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An Exploration of Foreign Market Entry Modes for Zimbabwean Companies

Tongesai Mpofu[1*] Shylet Chigwende[2]

1. Department of International Marketing, School of Business Science and Management, Chinhoyi University of Technology, P. O Box 7724, Chinhoyi Zimbabwe
2. Department of International Marketing, School of Business Science and Management, Chinhoyi University of Technology, P. O Box 7724, Chinhoyi, Zimbabwe

* E-mail of the corresponding author: tonmpofu@gmail.com

Abstract

The purpose of this paper was to highlight the major entry modes of entering a foreign market. The rise in globalisation, internet technology, competition has necessitated the need for organisations to look for opportunities in other countries. Most firms in Zimbabwe rely on the local market for sales. This paper looks at different methods that Zimbabwean companies can use to penetrate foreign markets.

This is a conceptual paper and the methodology used is a desktop research in which in depth literature review is done to put emphasis on different levels of international marketing that companies can implement. The analysis is based on previous conducted research from books and relevant journals and articles.

The findings of the paper confirm that firms need to practice international marketing in order to increase presence in different markets and as well their capital base. The study concludes that firms need to enhance the levels of production and practice international marketing in their business operations. This is an emerging marketing paradigm that will enable Zimbabwean firms to realize long term growth and development.

Keywords: international marketing, exporting, joint venture, foreign direct investment, licensing, franchising

1.0 Introduction of international marketing

Zimbabwe is a developing country that is facing many challenges. Along with the rapid change in globalization, competition international marketing is becoming important for any business. Cateora, Gilly and Graham (2009) defined international marketing as the performance of business activities designed to plan, price, promote and direct the flow of the company's goods and services to consumers or users in more than one nation for a profit. At its simplest level it involves exporting and at it complex level direct foreign investment.

Entry strategy is the method used by a company to begin or start business in a foreign country (Shama, 2000). Entry strategy is an institutional arrangement that makes it possible for the entry of firm's products, technology, human skills, management, or other resources into a foreign country (Karkkainen, 2005). Many forms of market entry strategies may be used by firms to enter international markets. One classification first distinguishes between equity and non-equity modes. Equity modes involve firms taking some degree of ownership of the market organizations involved, including wholly owned subsidiaries and joint ventures. Non equity modes do not involve ownership and include exporting or some forms of contractual agreements such as licensing or franchising (Wilkinson and Nguyen, 2003). On the other hand, Bradley (1995) believes that foreign market entry strategies usually accord with the sequential stages of exporting, competitive alliances, acquisition /foreign direct investment. Caves (1982) identified four basic ways to expand internationally, from the lowest to the highest risk: exporting, licensing and franchising, strategic alliances, and wholly owned foreign subsidiaries. Cateora and Graham (2002) stated that there are six basic strategies for entering a new market these are: export/import, licensing and franchising, joint venturing, consortia, partially-owned subsidiaries, and wholly-owned subsidiaries. Generally, these represent a continuum from lowest to highest investment.

Cateora and Graham (2002), believe that in choosing a particular strategy, a company constructs a fit between its internal corporate risk "comfort level" and the externally-perceived risk level of the target entry market. Two companies may perceive different risks as they evaluate the same market and therefore choose different entry modes. Two companies may also perceive the same risks in a country but still choose different strategies because of their firm's differing tolerances of risk.

Karkkainen (2005) says that, category's of varying international entry modes is founded on two differing characteristics which are location of manufacturing facilities and percentage of ownership the firm desire in foreign investment. The firm can either export its products to the target country from production facilities outside that country (exporting strategies). Or the firm can transfer its resources in technology, capital, human skills, and enterprise to the foreign country, where they may be sold directly to users or combined with local resources to manufacture products for sale in local market (non exporting strategies).The second characteristic (percentage of ownership) offers three different options; none, partly or wholly owned investment (Karkkainen, 2005).

