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Internationalization of Business Operatyions — A Strategic Approach

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Abstract

The level of participation of firms in international process can be specified by different types of foreign market entry modes. Import and export entry modes are the traditional form of international activities of firms. International licensing and franchising are the example of contractual entry modes. Firms can also undergo international operations by investment entry modes. These involve joint ventures, consisting of contractual operations, equity joint-venture and strategic alliance, and sole ventures or the establishment of a wholly owned subsidiary.

As the business environment has increased in uncertainty and complexity, firms must immediately identify the significant changes and respond to them rapidly to continue to exist in the industry. It is generally accepted that the first and the most important motive of the businesses in the capitalism economy is the profit maximization by either increasing the revenue or decreasing the cost of production. In the face of a globally escalating competition, firms not only compete with the rivals in home countries but also the international competitors. Therefore, the pursuit of global profit becomes the key motive of the enterprises.

The purpose of this paper is to examine some descriptive frameworks and motivations and the major modes of entering foreign markets to explain the course of internationalization of the firms.

1. INTRODUCTION

Philip Kotler has defined marketing as a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others. Marketing that is aimed at a single market, the firm's domestic market, is referred to as domestic marketing. In domestic marketing, the firm faces only one set of competitive, economic and market issues and essentially must deal with only one set of customers, although the company may serve several segments in this one market.

The field of international marketing covers all those activities involved when a firm markets its products outside its main (domestic) base of operation and when products are physically shipped from one market or country to another.

When practicing international marketing, a company goes beyond exporting and becomes much more directly involved in the local marketing environment within a given country or market. International marketing is the process of designing, planning and executing marketing strategies to achieve marketing objectives in the markets of other countries or nations.

Internationalization of business operations would require reorganization of the company into a multinational or transnational one. International marketing, thus involves marketing in domestic country as well as marketing across geographical and political frontiers. Therefore, the marketing management functions and processes are almost the same in international marketing as in domestic marketing and so are the marketing mix variables. What differentiates international marketing from domestic marketing is the difference and diversity of marketing environments i.e. cultural, political, economic and competitive environments as they operate in different countries, the companies have to devise their marketing strategies and decide on marketing mix elements keeping in view the macro environment as they prevail in each concerned country and make necessary adaptations or adjustments, so as to achieve their marketing objectives.

A large number of multinational companies throughout the world have devised and developed standardized marketing strategies including the very products they produce and market and conduct uniform promotion programmes in markets all over the world. The examples are Procter and Gamble (P&G), Unilever (Hindustan Lever Ltd.), Philips, PepsiCo, Coca Cola, Suzuki, Panasonic, TATA, Hyundai, etc. are a number of MNCs manufacturing and marketing similar products or product lines as commercial rivals and pose considerable competitive challenge to one another. Many of them have built a global image or reputation that places them in a much more advantageous position in respect to domestic or host country competitors.

You may drive a Toyota, Nissan or Mercedes automobile. You may fill your tank at an Indian Oil service station with petrol refined from crude oil from Saudi Arabia. Each of these products comes from a non-Indian company and is made available in India as a result of international marketing. Today, we live in a global village. It is difficult to speak of matters that do not influence or are not themselves influenced by other areas of the world. Jet age transportation, satellite television, computers and other electronic technologies are reshaping and restructuring the patterns of business. The world is getting smaller. Interaction between the people and governments of various nations is increasing rapidly.

The scope of international marketing is not static but fully dynamic. It depends upon global level changes, national level changes, policy level changes and organizational level changes. International marketing dynamism differs from country to country and from company to company. It may consist of exporting goods from one country to another or it may refer to a firm that both produces and markets in more than one country.

