New Paradigms in International Market Entry: A Reflection on the Present and the Future

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ABSTRACT

To survive and prosper, business organizations must aim at the international market in order to gain mileage for their brands. The existing literature provides several international market entry strategies adopted by business organizations over the last decade with conflicting outcome of their strengths and weaknesses. With the technology revolution has emerged an online marketing platform that has revolutionized international marketing dynamics. This study revisits international market entry strategies by looking at the existing ones. It evaluates the complementarity of e-commerce and traditional market entry strategies while pointing out their respective common identities and points of difference.

Keywords: E-Commerce, Online Marketing, Political Undertones, Flagship, Coca-Cola, Pepsi

I. INTRODUCTION

The entry methods employed by international retailers have developed as a core theme in international retail marketing research. Largely, the reason assigned for this development is related to the growing exploit of contemporary entrepreneurs who are seeking the most effective and least cost method of entry into the retail market of other countries (Swinyard & Smith, 2013). The current literature documents several market entry modes yet, there is also a growing concern that some of these strategies are only suitable for peculiar political, economic, socio-cultural and technological environment while others are believed to be outmoded. The online marketing platform is one of the emerging modes of market entry preferred by a significant number of international retailers due to its perceived lower cost (albeit the risk involved) for both companies and consumers (Dawson, 2014). Our study reviews the current stock of literature on market entry strategies, highlighting their core strengths and weaknesses. The business case and intricacies of the online market platform as an emerging market entry strategy is then introduced and interrogated from the perspective of consumer shopping behaviour. We conclude by clarifying our position on online shopping as a market entry strategy.

II. METHODS AND MATERIAL

A. Non-Controlling Interest

The first international market entry strategy that comes to mind is where a foreign company decides to obtain a non-controlling interest in an existing firm in the destination country. The home company acquires a minority interest in the firm. Since the majority interest holders hold a controlling power over the operations of the company, the foreign firm with its limited share is said to hold a non-controlling stake (Wrigley, 2016). The total share of a company is valued at 100%. The international company thus seeks to buy less than 50% of the shares but to give it an influence in the activities of the organisation. Usually, the share of the foreign firm is valued at market price which forms the basis to determine an agreed consideration the company pays for its share. For a firm the decision to choose a non-controlling interest is arrived at after considering many factors. Based on studies on several organisations that
has adopted non-controlling interest as the main medium of foreign market entry. Wrigley (2016) found out that non-controlling interest allows a firm to obtain market intelligence at minimal risk.

Since business operations in a new environment comes with numerous risks, non-controlling interest entry strategy helps to reduce risk because companies can get information from existing firms. The existing company provides market intelligence or accumulated knowledge on competition, the competitors strengths and weakness, i.e. their key success factors, the size of their ability to influence the political and internal market environment and their key defect how it can be exploited to the advantage of the organisation. Since the existing organisation already has the experience and understands the rules of the game, the market culture and the other peculiarities of the market, it helps the organisation to avoid the cost which is associated with setting up a new mechanism to interrogate the competitive environments. The learning curve experience becomes very easy and short and usually cost virtually nothing to engage in this approach.

Secondly it is a great platform for accessing a particular market when there are political undertones and misunderstanding between the countries which are at different sides of political challenges. Because the existing home country does not pass on any ownership title (due to minimal share of foreign company) to the new retail organisation it still remains majority owned domestic organisation that does not poses a threat to the political forces and are likely to continue enjoying the favours that it is supposed to enjoy from the top hierarchy.

This also flows into what Wrigley (2016) describes as the advantage of continuity where it allows those who know the market (i.e. the existing management team), to continue to manage the foreign operation. There are many advantages which come from continuity of management in a market and for which it must be intensified. It is understood to be that at any point each of the companies has their own programs and measures. The transfer of shares is only a boardroom issue which may or may not even come out at all until a very long time.

Non controlling interest allows for continuity of existing projects and existing ideas and competitive strategies with a slight variation in thoughts. Change is thus approached on a piecemeal rate rather than a revolutionary approach which Kotter (2001) says can be the downfall of a number of organizations. Change in an organisation affects different aspects of an organisation including employees and for that matter when the existing management are allowed to continue they are able to keep the old people who they are familiar with for a reasonable time until the company gets to the level where they desire to make changes by which time the board room issues and the new retail components would have gained some degree of experience.

