

Entry and Expansion – International Market- Entry Methods

Part 1: Non-Equity Modes of Entry

Why Expand Internationally?

Companies expand internationally to:

- **Access new markets** - Reach new customers and increase revenue potential
- **Acquire resources** - Gain access to raw materials, labor, or specialized skills
- **Obtain technology** - Access innovations and intellectual property
- **Increase competitiveness** - Gain advantages over competitors
- **Diversify risk** - Reduce dependence on a single market

Key Drivers of International Expansion

 Market Size & Growth Potential

 Cost Efficiency & Economies of Scale

 Global Reach & Brand Recognition

 Strategic Partnerships & Networks

 Innovation & Knowledge Transfer

Categories of Market Entry

Non-Equity Modes

Characteristics: Low investment, low risk, low control

- Exporting
- Turnkey Projects
- Licensing
- Franchising
- Management Contracts
- Contract Manufacturing

Equity Modes

Characteristics: High investment, high risk, high control

- Joint Ventures
- Strategic Alliances
- Wholly Owned Subsidiaries



Exporting

Definition: Producing goods in the home country and selling them in foreign markets.

Types

- **Direct Exporting:** Company sells directly to foreign buyers
- **Indirect Exporting:** Company sells through intermediaries

Advantages

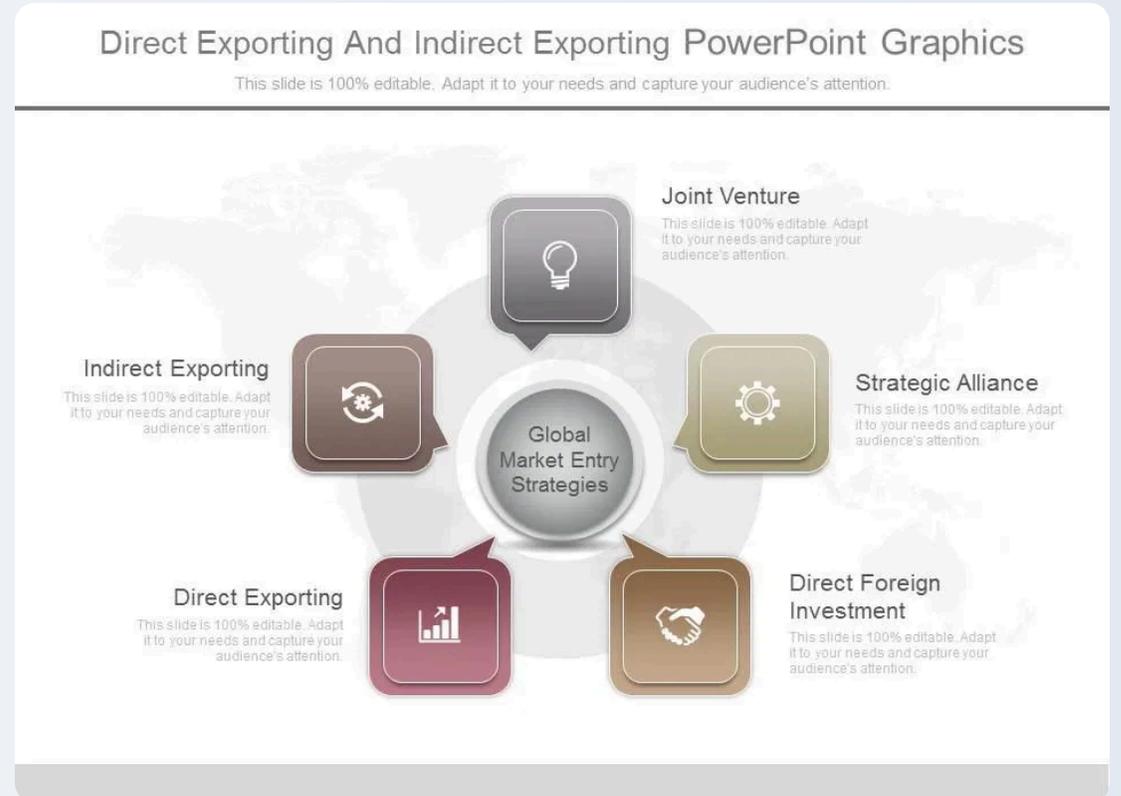
- Low investment and risk
- Quick market entry
- Utilizes excess production capacity
- Economies of scale

Disadvantages

- Tariffs and trade barriers
- High shipping and logistics costs
- Limited market control
- Potential cultural disconnection

Example

Samsung exporting smartphones manufactured in South Korea to global markets



Turnkey Projects

Definition

A business arrangement where a company designs, constructs, and delivers a fully operational facility to a client, who then takes over operations.

