-year-old company has fostered some innovations in latex condoms and gloves. It manufactures and markets a variety of condoms with flavours, colours, spermicide, studded and ribbed



features. Ansell markets branded condoms worldwide each with its own unique marketing strategy that has been tailored to the particular country or region. A quick list of their brands around the globe includes: *LifeStyles* (for the US market), *Mates* (for the UK market), *KamaSutra* (for the Indian market), *Contempo*, *Manix*, *Primex*, *Pleasure* and *Chekmate*.

Additionally, the company participates in the public sector market where condoms are supplied through health and social welfare programmes and agencies, mainly in developing countries around the world. Ansell also participates in a broad range of studies and educational activities. Ansell continues to expand their market presence with the introduction of new products. Lifestyle Ultra Sensitive condoms with spermicide, for instance, were developed to meet demand for a thinner condom that includes a spermicide to maximize protection from sexually transmitted diseases (STDs).

### World market for male condoms

Condoms offer protection against both unwanted pregnancies (contraception) and STDs (prophylaxis). The latter property is unique to condoms. Although there is considerable superficial variation in the types of condoms available (e.g. ribbed, thin and thick) there has been little fundamental change in the latex condom over the years.

Organizations that comprise the 'global public health sector' currently distribute 8 to 10 billion male condoms, mostly free of charge or at a nominal cost, to sexually active people throughout the world, mostly in developing nations. It is estimated that another 3 to 5 billion male condoms are distributed through commercial channels, mostly in developed countries such as the United States, Japan and European nations. The size of the world market for male condoms and how it is made up is shown in Table 1.

In 2005, 35 per cent of condoms were purchased by the United Nations Population Fund. The World Health Organization (WHO) also is a buyer.

Besides the direct competitors, described in Table 2, it is essential to emphasize the role of the indirect

**Table 1** World market for male condoms (2005)

	Per year (billions)
Global public health sector (UN, WHO and local governments)	8
Commercial channels (mainly in the US, Japan, and European nations)	4
<b>World market</b>	<b>12</b>

Source: Adapted from different public sources.

competitors, which are those with a product of substitution. According to the Durex Sex Survey, the male condom is globally the most popular form of contraception (41 per cent of people use it). Among the 59 per cent non-condom users, 19 per cent of the population uses the pill, 8 per cent natural methods and the rest (75 per cent) use no contraception.

In the distribution of male condoms in the commercial sector, there has been a movement from the pharmacies toward the retail chains (supermarkets). For example, in the early 1990s supermarkets accounted for around 25 per cent of the UK retail sales of condoms while pharmacies accounted for

**Table 2** Company shares on the world market for male condoms (2005)

Company	Nationality	Major brands	Key strategies (MS = market share)	Market share (%)
Seton Scholl London (SSL)	UK	Durex, Durex Avanti, Durex Pleasure, Durex Fetherlite, Durex Extra Sensitive, etc.	A true global brand with strong positions in all main markets, except US (15% MS) and Japan (5% MS). In UK the Durex MS is 85%	25
Ansell Limited	Australia/US	LifeStyles, Mates, Contempo, Manix, Primex, KamaSutra, Pleasure and Chekmate	Semi-global company with relatively strong market positions in US, UK, Asian and AUS/NZ markets. Local/regional brands, e.g. LifeStyles for US and Mates for UK	13
Church & Dwight Co.	US	Trojan, Trojan Magnum, Trojan Pleasure, Trojan Enz	Market leader in US market, minor position in UK	8
Okamoto Industries	Japan	Beyond Seven, Skinless Skin	Home market oriented: 60% MS of the Japanese market, but with little exports, mainly to US	10
Others: Sagami Rubber Industries (JP), Fuji Latex Co (JP), DKT Indonesia (Indonesia), Mayer Laboratories (JP) and about 70 other manufacturers around the world			Domestic and region oriented companies with strong positions in local markets	44

Source: Estimations based on different public sources.

over a half. Today, the supermarkets account for around 40 per cent of retail sales, a share mostly drawn from the pharmacies, which have seen their share fall to 30 per cent. Therefore, national retailing chains (supermarkets, Boots and Superdrug) now account for at least 65 per cent of condom sales in the United Kingdom.

### Key competitors (manufacturers) in the world male condom market

#### *SSL International*

In 1929 the London Rubber Company (LRC) registered the DUREX condom trademark, whose name was derived from Durability, Reliability and Excellence. The next important steps as a global condom's provider were in 1951 with the introduction of the first fully-automated production process and two years later with the development of the first electronic testing machines.