1.1 Problem Statement

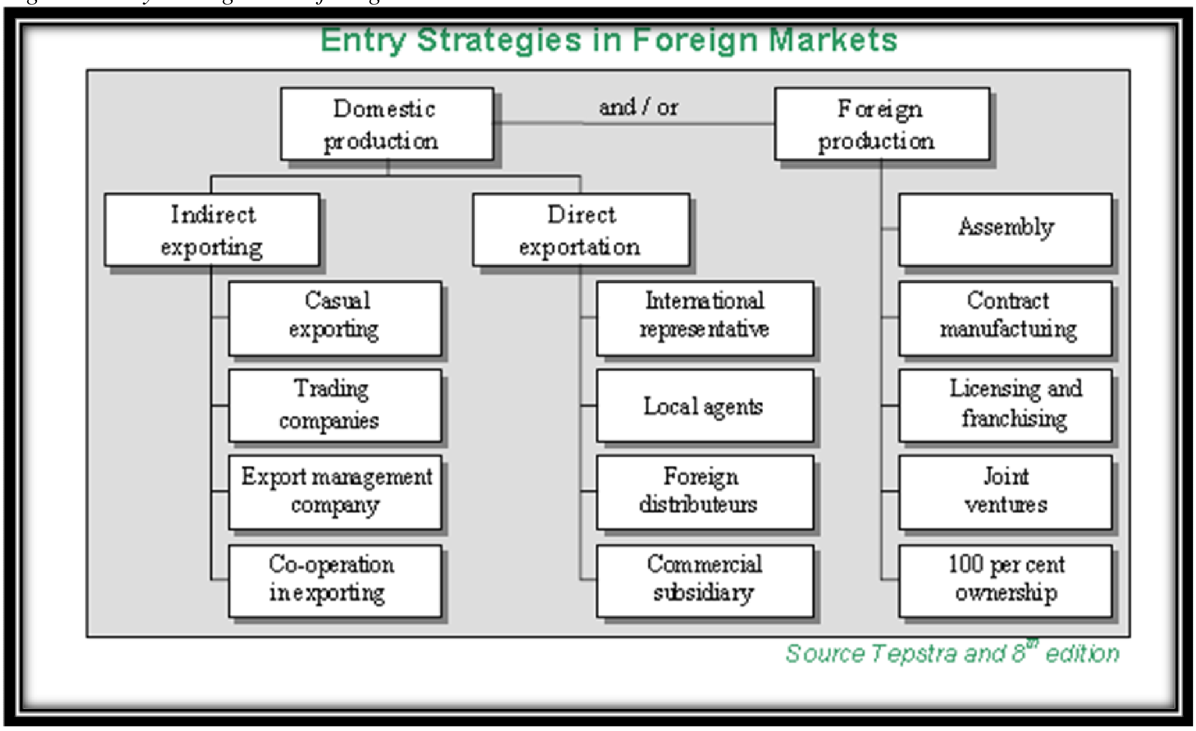
International marketing is gaining increasing interest among researchers and practitioners in marketing especially in developing countries. The growing importance of international marketing is driven by free trade between countries in regions and the world over and as well by the introduction of specialized international marketing degree programs. Despite its importance for economic growth many companies in Zimbabwe are reluctant to implement this new concept. Many progressive companies, such as Econet Wireless, Dairibord, Paramount Garments, Delta Beverages, capitalized on the benefits of international marketing and therefore have managed to expand into different foreign markets in the region and the world over.

2.0 Literature Review

2.1 Conceptual Framework

The conceptual framework for the study was developed based on the framework of internationalization by Tepstra**.** The following diagram summarizes entry strategies in foreign markets as according to Tepstra and Sarathy (2001).

Fig 2.1: Entry strategies in a foreign market



Source: Tepstra and Sarathy (2001)

2.2 Foreign market entry modes

2.2.1 Exporting strategies

Many firms opt for exporting as a means of entering a foreign market as it maintains effort and resources while still taking advantage of foreign opportunities (Czinkota, Rivoli and Ronkainen, 1992). Root (1994) further says that exporting can become an international learning experience. Numerous firms choose exporting for their first international entry mode. This is the easiest and a low risk means to enter foreign markets. It needs the least facility allocation and has the lowest changes in the country marketing programs (Kotabe and Helsen, 2000; and Onkvisit and Shaw, 1993). A firm using exporting strategies usually achieves certain benefits like, the rapidity of international market entry, and not required investment in establishing operations in the host country. Especially direct exporting offers a firm a low risk and simple way to begin its international process and meet the demand and challenges. In addition, in exporting alternative the company and management commitment is usually small (Hitt, Ireland and Hoskisson, 2003; Luostarinen and Welch, 1990). Export strategies are divided into two categories; direct export strategy and indirect export strategy.