Differences between Domestic and International Marketing

Domestic Marketing	International Marketing
One nation, same language and culture	Many nations, many languages and cultures
Business is transacted in a single currency	Different currencies in different countries are involved
Political environment is the same	Different political environments in different countries are vital
Market is relatively homogeneous	Markets are diverse and highly heterogeneous
No problems of exchange control and tariffs	There are problems of exchange control and tariffs and they act as obstacles
Data available, usually accurate, easily accessed and relatively easily collected at less cost	Data collection is a difficult task, requiring considerably higher budgets
Relative freedom from government interference	Government influences business decisions
Relatively stable business environment	Multiple environments, many of which are highly unstable
Uniform financial climate	Variety of financial climates
Business "rules of the game" mature and understood	Rules diverse, changeable and unclear
Promotional messages need to consider just a single national culture	Numerous cultural differences must be taken into account
Market segmentation occurs within a single country	Market segments might be defined across the same type of consumer in many different countries
Communication and control are immediate and direct	International communication and control may be difficult
Business risks can usually be identified and assessed	Environments may be so unstable that it is extremely difficult to identify and assess risks
Selling and delivery documentation is routine and easy to understand	Documentation is often varied and complicated due to meeting different border regulations
Competitors' behavior is easily predicted	Competitors' behavior is harder to observe, therefore less predictable
Distribution channels are easy to monitor and control	Distribution is often carried out by intermediaries, so is much harder to monitor

2. RATIONALE FOR INTERNATIONALIZATION

Whether a company wants to compete internationally is a strategic decision that will affect the firm fundamentally including its operations and its management. For many companies, the decision to internationalize remains an important and difficult one. Typically, there are many issues behind a company's decision to begin to compete in foreign markets. For some firms, going abroad is the result of deliberate policy decision, whereas for others it is a reaction to a specific business opportunity or a competitive challenge. Nowadays there are many organizations which want to increase their business abroad. Companies go international for a variety of reasons. Usually reasons to internationalize are growth, employees, resources and ideas. Many companies are looking international markets for getting growth because they want to expand their business. Probably the most important reason to internationalize business is that often company can hire cheaper employees. Some companies go international to locate resources that are difficult to have in their home markets. Also companies go international if they want to extend their work force and have new ideas.

So, what benefits organization could achieve by internationalizing? May be it depends on what kind of organization it is, but one benefit is that organization can save money. Different backgrounds work force can bring up fresh ideas which can help a company's growth. Usually when a company goes international it gets more conspicuousness and because of that it gets more clients. When the company is international in character it is easier to make co-operation with other companies. Of course one of main points is that organizations want to expand their business. When organization expands its business abroad, it is possible to get more customers. When company gets more customers it often means that they get more money too. But typically they want company's growth or expansion. Certain important motivations behind going international are summarized below;

- **Pursuing potential abroad** - Probably the most common reason for international expansion is the recognition that opportunities exist in foreign markets. Many firms are attracted by the size of the potential business abroad.
- **Following customers abroad** - For a company whose business is concentrated on a few large customers, the decision to internationalize is usually made when one of its key customers moves abroad to pursue international opportunities. Thus, as a firm's customer base becomes international, so will the firm's operations if it wants to maintain its business.
- **Pursuing geographic diversification**- A need to broaden your horizons beyond a single country can also be behind moves to internationalize a company. Firms often do not want their operations to be dominated or become overly dependent on the economies of a single country.
- **Growth and Profitability**- A lot of companies turn to global markets for growth. Introducing new products internationally can broaden their customer base, sales and revenue.
- **Market extension for incremental profit**- A deliberate international expansion policy is pursued by firms who are motivated by profit potential through market extension. In industries where investment in research and development is high, companies often want to harvest past investment by introducing established products into other countries. Such a strategy is particularly profitable when additional market entries do not require substantial investments in product changes or

additional research and development. This is the case for much of the computer industry where products are substantially standardized around the world. Thus, internationalization exposes a company to an enlarged and diversified market that enables it to produce in large scale and at a lower cost thus making more profit.