In the UK 'home market', during the 1980s, Durex condoms began to be sold in public areas (e.g. supermarket, pubs), due to the AIDS fear. That decade showed a sharp development in marketing with the first Durex poster campaign in 1982, as well as the first condom advertising on television (1987).

Finally, during this past decade, Durex has followed a marketing policy aimed at increasing the awareness of the brand with: the installation of free-standing outdoor Durex vending machines (1992); the sponsorship of MTV's events (1995); the first Durex Sex Survey (1995); the launch of the first selection of coloured, flavoured and ribbed condom in the same pack (1996); and in 1997 the launch of the first non-latex protection called Avanti.

At the beginning of the twenty-first century, Durex launched [www.Durex.com](http://www.Durex.com) over 30 countries. These websites, featuring localized pages, in particular the use of local language, provide sexual information, allow people to question specialists, give details of Durex condoms and any sponsored events.

Durex is nowadays part of SSL International Plc, which was formed in 1999 from the merger of the Seton-Scholl Group and London International, the former owner of LRC. It is a worldwide company producing a range of branded products such as Scholl and Marigold gloves, sold to medical and consumer health care markets.

With a market share of approximately 25 per cent, Durex's position can be defined as the world market leader of the sector. Obviously, at different national levels, rankings can be slightly different with, for

example, 80–85 per cent of market share in the United Kingdom, 55–60 per cent in Italy, 10–15 per cent in the United States and around 5 per cent in Japan.

Durex condoms are manufactured in 17 factories worldwide.

#### *Church & Dwight Company Inc*

Armkel, LLC, Church & Dwight's 50/50 joint venture with the private equity group, Kelso & Company, acquired in 2001 the remainder of the Carter-Wallace consumer products businesses, including Trojan Condoms.

The Trojan brand accounts for the largest proportion of condom supplies in the United States (with around 60–70 per cent market share).

The company markets condoms under the Trojan brand name in Canada, Mexico and recently, in limited distribution, in the United Kingdom. In Canada, the Trojan brand has a leading market share. It entered the UK condom market in 2003, but at present has only a small share of this market. The company markets its condoms through distribution channels similar to those of its domestic condom business.

#### *Okamoto*

Okamoto has been in existence since 1934. It holds a remarkable 60 per cent market share in Japan, where condoms are the preferred method of birth control.

In late 1988, Okamoto introduced its condoms to the US market, but without great success until now.

### Latest development - Possible acquisition of an European key condom player

Following financial problems at some European condom manufacturers with relatively strong local brands, Ansell is now considering acquiring one of these manufacturers.

Sources: [www.ansell.com](http://www.ansell.com); [www.durex.com](http://www.durex.com); <http://www.churchdwright.com/conprods/personal/>; <http://www.okamoto-condoms.com/>; 'Polish Condom Producer Acquires Condomi', Polish News Bulletin, 21 January 2005; Office of Fair Trading (2006), Condoms – Review of the undertakings given by LRC Products Limited, OFT837, HMSO.

### Questions

- 1 What are the differences between the global strategies of Ansell and the other three competitors?
- 2 What are the pros and cons for Ansell acquiring a European competitor? In your opinion, is it a good idea?

VIDEO  
CASE STUDY  
9.3

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## Understanding entry modes into the Chinese market

China became a member of the World Trade Organization (WTO) on 11 December, 2001 and, overall, the Chinese economy has shown exceptional economic growth over the last five years, closely associated with China's increased integration with the global economy. With a population exceeding 1.3 billion, continued economic growth, and a large supply of inexpensive and productive labour, China lures businesses from around the world. Most global companies agree that companies can not be globally successful if they ignore this huge emerging market.

### Questions

- 1 What factors do companies consider when determining the best form of operation to use when entering the Chinese market?
- 2 What have been the challenges and opportunities for foreign companies in establishing collaborative arrangements in China?
- 3 How have Chinese government policies and attitudes towards foreign businesses evolved? How have these changes affected foreign companies' forms of operations in China?

For further exercises and cases, see this book's website at [www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)



## Questions for discussion

- 1 Why is choosing the most appropriate market entry and development strategy one of the most difficult decisions for the international marketer?
- 2 Do you agree with the view that LSEs use a 'rational analytic' approach ('strategy rule') to the entry mode decision, while SMEs use a more pragmatic/opportunistic approach?
- 3 Use Figure 9.1 to identify the most important factors affecting the choice of foreign entry mode. Prioritize the factors.

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