2.2.2 Direct Export Strategy

Direct exporting firms have interrelationships with their foreign customers and markets, however direct or indirect exporting yields the same results (Karkkainen, 2005). Companies, which are urged to export by foreign customers, usually use this strategy. In this strategy, a company is connected to one or more sales agents in the country. Companies, which accept all necessary liabilities to sell their products in the target country, can attempt direct export strategy. Therefore, it requires a high level of expertise in international marketing. The advantages of this strategy are more sales, control, market information, experience and specialty of the company in export, while the drawback is more cost. Different methods of direct export are: export agents, mobile sales agents, sales branches, internal export department, and mail order (Albaum, 2002).

2.2.3 Indirect Export Strategy

Indirect exporting firms participate in international businesses through an intermediary and do not deal directly with foreign customers or firms (Karkkainen, 2005). In this strategy the company sends its products to foreign customers through intermediaries in the foreign market country (Kotabe and Helsen, 2000). At this stage, the company does not actively cultivate customers outside national boundaries. However, this company's products may reach foreign markets through foreign customers, who may come to the company directly, or a domestic wholesaler or distributor who export on their own without the consent of the producer (Cateora and Graham, 1999).

As companies develop websites on the internet, many receive orders from international web surfers. Often an unsolicited order from a foreign customer is what piques the interest of a company to seek additional international sales. Firms that engage in indirect exporting have their product sold in a foreign market with little or no special activities being carried out within the firm. International involvement at this level is low. This strategy is more common among companies which have recently decided to export. The methods of indirect export include: exploiting commercial companies, utilizing export management companies, cooperation in export and distribution (piggyback marketing), intermediaries and export agents, and export cooperative organizations (Albaum, 2002). Foreign market entry strategies are numerous and imply a varying degree of risk and of commitment from the international firm. In general, the implementation of an international development strategy is a process achieved in several steps. Indirect exporting is often used as the starting point; if the results are satisfactory, more committing agreements are made by associating local firms, (Lambin, 2007).

2.3 Non Export Strategies

It means the company produces its export products in other countries and exports them to international markets (Dehghan, 2008). Types of non-export strategies consist of:

2.3.1 Strategic Alliances

In a strategic alliance, organizations pool or share their resources and expertise with other firms and the parties share the rewards or risks of starting a new venture (Ling, Williams and Cuervo, 2005). In this strategy, the company uses methods such as licensing, franchising, contractual production, and joint investment for entering international markets. In licensing and franchising, the company enters the foreign market without investment (Sadaghiani, Dehghan and Zand, 2011).

2.3.2 Joint venture

The joint investment happens when a company requests to share in the stock of a foreign company (Dehghan, 2008). A joint venture involves constantly sharing equity and risks and also participation in management between partners forming a long lasting, profit seeking relationship (Karkkainen, 2005). According to Czinkota and Ronkainen (2007), joint ventures are collaborations of two or more organizations for more than a transitory period. The partners share assets, risks, profits, though equality of partners is not necessary. The advantages of a joint venture include saved capital and less restricted resources for foreign country operations. The risks involved in international market entry are smaller and through joint venture the firm acquires highly important resources, like local knowledge and experiences (Luostarinen and Welch, 1990; Root, 1994). Joint ventures permit closer relationships with local government and other organizations such as labor unions. Joint ventures also make it possible to minimize risk of exposing long term investment capital, while at the same time maximizing the leverage on the capital that is invested (Czinkota, 1992).

2.2.3 Consortia

Consortia are similar to joint ventures except that they involve a large number of participants and frequently operate in a country or market in which none of the participant is currently active. Consortia are developed to pool financial and managerial resources and to lessen risk (Wushe, 2009). However, Ghauri and Cateora (2010) agree that consortium and syndicate are similar to joint venture and, furthermore state that consortium could be classified as such except for two unique characteristics which are:

i. They typically involve a large number of participants; and
ii. They frequently operate in a country or market in which none of the participants is currently active.

Often huge construction projects are built under a consortium arrangement in which major contractors with different specialties from a separate company specifically to negotiate for and produce one job. One firm actually acts as the head firm or the newly formed corporation may exist quite independently of its originators.