Example

Petronas contracting a foreign engineering firm to build a complete oil refinery abroad, which is handed over once operational.

Advantages

- Profit without long-term risk
- Builds international reputation
- Utilizes specialized expertise
- Clear project scope and timeline

Disadvantages

- No future income streams
- Risk of creating competitor
- Complex coordination required
- High upfront investment

Turnkey Project Lifecycle

- 1 Project Planning & Design**
Requirements gathering and detailed design
- 2 Construction & Development**
Building the facility according to specifications
- 3 Testing & Quality Assurance**
Ensuring all systems function properly
- 4 Training & Knowledge Transfer**
Preparing client staff for operations
- 5 Handover & Project Completion**
Transferring ownership to the client

Licensing

Definition:

Licensor grants rights to intellectual property, patents, trademarks, or brand to a foreign licensee in exchange for royalty payments.

Advantages:

- ✓ Low cost market entry with minimal investment
- ✓ Access to restricted markets where FDI is limited
- ✓ Generates passive income through royalties

Disadvantages:

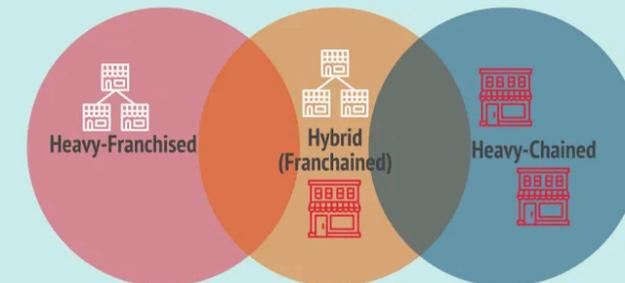
- ❗ Limited control over production and marketing
- ❗ Risk of creating future competitors (knowledge transfer)
- ❗ Potential quality control issues

Example:

Disney licensing its characters for merchandise production in international markets.

The Franchising Business Model In A Nutshell

Franchising is a business model where the owner (franchisor) of a product, service, or method utilizes the distribution services of an affiliated dealer (franchisee). Usually, the franchisee pays a royalty to the franchisor to be using the brand, process, and product. And the franchisor instead supports the franchisee in starting up the activity and providing a set of services as part of the franchising agreement. Franchising models can be heavy-franchised, heavy-chained, or hybrid (franchained).



Franchising

Definition

Franchisor provides brand name, business systems, and support while franchisee pays fees and royalties to operate under the brand.

Advantages

- Rapid global expansion with minimal capital
- Leverages local market expertise
- Strong brand recognition and standardization
- Steady income stream through royalties

Disadvantages

- Quality control challenges across markets
- Risk to brand reputation from poor franchisees
- Lower profits than owned operations
- Potential for legal disputes

Notable Examples

McDonald's, Starbucks, KFC, Subway, and Marriott Hotels have all used franchising to achieve rapid global expansion while maintaining brand consistency.

Franchising vs Licensing

<ul style="list-style-type: none">✓ Payment of \$735 or more in the first 6 months;Use of the✓ Franchisor's trademark;andSubstantial assistance or✓ control by the Franchisor	<ul style="list-style-type: none">✓ It's probably a Franchise; or✓ a Business Opportunity; or✓ a Naked License
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Management Contract

Definition: An arrangement where a company provides management expertise to operate a foreign company's facilities for a fee, without equity ownership.

Advantages



- No capital investment required
- Low financial risk
- Builds international networks
- Generates fee-based income

Disadvantages



- Limited long-term benefits
- Risk of knowledge/expertise loss
- Potential conflicts with local management
- No equity participation in success

Example: Hilton Hotels

Hilton provides management expertise to operate hotels in foreign markets while the property is owned by local investors. Hilton receives management fees based on revenue and performance.



Contract Manufacturing

Definition

Outsourcing production to foreign manufacturers while retaining control over branding, marketing, and distribution.