Resulting from having a non controlling interest in a home country organisation is the fact that if the retail company that intends operating on the international market feels at any point that they do not want to continue they are able to immediately pack out although it may take some time to dispose of all of its shares but the process is not as complex as it would have been when the organisation is a fully owned or has majority shares blown one. They are spared the cost of accommodation for staff, the office facilities setting up of plant and other machineries which the existing firms may have already. These essentially are major issues which make many people prefer to have a non controlling interest in a retail organisation when they are moving out of their jurisdiction. Despite the many advantages which have been outlined for a non-controlling interest in doing business on the international scales, it has limitation which can affect the efficacy of the use. For example Clarke and Rimmer (2016) explain that having a non-controlling interest in an organisation to an investing retailer is essentially a passive position consequently, investments are typically made without the ability to influence the activities of the new investment.

As it has already been stated above in business organisation and even in democracies there is the policy of majority rule. Board room policies and programs are adopted and decided upon by an agreement of majority of the board members and shareholders. When an organisation only has a minority interest, it means that they will not be able to exert any insignificant level of control on the activities. They only have the smaller
percentage and when this is not so significant major decisions which can influence the investing retailer personally cannot be controlled. In most instances the majority of the members will give the minority the right of say but they will have their way as they have the numbers to push whichever agenda that they want (Burt and Sparks, 2013).

There have been a lot of instances where the majority members themselves have met to sell off all or part of their share which further diluted the organizations control and the new partner may not be the best for the investing retailer. The difficult again is that any policy which is done at the board level has the ability to affect the director of the investment which the minority party has in the organisation. This lack of activity or lack of active participation in the direct management of the organisation serves as a limitation to the non-controlling interest activities. There have been many reports of time when a lot of information has been hidden from the minority stakeholder and has led to the mistreatment of many of them (Cavusgil, 2012).

In countries where the governments is very biased, when there are disputes they impose certain restrictions on the ability of the minority party to exert their rights and have sometimes led to the loss of such investments especially when there has been some infringement on the law of the home country by the company and then those who have the controlling interest uses their position to get back their property. In the end it turns out that it becomes a medium by which people cheat their international partners. This susceptibility to manipulation by the majority makes having a non controlling interest a very risky challenge although it comes with a number of significant advantages as well. Finally it has been explained by Wrigley (2016) that they have seen some minority interest that have resulted in some conflict of focus. This is the case where the products or the services of the company which is seeking partnership in another country is different from the products and services of the other company which it is going into alliance with. Because there is no common product sometimes the focus and attention is devoted to the existing product because of its familiarity with the market instead of seeking recognition for the new products which the international partner is also looking for. Because it takes time for a new product or brand to settle in the market, the initial frustrations may cause some level of inpatients and if measures are not put in place the desired impact of internationalizing the organizations products brand in the foreign market may not after all see the light of day.

**B. Controlling Interest**

The second approach to foreign market entry is having a controlling interest. This may take the form of owning majority shares, merger or takeovers. With takeovers the foreign company may have the opportunity to have a majority shares or have a total takeover of an existing company in a foreign country. Mergers are also another form of having controlling interest but here the focus is on having an equal representation for control over the activities. It is explained in the study of Alexander and Quinn (2012) that organizations may decide to choose having a controlling interest in any of these forms depending on the advantages which comes from them. Some of these advantages include the ability to have access to both control and experiences. Unlike having a non-controlling interest, controlling interest relationships it allows for substantial market presence to be quickly achieved.

This is explained to mean that because of the control and the experience which is already in the market, they are able to immediately adjust to the market conditions since they have the same level of experience and management personnel still available. Another important issue is that because management and the system are already in place cash flow is therefore immediate. Controlling interests have also been noted to provide an opportunity to speedily transfer technology and other forms of know-how from the foreign to the home market and vice versa. Because the structures are already in existence and there is no reason to completely uproot the structure but rather build upon it by bringing in new ideas and technology (Burt, 2012)

Control allows the organisation to have full representation in the direction of business and take decision that are crucial and can push the company to the direction which they are looking for. Even in instances where they are unable to influence the business in their own way due to equal representation they are also able to resist any form of endeavour that will seek
to compromise its interest as much as possible. Some people have argued that with mergers it allow organizations to have the benefit of other knowledge or to operate in other areas where they have little expertise. For example an organisation that retails cow milk can have the opportunity to expand into other areas including soya milk if the go into equal partnership with retailer in other countries that have the facilities and the raw materials to support the production of soya milk. This advantage helps the company to promote its brand faster and quicker. It has also been the arguments of students of organisation synergy that the combination of management expertise from different business environment is able to enhance the performance of an organisation due to the diversity of views and issues which they bring into an organisation.