2.3.4 Foreign Direct Investment (FDI)

In this strategy, an international company handles all production activities in a foreign country and owns 100% of the company. This can happen in two ways: firstly, it can buy an active company; secondly, it can establish a new company (Dehghan, 2008). When firms choose to set up wholly owned foreign subsidiaries as the entry mode, they are establishing operations in a foreign country without direct involvement of firms from that country (Ling, 2005). The core advantage of the foreign direct investment for the firm is maintaining control over the technology, marketing, and distribution of its products (Hitt, 2003). The disadvantages of greenfield investments include usually complex establishing process and potential high costs. Establishing new wholly owned subsidiary takes a lot of time, and thus is not appropriate for rapid entering in foreign markets. Instituting Greenfield investment also needs the greatest contribution of knowhow of all the international market entry alternatives (Karkkainen, 2005). Foreign direct investment is a key ingredient of successful economic growth in developing countries because the essence of economic development is rapid and efficient transfer and cross border adoption of best practices, be it managerial and technical best practice or deployment of technology from abroad (Borensztein, Gregorio and Lee, 1998). Foreign direct investment has also been argued to act as a catalyst for inward investment by complementing local resources and providing a signal of confidence in investment opportunities (Agosin and Mayer, 2000).

Foreign direct investment (FDI) is regarded as a factor that drives economic growth (Wang, 2009). Many governments from developed and developing countries believe that FDI can help them get through stagnation and even circumvent the poverty trap (Brooks, 2010). In this context, the detailed analysis of the determinants of foreign direct investment has provided invaluable information. Various theories have been developed since the 1960s to explain foreign direct investment. These theories proclaim a number of determinants that could explain foreign direct investment flows, involving the micro (e.g. organizational aspects) and macro (e.g. resource allocation) dimensions (Dunning and Lundan, 2008). The micro dimension includes factors intrinsic to the company itself, such as ownership advantages, cost reduction and economies of scale, whereas the macro dimension concerns market specific factors such as barriers to entry, availability of resources, political stability, country risk and market size, among others (Faeth, 2009). Several empirical studies have been published on the assessment of which key determinants explain the investment of multinational firms in a given location (macro dimension). However, there is no general agreement insofar as some studies have not found any statistically significant relation with respect to certain determinants (Assuncao, Forte and Teixeira, 2011).

According to Institute Japan Bank for International Cooperation JBIC (2002), the potential benefits of foreign direct investment can come through several channels. First, foreign direct investment is less volatile than other private flows and provides a stable source of financing to meet capital needs (Lipsey, 2000; Soto, 2000; Reisen and Soto, 2001). Second, foreign direct investment is an important and probably the dominant channel of international transfer of technology.

Multinational enterprises (MNEs), the main drivers of foreign direct investment, are powerful and effective vehicles for disseminating technology from developed to developing countries and are often the only source of new and innovative technologies, which are usually not available in the arm's length market. Third, the technology disseminated through foreign direct investment generally comes as a "package" including the capital, skills and managerial know-how needed to exploit the technology appropriately. Finally, other potential benefits of foreign direct investment for host countries include increased competition in the products market, human capital development and an improvement in corporate governance standards and legal frameworks (JBIC, 2002). Examples of FDI in Zimbabwe are Schweppes, Nestle and Old Mutual.

2.3.5 Assembling

Assembling is a compromise between exporting and foreign manufacturing. The firm produces domestically all or most of the components or ingredients of its product and ships them to foreign markets to be put together as a finished product. By shipping completely knocked down (CKD), the firm is saving on transportation costs and also on custom tariffs which are generally lower on unassembled equipment than on finished products (Lambin, 2007). Another benefit is the use of local employment which facilitates the integration of the firm in the foreign market. Notable examples of foreign assembly are the automobile and farm equipment industries. In similar fashion, Coca-Cola ships its syrup to foreign markets where local bottle plants add the water and the container (Soto, 2000).

2.3.6 Contract manufacturing

In contract manufacturing, the firm's product is produced in the foreign market by local producer under contract with the firm. Because the contract covers only manufacturing, marketing is handled by a sales subsidiary of the firm which keeps the market control (Reisen and Soto, 2007). Contract manufacturing obviates the need for plant investment, transportation costs and custom tariffs and the firm gets the advantage of advertising its product as locally made. Contract manufacturing also enables the firm to avoid labor and other problems that may arise from its lack of familiarity with the local economy and culture.

A drawback to contract manufacturing is loss of profit margin on production activities, particularly if labor costs are lower in the foreign market. There is also the risk of transferring the technological know-how to a potential foreign competitor. This risk is lessened, however, where brand names and the marketing know-how are the key success factors. A frequent problem is also quality control (Hellin, Griffith, and Albu, 2005).