- **Increased sales**- If the business is succeeding in the home country, expanding globally will likely improve the overall revenue. This proposes that customers are global and that if the company looks beyond the shores of the domestic market, it has some real upside potential. In addition, if the company has a unique product or technological advantage not available to international competitors then this advantage should result in major business success abroad.
- **Business Fluctuations**- India is a large and maturing market with intense competition from domestic and foreign competitors. International business provides a safety net or a cushion during business down-turns or adversities. The business will be less exposed to periodic fluctuations and downturns existing in the economy and marketplace. For instance, the recession of 1980 in America paved the way for American firms to focus their attention on Middle East where there was rich economic boom.
- **Government Incentives**- It is common for governments to “incentivize” their country’s companies to export. This often results in many companies entering markets they would otherwise not have embarked upon.
- **Fierce foreign competition**– Facing severe and intense competition is a common feature of all developed as well as under-developed nations. Taking the case of America, its automobile industry had become susceptible to foreign competition in 1970’s. The American giants like General Motors, Ford and Chrysler faced hard competition from the Japanese companies such as Nissan, Honda and Toyota. Thus, international competition improves quality, reduces costs and increases the customer’s choice and satisfaction.
- **Enlarged market**- Internationalization exposes the company to a large and diversified market. The large market enables the company to manufacture products in large scale. If the company produces high quality products, then it will be in a position to enjoy the large share of the market that will not only enable the firm to produce goods in large scale but also enjoy economies of large scale production.
- **Economies of scale**- Expanding size and scope of markets help to achieve economies of scale. Economies of scale accompany large scale of production and usually enable a company to realize increased revenue. The large scale manufacture of products reduces costs of production and enables a company to realize more revenue. International approaches give economies of scale while sharing of costs and risks between markets. Economies of scale occur when the unit cost of a product declines as production volume increases.
- **Risk Diversification**- Several companies move worldwide so that they can diversify. Selling products in numerous countries reduces the company’s exposure to economic as well as political instability within the country.
- **Utilization of full capacity**– A large and guaranteed market is a must in industries where economies of scale are possible. Many a time, the home market may not be able to absorb the entire output of an industry, where entry into foreign markets becomes mandatory. For example, Polaroid Corporation, a dominant

producer in American photographic industry, could achieve the economies of scale only by entering the foreign markets all over the world. Thus, the need for fuller utilization of capacity makes the unit to go international.

- **Uniqueness of Product or Services**- The product with distinctive attributes isn't likely to meet competition in the abroad markets and enjoy massive options throughout worldwide marketplaces.
- **Spreading R& D costs**- Through spreading the marketplace, a firm rapidly recovers the cost incurred in R&D. It is especially true with regard to products including higher cost associated with R&D. As result of the large marketplace and also due to larger coverage of the right market segments in international markets, it facilitates speedy recovery of such costs.
- **Resources and Ideas**- Due to unavailability of resources in domestic country or at better competitive rates, companies turn into global markets. Also companies proceed internationally to collect the different ideas in the different lifestyle of various countries as well as to broaden their workforce.
- **Employees / Labour**– Among the elements of cost, labour appears to be predominant, so much so that it represents almost 50 percent of the total cost. Profits can be easily increased where the labour costs are the minimum. That is why many advanced countries expand their foreign operations with under-developed countries where skilled labour is very cheap. Thus, American electronic companies depend on thousands of young girls of Malaysia who provide component parts assembled at half the cost in America. Even Japanese companies like National, Sony, Hitachi, Toshiba are dependent on Nepal, South Korea, India and Pakistan for assembly of electronic goods to save labour cost considerably. All organization wants skilled and well trained employees, as a result company goes to worldwide marketplace to find alternate source of the labor at lower cost and enhanced skills.
- **Taking advantage of different growth rates of economies**- Growth rates among countries are subject to wide variations. In situations where a company is based in a low growth country, the firm may suffer a competitive disadvantage and may want to expand into faster growing countries to take advantage of growth opportunities.
- **Exploiting product life cycle differences**– In case of advanced countries, market saturation is the immediate threat to the successful operations of the firms engaged in manufacturing unlike the underdeveloped countries where population grows faster than the growth of production. When the market for the firm's product becomes saturated, a company can open new opportunities by entering into foreign markets where the product may not be very well known. Thus, adding new markets works like an extension of the product's life cycle and foreign markets provide the best outlets.
- **Advantage of tax concessions**– The countries desirous of earning foreign exchange and creating job opportunities to their citizens invite and attract multinational companies to their countries by offering a pack of special tax concessions. The company can establish its plant in the low tax country and sell the manufactured products both in and outside the base country.
- **Internationalizing for defensive reasons**- Sometimes companies are not interested in pursuing new growth or potential abroad but decide to enter international business for largely defensive reasons. When a domestic company

sees its market invaded by foreign firms that company may react by entering the foreign competitor's home market in return. As a result, the company can learn valuable information about the competitor that will help in its operations at home. A company may want to slow down a competitor by denying the cash flow from its profitable domestic operations which could otherwise be invested into expansion abroad.

