KEY REASONS WHY ORGANIZATIONS ENTER FOREIGN MARKETS

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This article focuses on the reasons why organizations expand their businesses onto foreign markets as well as different ways in which organizations can enter foreign markets along with the factors

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assisting organizations in making this entry successful. Emphasis is made on the importance of globalization and on how globalization has changed the course of doing business in the 21st century.

Keywords: foreign markets, entry mode, organizations, globalization.

Introduction

Allowing your business to go stagnant is the quickest way to extinction under the current conditions at highly competitive global markets. It is crucial for organizations to be able to adapt to any given environment along with seeking newer environment, either for survival, or to spread dominance. Branching out into international marketing can help businesses adapt to changing business conditions and take advantage of technological improvements while expanding. Due to the rise of technologies and transportation means, the term “globalization” has become more significant in the world of business. Unions and alliances between nations or organizations have become a norm along with many other factors evolving in the world of economy. But how does globalization play a part in business and more specifically - in adaptability of organizations? Our research study is an attempt to explain one of the most common option for organization’s survival which is entering a foreign market. The reasons why organizations should participate in this will be determined along with the factors businesses and organizations should know before deciding on this entry since many unknown elements might cause threats and damages. As it was once mentioned by the famous American scientist Stephen Jay Gould, “Evolution is a process of constant branching and expansion”. The experience of the last two centuries clearly shows that this is applicable not only to natural processes but also to the business world.

Globalization

As the economic spotlight shifts to developing markets, global companies becomes interested in discovering new ways to manage their strategies, people, costs, and risks. Globalization is defined as the process of interaction and integration among people, companies, and governments of different nations, the process driven by international trade and investment and aided by various information technologies. The globalization process effects nearly every aspect of business environments worldwide including culture, political systems, economic development and prosperity, as well as human physical well-being in societies around the world (Levin Institute, 2016).

Globalization has played a positive role for many developing countries, primarily because it enables worldwide access to international markets through exporting their cheap goods. Economic and trade integration has also provided less developed countries with relatively easy access to foreign capital via foreign direct investments (FDI). Globalization has not only promoted the growth of the world trade, it has also boosted technology transfer, and inspired infrastructure development, so needed for further growth of global companies (Kuepper, 2017). Sharing technology with developing nations the developed ones also helped them to progress. Also, globalization has unlocked the consumer purchasing power, since
now consumers are able to choose goods in a much wider price range and are able to easily find substitutes to nearly any product or service.

At the same time, globalization has increased the competition in the field of new technologies’ development, and this, in its turn, has raised the economic output since many production and servicing processes have become more efficient. Multinational corporations (MNCs) benefits from globalization on a larger scale as these companies are able to reduce costs and prices enjoying the economies of scale. This trend, however, hurts many small businesses that are attempting to compete domestically and often fail as some trade barriers are dropped to support expansion and international corporate investments.

There are many beneficial outcomes from globalization overall, including growth in competition and faster technological development, creation of more jobs, spreading prosperity, and promoting economic stability, and more. However, there are also risks and disadvantages that need to be considered as applied to globalization such as stronger interdependence, threats to national sovereignty as well as social and economic inequality distribution. Interdependence threats occur when one or several nations choose to rely, economically and geopolitically, on one country only; once there is a negative fluctuation in the development of the latter, this will impact all the countries relying on it. This is a dangerous situation as (nearly) all investments and risks under such scenario are tied up to one country. Secondly, as MNCs have huge advantages from globalization, they may represent such a threat to dominance that could cause some national political leaders to become nationalistic. The third potential conflict with globalization is that it creates inequalities, that is unfair distribution between rich and poor nations/individuals. This potentially may lead to a wide range of problems, both nationally and internationally.

Despite all these drawbacks from globalization, it has been still impacting nearly every aspect of contemporary life and continues to be the growing force of the world economy. For many obvious reasons, globalization is a force that is both unstoppable and beneficial to the world economy. Human history knows several periods of dominating protectionism and nationalism, but globalization continues to be the most widely accepted solution ensuring consistent economic growth around the world.

**Foreign Market**

Let’s start with considering the basic definition of “market”:

Market in relation to goods is the area within which their price tends to uniformity, while allowance being made for transportation costs. Market can be also defined as a product or group of products and/or as a geographic area in which it is being sold.

