



# Entry and Expansion – International Market-Entry Methods

A University-Level Overview

# Why Market Entry Strategy Matters

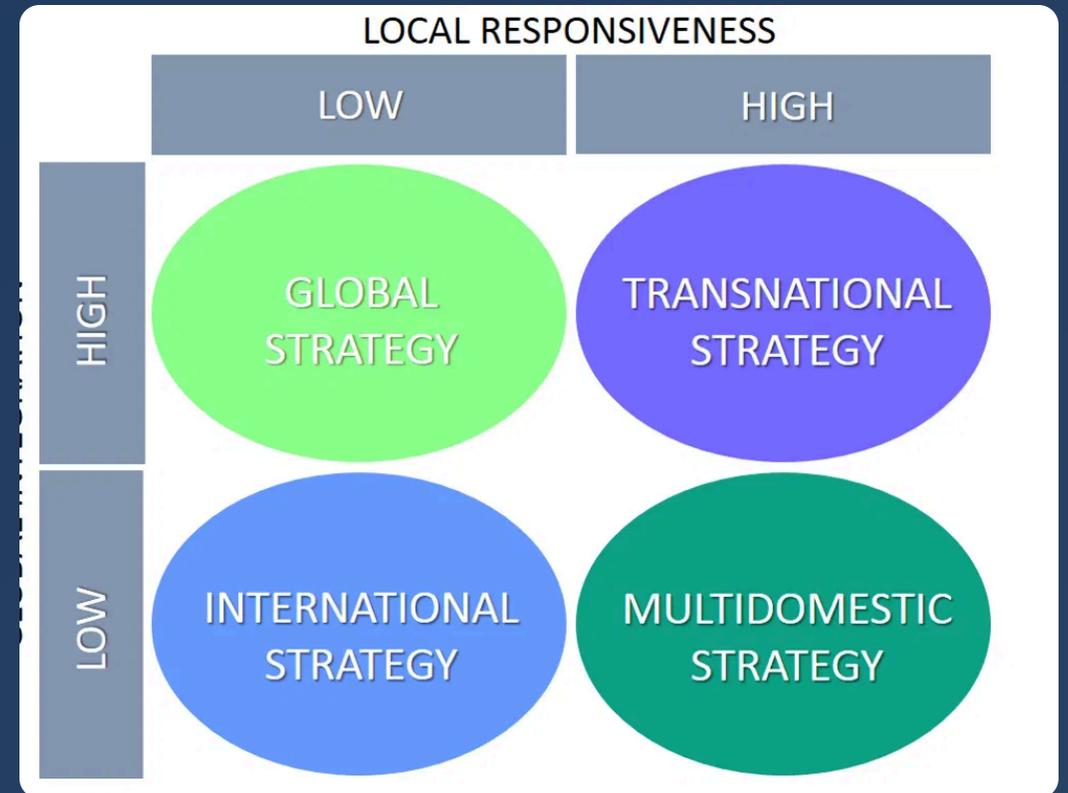
 **Strategic Importance:** Market entry decisions shape a company's international presence and competitive positioning.

 **Risk vs. Control:** Different entry methods offer varying levels of risk, resource commitment, and operational control.