3. APPROACHES OF ENTERING INTERNATIONAL MARKETS

Decisions concerning the modes of a firm's entry to particular foreign markets are among the most crucially important that its management will ever have to take. Once an entry method has been selected; its implementation has significant implications for a wide range of international marketing concerns. Selling prices, for example, need to reflect the extent of intermediaries' mark-ups, the size of a business' sales force may depend on whether it deals with wholesalers or sells direct to retailers, contracts with agents and distributors can lock the supplying firm into long term commitments from which it is difficult (and perhaps extremely expensive) to withdraw. Indeed, a company's entire international marketing programme might be substantially determined by how it chooses to enter foreign countries. Thus, time and effort must be devoted to the decision taking process and extensive market research may be required. Before a company internationalizes, it needs to gather enough information about the market in question, plan, collect resources and then initiate the process.

The market entry methods chosen have to relate to the company's overall strategy, goals and the time periods in which it wishes its objectives to be achieved. To some extent, the choice of entry method is constrained by the level of resources available to the firm, although many other factors need to be taken into account as well as financial, human and other resource requirements. The options for entering foreign markets are:

- ❖ Exporting;
- ❖ Licensing and Franchising;
- ❖ Management Contracts;
- ❖ Joint Ventures with foreign firms;
- ❖ Establishment of foreign branches and/ or subsidiaries;
- ❖ Local Manufacturing including contract manufacturing, assembly and direct foreign investment ;
- ❖ Direct marketing via the internet;
- ❖ Strategic alliance.

Each of these has a particular mix of cost, risk and ease of control. Large firms with substantial foreign operations typically find they need to adopt a variety of methods for doing business in a variety of markets: exporting to some, manufacturing, licensing or operating joint ventures elsewhere.

4. CONCLUSION

The world is comprised of numerous countries and competitive markets. Thus, entry decisions are the strategic decisions that international companies make most frequently. Since the type of entry strategy can be clearly related to later market success, these decisions need to be based on careful analysis. Companies often find that it is difficult to break out of initial arrangements, which is another reason why special attention must be given to this type of decision. In some of the more difficult markets, making the correct entry decision can become a key competitive advantage for a firm and it can unlock markets otherwise inaccessible to a foreign company.

To continue to exist in the coming global clash for market supremacy, companies have to become increasingly bolder and more creative and inventive in their entry strategy choices. Long gone are the days when entry was restricted to exporting, licensing foreign manufacturing and joint ventures. New concepts such as global alliance and entry through internet have become common and international firms will have to include acquisitions, venture capital financing and complex government partnerships as integral elements in entry strategy arrangements. The myriad of new entry alternatives have raised the level of complexity in international marketing and will remain an important challenge for managers. This added complexity will make detailed analysis of entry strategy alternatives and their comparisons more difficult. For adequate analysis, companies will have to take into consideration not only the present cost structures but also the ever changing economic and political environment. Rapidly changing foreign exchange rates have changed the cost of various entry alternatives and have forced companies to shift their approach. Entry strategies will rarely be made on a permanent basis but will have to be personalized.

Although most companies have preferences as to which entry strategy they would pursue, increasingly firms will be adopting a flexible approach. Establishing a sales subsidiary may be the best alternative for entering some countries whereas joint ventures may be necessary to enter other countries. Business organizations will be forced to learn to manage with a variety of entry strategies and they will be less able to repeat the same entry patterns all over the world. We can also expect that the future will bring other types of entry strategies that will challenge international managers a new.

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