Market can be also interpreted as the relationship between supply, demand, and price that has the natural role of facilitating the exchanges between buyers and sellers, and is also the area within which price is determined. Market can be also seen as the set of suppliers and demanders whose trading establishes prices for goods.
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Foreign markets can be seen as at least four relatively homogenous global regions: Africa, Asia and the Pacific, Europe, and the Americas. Economists define the notion “market” in at least four ways, which is known as “classic”, “anti-trust”, “market as an economic system”, and “setting for exchange”. The “classic” definition of the market belongs to (Stigler & Sherwin, 1985).

There can be a wide range of reasons to enter foreign markets. Entering foreign markets is always full of challenges for any type and size of business, however, potential opportunities for success at foreign markets are also huge. Therefore, many companies are rethinking their business strategy in the current globalization context, in particular, due to the reasons that will be described below.

Increasing sales

In a nutshell, increasing sales mean more profits. More profits, in turn, mean business success. Increasing sales is the very first and probably also the most important reason why people engage in international trade. Participating in international trade creates business opportunities which can go as far as expanding own range of goods and services delivered. More opportunities mean more growth prospects for business (Paymill, 2013). If a product or a service achieves success in the countries entered, the producer/provider will definitely enjoy increased revenues obtained from new customers.

If a business has reached the saturation level at own domestic market, offering product to new customers in another country can generate continued repeated purchases and thus contribute to strengthening brand reputation globally (Johnson, 2013). This observation is especially relevant for the segments of durable home appliances including TV sets, washing machines and refrigerators (Com, 2016). The best examples in this regard would be Samsung, LG, Sony and Whirlpool. Saturated domestic markets have once driven these companies to expand to international markets in order to increase sales volumes.

Sometimes the home country has a very limited market (due to small size of the country itself, for example) so the only way to grow is to go abroad and sell in other countries. Since the population number is limited, the size of demand would be also limited, thus businesses are force to look out for more people to which they can sell more. Nordic countries overall are nearly perfect examples of how businesses are expanding to international markets in order to increase their sales. Angry birds and Clash of Clans, for example, are worldwide famous online games, both originating from Finland. The latter is a small (in terms of population numbers) country. Registered population in Finland in 5.5 million people only (CIA, 2017), many cities worldwide have more population than that. If these games had been available only in Finland, they would have never reached such a huge success. This is also the key reason why many start-ups in the Nordic countries are looking for international trade (Paymill, 2013). All of them strive to increase sales because their native market is very small.
Enlarging the customer base is an important aspect of managing international operations. Having 5000 customers in a home country sometimes might be not as good as having 1000 customers at the international market, much depends on the paying capacity and also on customer loyalty. Generally speaking, larger markets mean more business opportunities, thus, they also mean increased sales.

Improving profits

Going international would also increase, often but not always, of course, the profitability of business. If a business wants to grow in profits it would have to look out for new markets, regionally or internationally.

In this case and such a way the bargaining power is getting higher (Jonhson, 2013). As market size is expanding due to international export, it is also creating additional bargaining power over suppliers due to much greater demand for raw materials. Let’s take the example of NaRaYa, a large company producing fabrics, including handbags, home decoration and kitchenware, it is based in Thailand. Most of their suppliers already have long-time relationship, including such a relatively known supplier as the Fabric World company, which is a fabric wholesale which is providing premium quality 100% cotton to NaRaYa for more than 15 years. NaRaYa is a big and important customer for them. Hence, when the latter is ordering a large amount of 100% cotton, the price automatically gets 20% cheaper than for other, much smaller customers (Twarowska & Kakol, 2013). Improved bargaining power in this case means the ability to command more power, thus getting more beneficial deals and eventually raising the profits.

Every business wants to lower expenses, therefore, many companies enter the global market to lower their costs. Global sourcing is exactly the term applicable here: firms are finding resources or materials at the lowest price by looking outside their own country to find more business solutions. Some move manufacturing plants closer to the origin of natural resources and minerals, others invest in new and more efficient technology to serve greater demand. International expansion overall rises the number of opportunities for new sales. When production volume is increased and bargaining power is improved, firms move to global sourcing. And this is exactly the way their profit is maximized.