Advantages

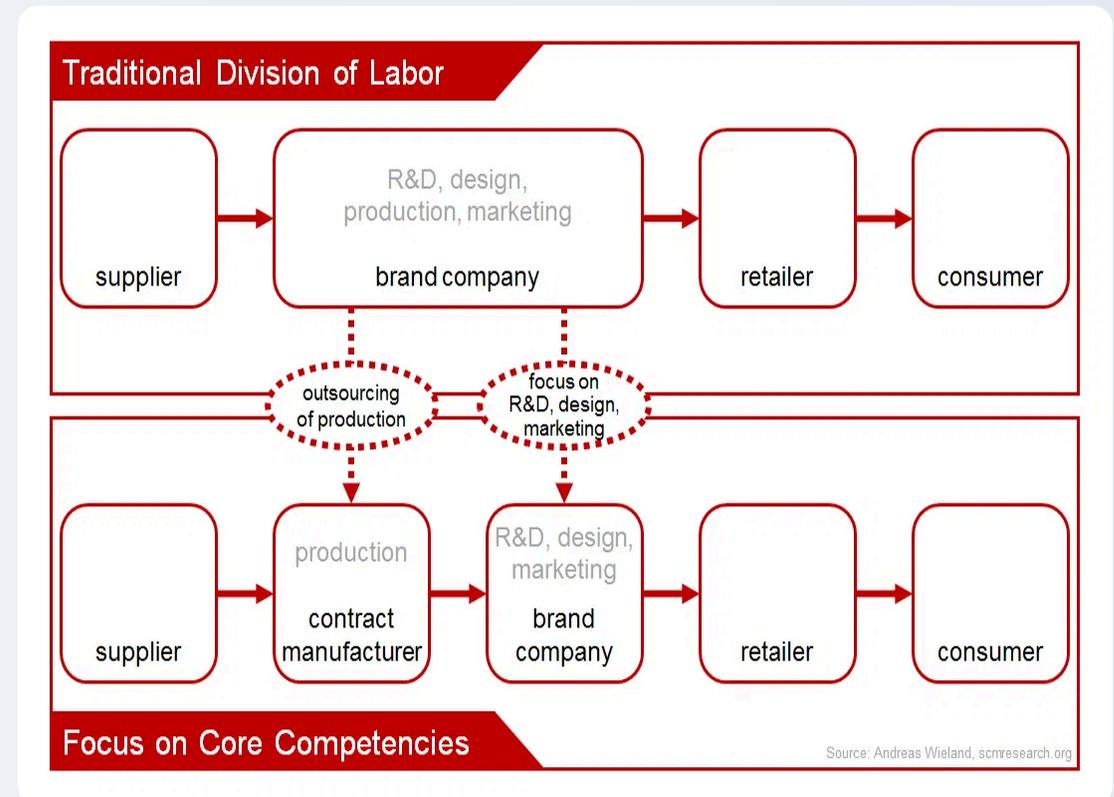
- Lower production costs through labor arbitrage
- Flexible scaling of production capacity
- Faster market entry with minimal capital investment
- Focus on core competencies (design, marketing, R&D)

Disadvantages

- Quality control challenges across distance
- Intellectual property protection risks
- Dependency on supplier reliability
- Potential ethical and labor concerns