2.3.7 Licensing

Licensing is another way to enter a foreign market with a limited degree of risk. It differs from contract manufacturing in that it is usually for a longer term and involves greater responsibilities for the local producer. Licensing is similar to franchising except that the franchising organization tends to be more directly involved in the development and control of the marketing program. The international licensing firm gives the licensee patent rights, trademark rights, copyrights or know-how on products and processes. In return, the licensee will produce the licensor's products, market these products in the assigned territory; and pay the licensor royalties related to the sales volume of the products. This type of agreement is generally welcomed by foreign public authorities because it brings technology into the country. The major drawback of licensing is the problem of controlling the licensee due to the absence of direct commitment from the international firm granting the license. After few years, once the know-how is transferred, there is a risk that the foreign firm may begin to act on its own and the international firm may therefore lose that market (Edwards, 2008). Delta Beverages in Zimbabwe is a licensed bottler of Coca-Cola products.

2.3.8 Franchising

Michael (2003) states that franchising is an organizational design selected by entrepreneurs in which a decentralized network of units, a ''chain,'' established by contractual agreement is needed to gain a competitive advantage. However, (Baena, 2012) says that firms that are willing to expand via franchising can develop an agreement with a local agent (franchisee) and offer the right to use a trademark in return for a royalty fee. Operating multiple units under a common trademark and a common production system allows for a common consumption experience at various times and places. According to this business format, local entrepreneurs, termed franchisees, are granted the right to operate one or multiple units of the chain at a location while investing their own funds. In return, the franchisee pays the franchisor a royalty based on gross sales. Profits after expenses and royalties are received by the franchisee as compensation (Alon, 2001). Zekiri and Angelova (2011) say franchising is a similar entry mode to licensing. By the payment of a royalty fee, the franchisee will obtain the major business know-how via an agreement with the franchiser. The know-how also includes such intangible properties as patents, trademarks and so on. The difference from the licensing mode of entry is that the franchisee must obey certain rules given by franchiser. Franchising is most commonly used in service industries, such as McDonald's, Wimpy and Nandos.

3. 0 Conclusions

3.1 Exporting

Exporting offers the following advantages; manufacturing is home based thus, it is less risky than overseas based, gives an opportunity to "learn" overseas markets before investing in bricks and mortar and reduces the potential risks of operating overseas. The disadvantage is mainly that one can be at the "mercy" of overseas agents and so the lack of control has to be weighed against the advantages. It is interesting to note that Korey1986 warned that direct modes of market entry may be less and less available in the future. Growing trading blocs like the EU or EFTA means that the establishment of subsidiaries may be one of the only ways forward in future. Most companies in Zimbabwe especially Small to Medium Enterprises can start by exporting since it does not require large startup capital.

3.2 Licensing

The major merits of licensing include, it is a good way to start in foreign operations and open the door to low risk manufacturing relationships, linkage of parent and receiving partner interests means both get most out of marketing effort, not tied up in foreign operation and options to buy into partner exist or provision to take royalties in stock. On the other hand its drawbacks are it's a limited form of participation - to length of agreement, specific product, process or trademark, potential returns from marketing and manufacturing may be lost, partner develops know-how and so licence is short, licensees become competitors - overcome by having cross technology transfer deals and requires considerable fact finding, planning, investigation and interpretation. Those who decide to license ought to keep the options open for extending market participation. This can be done through joint ventures with the licensee.

3.3 Franchising

Franchising allows the franchiser to maintain consistency of its standard products in different target markets. It is a low risk mode of entry. The drawbacks of franchising are that it is difficult to control a large number of franchisees in different markets. Franchisee incurs costs like search costs, servicing, and property right protection and monitoring costs.

3.4 Foreign direct investment

Under foreign direct investment the firm has the ability to communicate and control 100% of the investment that may outweigh any of the disadvantages of joint ventures and licensing. However, repatriation of earnings and capital has to be carefully monitored. The unstable the environment the less likely is the ownership pathway an option.

Carpenter, Pollock and Leary (2003) argued that the executives with significant international experience were more likely to prefer greenfield investments and acquisitions over joint ventures (Herrmann and Datta, 2006). However, there is some evidence to indicate that international experience may not have any effect on the degree of control. Nakos and Brouthers (2002); Kogut and Singh (1988) found no strong connection between international experience and the selected entry mode by foreign entrants into the United States (Erramilli, 1991).

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