Short-term security

If a business has only a few areas where it can sell products or services, it is very risky. What would happen if these markets experience dramatic changes due to natural disaster or other unforeseen circumstances? In this case sales at international markets can create short-term security because firms still have alternative opportunities for growth. Entering global markets enables businesses to diversify, and these diversification opportunities are almost unlimited (Biggs, 2013). Hence, revenues will become more stable, even in the situations when domestic sales are on decline for some reason.
Another good example of short-term security provision can be Zara, one of the largest clothing retailer, known globally but originally from Spain. If they, for some reason, had provided summer collection only and only in Spain, they could have been selling for two or three months only. But Zara is a truly international firm, they distribute their products around the world (including Asian countries where summer, in European terms, is basically 12 months a year), thus, their summer collection can be sold in different places all over the world all year. This is a good example how businesses can balance their sales under the conditions of seasonal fluctuations. And this is one of the good reasons why firms today are actively seeking for opportunities at international markets (Dynamic Language, 2014).

**Long-term security**

At the mature market with high competition from both domestic and foreign competitors, international trade becomes a real necessity (Chand, 2016; Biggs, 2013). Globalization makes the world smaller. And in the world of business, if we do not enter foreign markets, foreign competitors will enter ours to take over our own market share. Many companies “dive” into international trade for the defensive reasons mostly, in order to protect themselves from competitors or potential competitors, or to gain advantage over them.

For long-term security having different types of markets available will make revenues and profits more consistent. To reduce the dependence on local market, companies move worldwide so that they can diversify (Dynamic Language, 2014). Selling products in many countries at the same time enable firms reduce risks of exposure to economic crisis or political instability within one country. This mean that a crisis (political, economic or both) in one country will not have a huge effect if the business is doing well in another country.

**Increased innovative capacity**

Extending customer base internationally can help firms finance new product development (Biggs, 2013). The more countries the company has to sell its product to, the greater number of countries that can sponsor research and development (R&D) which in many cases may be very costly. When we are exporting to a wider range of customers, we also gain a wider range of direct feedback about our products (Yildizgoren, 2013), and this means we can much more detailed information on what our customers really need. This knowledge will serve as the guideline for R&D of new products or services so that the latter may meet customers’ need better. According to the UKTI statistics, 53% of businesses involved directly in international trade eventually lead to innovation and product development so that to solve their problems, including the need for greater customer base (Yildizgoren, 2013).
Exclusivity

There can be a situation when the company has some important information about a particular foreign market or a foreign customer, large one. Using such information wisely, this company can easily go international. The information may be also shared with a group of other companies, so that together they can handle clients and satisfy the needs of customers quickly and more efficiently (Biggs, 2013). Others at the same market are not given this information (because it could be confidential, for example) hence, those who have it, should immediately start going international. Many types of businesses have been established in such a way. Having the right (and timely) information on the market is very essential because it can help with marketing and with targeting the right customers in particular. Such sort of information may be also helpful while selecting the right marketing tool to be used. Having this prior knowledge gives the company the boost that is needed to make the move internationally. Having exclusivity allows companies concentrate the efforts and be able to penetrate the market in the best possible way. Even the slightest advantage over the others (especially if its tech- and/or time-related) can make a big difference.

Economies of scale

The more you produce - the greater are your chances for lowering the unit cost of a product. This creates the economies of scale in production (Delaney, 2014; Agrawal, 2017) resulting in greater profit. Expanding market size also enables firms achieve economies of scale (Biggs, 2013). International trade provides much wider opportunities for new sales which means, in turn, more economies of scale and at the same time more sharing of costs between domestic and international markets.

Education

Apart from quite obvious financial reasons, going international can also help the company learn. By joining various international projects, the company can improve its performance, and this technical and/or quality improvement will lead to company’s financial stability. In rare cases companies want to go internationally for educational reasons solely, more for self-growth and self-development. If the company is already a monopoly on its “native” market, it may choose to go internationally so that to get engaged in tougher competition in a rather artificial manner, just to keep oneself developing. The company can also find new areas to diversify by means of going abroad. In this case companies pump their goods into certain areas so that they can get educated about the local markets, while the market can get educated about the product too (Biggs, 2013). At times the market is not aware of the product the company is offering as such, thus, it does not want to use this
product due to lack of basic knowledge about it (and maybe the accompanying fears too). In such a case education can really rescue the company that is trying to go international.