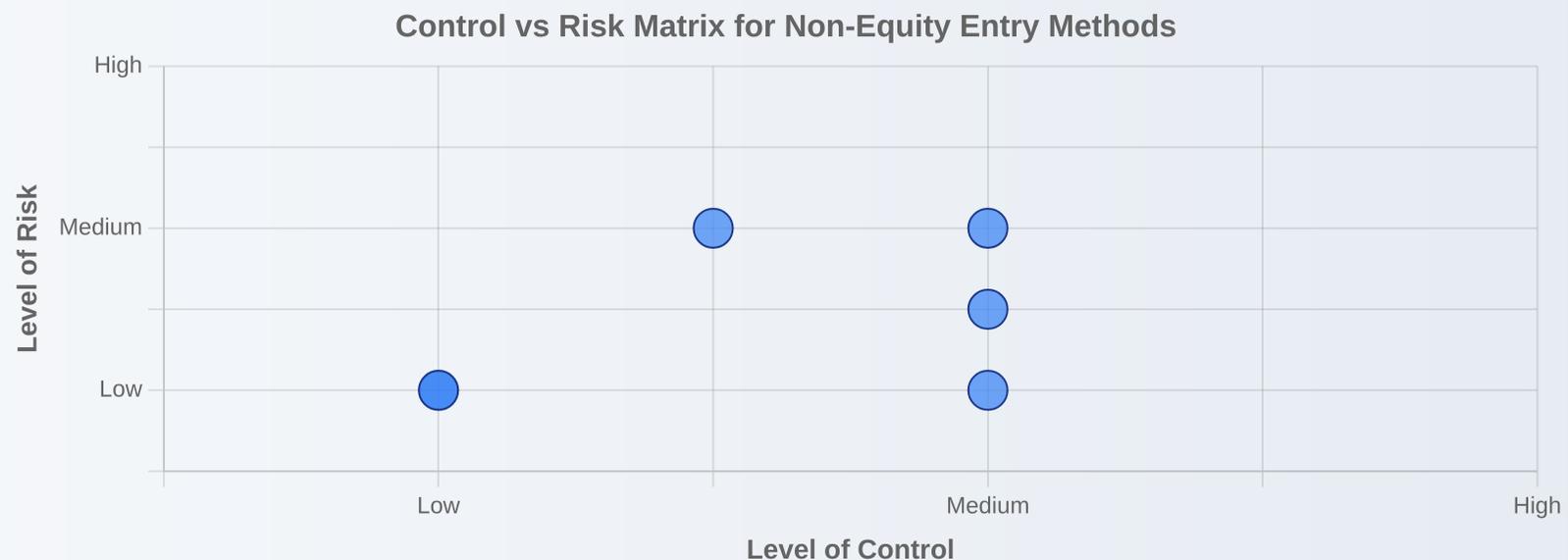
Example: Apple & Foxconn

Apple designs products in California but outsources manufacturing to Foxconn in China and other Asian countries, allowing Apple to focus on product design and marketing while leveraging Foxconn's manufacturing expertise.



Comparative Summary (Non-Equity)

Entry Method	Investment	Risk	Control	Example
Exporting	Low	Low	Low	Samsung exporting smartphones
Turnkey Projects	Medium-High	Medium	Medium (temporary)	Petronas refinery projects
Licensing	Low	Low	Low	Disney character licensing
Franchising	Low	Low-Medium	Medium	McDonald's global franchises
Management Contract	Low	Low	Medium	Hilton managing hotels abroad
Contract Manufacturing	Low	Medium	Low-Medium	Apple using Foxconn



Case Study: Nike

Nike's Contract Manufacturing Strategy

- Nike focuses on design, marketing, and distribution while outsourcing manufacturing
- Works with over 500 contract manufacturers across 40+ countries
- Majority of production facilities located in Asia (Vietnam, China, Indonesia)
- Maintains strict quality standards and code of conduct for suppliers
- Allows Nike to minimize fixed assets while maintaining global scale

Key Benefits for Nike

- Lower production costs through labor cost advantages
- Flexibility to adjust production volumes and locations
- Reduced capital investment in manufacturing facilities
- Focus on core competencies: R&D, design, and marketing
- Rapid expansion into global markets

Discussion Question:

Why did Nike choose contract manufacturing over joint ventures or wholly owned subsidiaries for its global production strategy?



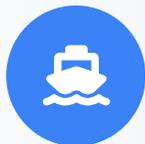
Reflection & Key Takeaways

Non-Equity Entry Characteristics

- **Low Investment:** Minimal capital requirements compared to equity modes
- **Reduced Risk:** Limited financial exposure in foreign markets
- **Limited Control:** Less influence over operations and strategic decisions
- **Faster Entry:** Quicker implementation and market penetration

Strategic Considerations

- Best for early-stage international expansion
- Suitable for testing markets before deeper commitment
- Effective when facing regulatory barriers to ownership
- Valuable for companies with limited international experience



Exporting



Turnkey

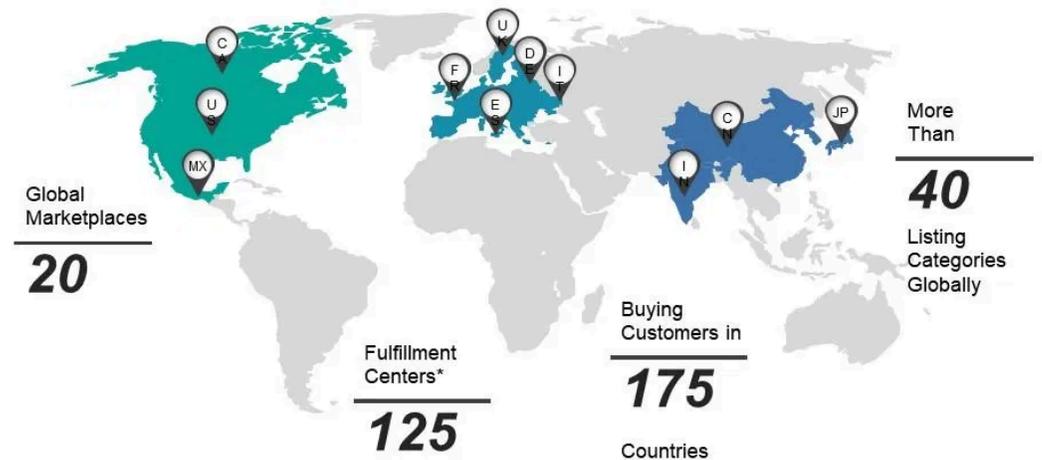


Licensing



Franchising

Global Expansion World Map Showing Global...



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