The advantages which have been provided also give out some level of disadvantages. Firstly it can sometimes be very difficult and very costly to exit from the situation if mistakes have been made. Because the decisions which are taken are taken with the full consent and the involvements of the all parties, it may be difficult to refuse responsibility (Alexander and Quinn, 2012). In that regard many people think that it can be a very risk endeavour. It has also been noted by Dahringer (2001) that in many cases, the process of evaluating the business position of the takeover target can be difficult and in some cases, competitive bidding may not afford the time to allow for a full evaluation. There is also the problem that suitable acquisition companies may not be readily available. As such, this may not be an option that is readily available to retailers with international aspirations. Dahringer (2001) has also imputed the fact that the same limitation of not having a full control over operating policies and programs can have challenges for an organisation especially when there is a merger of equal partnerships. The decisions that must be taken quicker and faster can be delayed due to the need to build consensus. Each of the parties has their own operating philosophy and peculiarities which sometimes come up in more confrontational way. Sometimes when this is not well managed it can begin the end of the organisation and this can affect its operations substantially. Against has also been noted that sometimes when disputes arises the home country may be able to use their influence to the disadvantage of the international partner.

C. Direct Entry

The next mode of entry is direct entry through internal expansion. Here the firm enters the foreign market by opening their own individual (flagship) facility using the same format as used within their home country. As indicated by Burt (2013), the firm sets up an independent entity where the organisation comes into where they are going and then they start from scratch. The foreign firm send its own materials and sometime rent or purchase their own shops and run it with personnel whom they have employed by themselves and for that matter they depend on internal funding for the achievement of their own success. Immediately what comes into mind is the advantage which the organisation may get in terms of independence. An organisation that is independent is free to act in manner that they consider appropriate and fitting for its own business.

Usually the companies do not immediately move into full gear but they set up the small scale shops with the view to having experiments and this comes with minimum risk and at times at a relatively modest cost (Vida and Fairhurst, 2016). In this approach an opportunity is offered for the internationalizing retailer with full control over their operations and allows for adaptation based on experience and different market conditions. Certainly at the early stages of development, this approach also allows for ease of exit since no other external party is directly involved in such a decision. Doherty (2000) has usually recommended this approach to more renowned brands as they already have the popularity in their home market and for that matter when they are moving out of their countries they have already been heard off.

That is the strategy which companies like Coca-cola, Pepsi and others are having in that they do not depend on an existing organisation but they are from scratch and have work their way to achieve the objectives for which they are seeking internationalization. Although some people think that internal expansion does have a lot of associated disadvantages others such as Alexander and Quinn (2012) have discounted this claim by pointing fingers at the fact that because there is dependence on internal resources for the funding or the expansion program, it may usually take a longer time before a substantial foreign presence can be achieved.
Irrespective of how popular an organisation may be in his or her jurisdiction doing business in another country comes with different peculiarities and it is only when one is in the market that the person can understand the realities of the group. The ability to lay hold of credible competitive intelligence information given that the retailer operates in isolation, there is not the benefit of local management knowledge and expertise to draw upon. This is why Waldman (2016) explains that this approach requires a full location assessment prior to investment.

Furthermore, if the host country is distant from the home market, the distance can cause problems with respect to co-ordination and control. Another dimension which Doherty (2000) bring to the argument as a disadvantage of internal expansion is the relationship which may come with laws that governs organisations and the payment of levies and taxes. It has been noted that in most places domestic companies have tax rate that are lower than mergers and acquisition but a fully own international organisation pays a higher tax. This is the area of importance to Alexander and Quinn (2012) who also argue that sometimes when strategic alliances are not formed it may not be possible to reduce the tax burden which may come to an organisation by virtue of its operation. In countries like Germany where tax rates are to be high, this is important information.