**Competitive fight**

At times companies decide to enter the international market because they find out that their closest competitor(s) already did that (Agrawal, 2016). It is sort of the “follow the leader“ syndrome where one company does what the other do to keep up. At time this may pay off but if not enough groundwork and/or planning has been done, this attempt will prove fatal. Sometimes international expansion is like a tit-for-tat game that companies get involved in: you entered my area, so I will enter yours. This strategy of following the competition to the new market is successful since the groundbreaking is done by the leader and all the others just follow this leader and get the benefits. The larger part of customer education is also done by the leader but as soon as customers become aware of the benefits they might eventually want to check out the alternatives, thus, will be easy customers. It is more like a piggy back that we take on the leader as our competitor. The major investment is done by the leader, while the following companies just make sure that their products also match the already known customers’ tastes and needs. In the end, this will pay off for the followers too, especially if these followers operate internationally.

Business is a game in which one company gets the better by outmaneuvering all the others. The aim is to have the most customers. Thus, the ultimate goal in most cases is to be the first in reaching out to customers. For example, opening a brand new sort of shop in a new country the company is trying to get to customers before any known competitor gets to the same country. There are different strategies companies follow but being the first in an area always gives the maximum advantage. Since in this case the company influences the customer first, later it has reasons to hope for brand loyalty in the long run.

**Government incentives**

Government incentives are often one of the key reasons why companies enter international markets (Com, 2016). When a company enters international markets, the government will subsidize its operations in order to provide some sort of support. This often works following the principle “You scratch my back, I scratch yours”, and quite many governments follow it quite actively. It is also a bargaining chip that some governments use to settle deals. Companies are actively looking out for government favors so companies will oblige when they are asked to settle a deal with the government. Most often it is the government to demonstrate the interest quite explicitly and offer a deal. The government may also offer generous tax incentives for the companies going international. This is often seen as government promotion of exports. The government may also offer some other benefits to the companies going over the borders.
Types of Foreign Entry Modes

There are several very different types of entry mode of how companies enter foreign market:

- Direct export
- Indirect export
- Licensing
- Franchising
- Contracting
- Sales subsidiaries
- Manufacturing subsidiaries
- Joint ventures
- Strategic alliances

The above classification has been cited by Brassington & Pettitt (2000), Wild, Wild & Han (2003), and Armstrong G. & Kotler P. (2005).

Factors to consider before entering a foreign market

The reasons for entering foreign markets are very clear from the above discussion, thus, having own globalization strategy has become an important trend for today’s closely interconnected and tightly integrated business world. However, it is also very important for a company not to rush, even it already has a well developed and thought through global strategy. As mentioned in (Root, 1994), international entry strategy is a comprehensive plan that has its own objectives, goals, resources and policies to be guided in the course of international business activities. Hence, at the very first steps, the company would have to spend some time on formulation of the following decisions:

1. Choice of a target product/market
2. Objectives and goals at this target market
3. Choice of an entry mode to penetrate the target market
4. Marketing plan to penetrate the target market
5. Control system to monitor own performance at the target market.

Normally, there are three main objectives and goals for a company to have the global strategy:

1. To market

In this case, the company would like to have more of business revenue by means of market expansion and selling products/services across borders. Products/services are still produced “at home” and then exported to foreign countries. Many company employ this
strategy as the very first step in their global strategy as the investment risk is lower while revenues can be generated much faster.

2. To produce

In this case, the company decides to move or to set up a new production plant in a foreign country for mainly manufacturing reasons. Products manufactured in this case will be then imported back to the home country to be later marketed in the homeland of a parent company and/or in other countries. The product may even not be marketed in the country of its production, actually. In some cases the only reason for production relocation is to reduce production costs and maintain the quality of their product at the same time. In other cases, the market in the country of production relocation may not be ready enough for this particular product, there can be also some issues with licensing etc.

3. To produce and to market

In this case company will produce and market the product at several foreign markets at the same time, most probably. Production costs and government incentives might become serious pull factors under such scenario. Another reason for choosing such an entry strategy is when production in a foreign country can be competitive in terms of pricing as compared to the situation at the local market.

However, in the current business situation, many companies will have actually a mixture of purposes and strategies when entering a new country. Normally, the company will market in many different countries worldwide but to produce in only one or in a few selected countries.