**D. Franchise**

When Clarke and Rimmer (2016) talks about entering into a retail market through franchise agreements he is talking about the type of entry or retail formula where the ideas of the company or retailer is given to another company or individuals that has products and the service or another person is given the right to replicate, under contract in the host country. Doherty & Alexander (2014) point out the fact that a franchise is one of the most favoured approaches to market entry among internationalizing retailers. It is explained by the latter that the reason is because experience and practices have shown that franchising mode of entry in the international retailing is credible and has lower risk for foreign market opportunities. It is this same reason why a lot of research work has been undertaken in to identify the significance of this entry method and the increasing use of the method for entering the foreign markets.

According to Alexander & Quinn (2012) the franchising strategy appears to be specially valued strategy in case of fashion stuff as the home-based organization could capitalize on the international firm’s image in the foreign market. Doherty and Alexander (2014) also points out the fact that when an organisation adopts a franchising strategy as the way it is entering into an international retailing market, what in effect it is doing is that it is seeking to build a marketing relationship that can help it make its presence in the country one that is permanent. This is what is called by Alexander (2015) as the strategy of permanent relationships. There are many examples of the significant gains which such retailers get when they make that choice of entry strategy based on the studies which has been conducted by other researches such as Wrigley (2000). According to the latter, unlike the other approaches or entry strategies franchising encourages the rapid international expansion of a business at a low cost and at low risk to the franchiser.

The reason is that aside all things franchising draws on the worth of talents and the expertise base of the local partners without having to be permanently present in the foreign country. Since at any time there may be many people who may be competing for the franchising right it allows the original owner of the product or service or idea to select the most competitive partners who is ready to move into the market and adopt the best strategy at its own cost (Alexander, 2015). This allows for the development of locally competitive marketing policy and strategies within a much closed markets. In that way it is facilitates the ability of the foreign retailer to overcome the potential challenges which are likely to come as results of. Apart from the advantage which has been noted there is also the ease of withdrawal as the franchiser has the ability to immediately revoke the agreement if in any why it realise that there is an abuse of the use of the name of idea or product which has been given without it affecting the core area of operations. Just s there is advantages, so also there are disadvantages or visible limitations.

In the first instances it is noted that because there is the potential difficulty and as demonstrated by experience in been able to recruit the most suitable franchisees since the process of selection is basically competitive and many organisation have been found to make use of all
tricks and process to gain business advantage. Sometimes organisations that do not meet the criteria are those who are selected and then when they get it they unclothe themselves only to realise that they are not after all who they claim to be. This has been the challenge with a number of organisations where they have been offered the use of the names of other brands and have ended up misusing the names for other things (Wrigley, 2012). It also been pointed out by Wrigley (2012) that sometimes, the franchisers may find themselves locked in an unsatisfactory relationship and when such a thing happens the ability to continue with the contracts may make it difficult for the company to extricate themselves from complex legal agreements. In that same way it has been noted that sometimes those who are given the right of use of name, idea or other engage in other illegal dealings which has nothing to do with the parent company but because of the name it affects the entire operations of the parent entity.

E. Joint Ventures

Joint ventures can take many forms, including concessions in the store associated with the rental of retail space from established retailers in the host country of foreign retail; agreement on joint development between the two new entrant firms in the host country or an agreement between an organisation that is entering and indigenous retailers. It is common practice that after a considerable period of time one of the partners in a joint venture agreement will decide to buy out his partner to maintain its market position (Waldman, 2016). There are benefits that are in the joint venture and principal of them is in the sense that it provides a link with the market which is already doing very well. This therefore gives new entrants the necessary information when they trade in a foreign country. Again this is a situation of Alexander (2015), that joint ventures can give a platform for the company decide to either fully enter into international market or to exit at a later. Another major challenge has to do with the sharing of benefits equally, when it successful. Usually it has been noted that the success of joint ventures depends on the business acumen of both parties and one of the partners may be weakened ineptitude of the other partner in the relationship (Salmon and Tordjman, 2016).

III. RESULTS AND DISCUSSION

Online Marketing

The exploits of technology is making retailing an important issues irrespective of where the organisation is operating from. With the internet market many companies are reaching consumers across the world that can make shopping, payment and sometimes delivery by the internet. Unlike the past where there was the need to set up special locations where they could be reached, the case has change now because people only have to put their details on a website or create website of their own and then can be reached for all manner of products and services (Dawson, 2014).

Today, payments and other online businesses are so brisk because the internet allows anybody to be seen and viewed from anywhere, the security issues have become better and people are getting used to having internet in the homes and other relevant places. Payments can be made and this has further reduced the risk since people in particular traders do not have to travel over a long distance with cash in hand. The advantage is that the cost of hiring places is not very essential and the cost of transfer can be done either online if it is in softcopy or it can be shipped with reasonable speed and means (Treadgold, 2000). The challenge here is that there are many reportages of internet fraud which is affecting online marketing. Again there are many people who either do not have access to the internet or no knowledge about how to use the internet. This restricts the extent to which it is useful.

Researchers have tried to investigate online consumer’s shopping behaviour through researching specific area of Internet shopping recently. For instance, Jaillet (2012) established online shoppers’ information search behaviour. Some researchers have also proposed studied the predictors of online purchasing behaviour (Foucault & Scheufele, 2012). Other researchers have explored the non-functional motives which drive online shoppers to shop. For example, Goldsmith and Goldsmith (2012) found out that online apparel buyers have more online shopping experiences.

Some existing studies that have examined the differences related to intention to shop online across
cultures. For instance, Pavlou and Chai (2012) have combined three of Hofstede’s (2001) cultural dimensions and discussed that the cultural differences influenced the intention of adopting e-commerce across countries. Nevertheless, they did not determine actual e-commerce use. Besides, they have established that the relationship between attitude and intention to transact is stronger in collectivist than in individualist societies, which is inconsistent with findings of other research (Lee, 2000; Kacen and Lee, 2012), because other researchers have found a weaker relationship between attitude and intention in collectivist than in individualist cultures. For example, according to Bellman, Lohse and Johnson (2016), the relationship between demographics, personal characteristics, and attitudes of online shoppers were investigated. The authors found that people that have a more “wired lifestyle” and who are more time-constrained tend to purchase things online more frequently compared to the others. For example, because of convenience, those who use the Internet routinely and/or those who are more time starved prefer to shop on the Internet.

Bhatnagar, Misra and Rao (2000) measure how the role of demographics, vender/service/product characteristics, and website quality affects consumers’ attitude towards online shopping which associated with their online buying behaviour. Jarvenpaa, Tractinsky, and Vitale (2000) investigated how perceived store sizes and brand name reputation influences a consumer’s trust in the store and affects the consumer’s risk perception, attitude, and willingness to buy at the specific store. The result was reported that there is a positive relationship between the trust a consumer has in Internet stores and the stores’ perceived reputation and size. The more trust a consumer has, the greater reduction in the perceived risks associated with Internet shopping which in turn generates more favourable attitudes towards shopping at a particular store and leads to an increase in the consumer’s willingness to purchase from that store. Researchers in the US and other western countries have found that men with high education and in the higher income groups are keen on shopping online than women and lower education and lower income groups (Swinyard and Smith, 2013). Researchers also showed that using time of Internet, frequency of internet use and access to high-speed internet connections have a positive effect on online shopping, which are highly related socio-economic characteristics (Swinyard and Smith, 2013).

Moreover, Casas et al. (2001) found that “time-starved” people prefer shopping online. People with an active ‘get-up-and-go’ lifestyle and adventurous inclinations tend to shop offline. And Chen and lee (2016) found that consumers’ attitude trust and approach behaviour were affected by the personality and belief. In addition, in western countries, many mature systems can promote development of the electronic commerce. Online shopping was regulated by the market. All development of online shopping and other sectors of electrical Commercial in the U.S. are under the banner of private-sector leadership. The government is not directly intervened participation. Since 2016, a Modal Law for Internet sale was accepted by the United Nations Commission. This approach provided a mature legal environment. It helps the consumers to turn builds online consumers’ confidence in Internet transactions (Pincus, 2013). In the U.S., the most common way to deal with Internet transactions is based on credit card payment. Third-party protection of online transaction is widely used among the most U.S. websites, such as the TRUSTe. Moreover, FedEx, UPS, DHL, etc could be the delivery function of online shops in the USA. Packages can be delivered across the country within a few days (Bin, Chen and Sun, 2013).

IV. CONCLUSION

While it may not be easy to point out one particular way an organisation should enter a foreign retail market, the issue of online marketing has come to stay. It comes with several opportunities but also with a number of challenges some of which can have very dire consequences for the organisation. That notwithstanding the intending entity must carefully, consider its internal competencies, resource availability, and their peculiar trading conditions that exist within the proposed foreign
market. Equal consideration should be given to the control level it desire to exert over their foreign operations and the degree of flexibility required to effectively respond to market conditions that faces the foreign enterprise.

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