Whatever purpose and reason the company has when going global, there are many additional factors to be considered prior the actual implementation of the global strategy.

There are external and internal factors that can influence company’s entry at a foreign market. According to the studies carried out by Hollensen (2001), De Burca, Brown & Fletcher (2004) and Root (1994), the external factors including the following:

1. Sociocultural distance.

For some businesses this could be a highly important factor. Countries that have similar business and industry practices, language and cultural characteristics are considered as socioculturally close to each other. The greater is the sociocultural gap, the more serious become all related business challenges.

2. Country risks and fluctuations in demand.

Having good level of knowledge and sufficient volume of information about the new market is highly important for the market entry. Knowledge and data on the new market is especially important when choosing the mode of market entry and the level of future involvement at the local market. Larger part of such information would be directly related to peculiarities of the investment environment and country-specific risks.
3. Market size and growth rate
This factor will affect the location of a new sales subsidiary. Also, the more potential a market has, the more investments a newly interested business will direct into it.

4. Direct and indirect trade barriers
This factor is crucial for the companies with a truly global strategy. Presence/absence of trade barriers and foreign trade agreements in place between certain countries can seriously influence company’s decision on its global strategy.

5. Competitive environment
If the potential market is highly competitive, the company would think twice about entering it.

6. Small number of relevant intermediaries available locally
Availability of potential partners as well as opportunities to establish good relationship with local sales representatives and contractors is also vitally important for businesses going global (Fidelys, Liang, Christophe & Leoncine, 2014).

7. Law and regulations
All companies entering new markets have to adapt to the existing laws and regulations. In some countries national laws and regulations might prevent or seriously restrict imports, thus giving wide preferences to local manufacturing. Governments might be also regulating entry modes and their easiness at the local markets (De Burca, Brown & Fletcher, 2004).

8. Geographical distance
This factor is directly related to transportation costs: the greater is the distance between two countries, the higher will be the cost of transportation. At some point, transportation cost may turn out so high that becomes impossible to compete at a local market as such.

The internal factors behind going global strategies in business have been analyzed in detailed by Brassington & Pettit (2000), Hollensen (2001), De Burca, Brown & Fletcher (2004), Fredrik & Webster (1992). These factors include, inter alia, the following ones:

1. Speed
The time of reaching the target market may vary depending on the choice of an entry mode.

2. Costs
Before the actual entry the company needs to thoroughly calculate whether it can really afford new market entry.

3. Payback
The payback time is highly important especially when investments comes in large size or is shared (with a bank or a partner).

4. Long-term objectives
The organization must know well what it wants to achieve in the future at a particular market and how it can exploit the opportunities available at the foreign market in the best way possible. The choice of an entry mode is the very first step in a longer-term strategic plan while going internationally.
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5. Company size
The size of a company indicates the availability of internal resources in the first place. The larger is the company, the more and the better resources it will have for the implementation of a global strategy.

6. International experience and managerial competence
International experience of the company and of its top managers can contribute to better judgment on the choice of a global strategy, of an entry mode and of a country to enter.

7. Type of product
This is especially important when the company is deciding where the production facilities should be located. Physical parameters of a product/service are crucial in this context.

8. Risks
Risk levels should be carefully assessed as applied to the company itself, the sector it works in, the country, region and so on.

9. Control
This is first of all related to the degree of control of the company has over the international operations. The factor of control is also indirectly related to how quickly the company would be able to find and provide various types of resources while being already abroad.

10. Flexibility
This is the key feature of any international business strategy at any foreign target market.

11. Relationship
A company can build very different types of relations with its suppliers and customers, and all of these stakeholder groups will in their turn also influence company’s global strategy.

Conclusions

By means of expanding the customer base and the production volumes, business organizations can achieve the effect of economies of scale. For any business organization to grow, it has to constantly find new opportunities to expand. When the local market is already saturated, this would obviously be one of the main reasons why business organizations operating at it should consider entering foreign markets, at least close, regional ones. The most obvious advantage from marketing internationally is market expansion. Expanding geographically eventually leads to larger customer base and potentially - to greater profit margins. It is crucial for all contemporary organizations to keep in mind the importance and the inevitability of globalization. All businesses simply must adjust and adapt to the rapidly changing world of business.
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