 **Financial Impact:** Entry strategy directly affects investment requirements, profit potential, and return timelines.

 **Relationship Building:** The chosen method determines relationships with local partners, suppliers, and customers.

 **Market Knowledge:** Different strategies provide varying levels of local market insight and learning opportunities.



# Market Entry Categories

## Non-Equity Modes

Lower investment, less risk, limited control

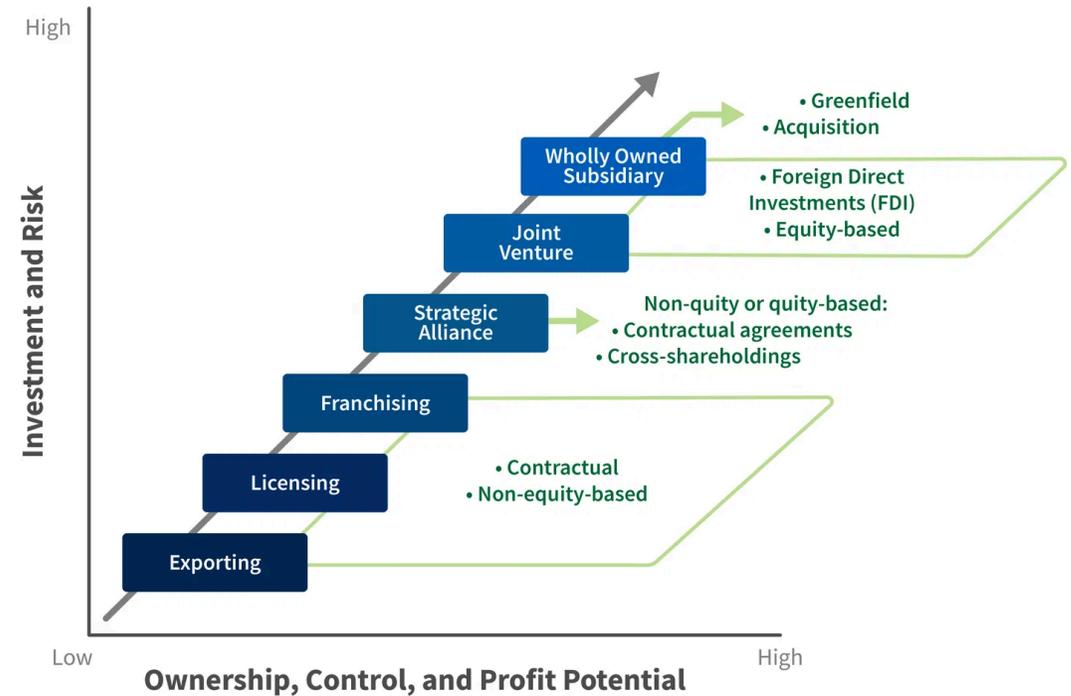
Examples: Exporting, Licensing, Franchising, Turnkey Projects, Management Contracts, Contract Manufacturing



## Equity-Based Modes

Higher investment, more risk, greater control

Examples: Joint Ventures, Strategic Alliances, Wholly Owned Subsidiaries (Greenfield & Acquisition)



# Non-Equity Modes: Exporting & Turnkey Projects



## Exporting

Producing goods in the home country and selling them in foreign markets, either directly to customers or through intermediaries.

### Advantages:

- ✓ Low investment and risk compared to other entry modes
- ✓ Economies of scale through centralized production

### Disadvantages:

- ✗ Vulnerable to trade barriers and tariffs
- ✗ Limited market knowledge and customer relationships

 Example: Toyota Motor Corporation exporting vehicles to international markets

## Turnkey Projects

A business arrangement where a company designs, builds, and equips a facility, then hands it over to the client when it's ready for operation.

### Advantages:

- ✓ Ability to earn returns from skills in countries where FDI is restricted
- ✓ Lower political risk than with conventional FDI

### Disadvantages:

- ✗ No long-term market presence or ongoing revenue
- ✗ Risk of creating future competitors

 Example: Bechtel Corporation building power plants in developing countries

# Non-Equity Modes: Licensing & Franchising

## Licensing

A contractual arrangement where a licensor grants rights to intellectual property (patents, trademarks, copyrights) to a licensee in exchange for royalty payments.

### Advantages

- + Low investment and risk
- + Quick market access
- + Avoids trade barriers

### Disadvantages

- Limited control over operations
- Risk of creating future competitors
- Lower profit potential

*Example: Microsoft licensing Windows OS to computer manufacturers*



## Franchising

A business arrangement where the franchisor provides a complete business model, brand, and support to franchisees who operate under the franchisor's name.

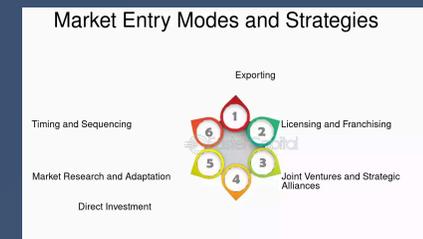
### Advantages

- + Rapid market expansion
- + Local market knowledge from franchisees
- + Steady income from fees and royalties

### Disadvantages

- Quality control challenges
- Potential damage to brand reputation
- Complex legal requirements

*Example: McDonald's global franchise network*



# Non-Equity Modes: Management Contracts & Contract Manufacturing

## ☰ Management Contracts

An arrangement where a company provides managerial expertise to operate a facility owned by another entity in a foreign market, typically for a fee.

### Advantages

- Low financial risk
- Steady income stream
- Market entry with minimal investment

### Disadvantages

- Limited potential returns
- No equity ownership
- Potential conflicts with owners

*Example: Marriott International managing hotels owned by local real estate companies in emerging markets.*

## 🏭 Contract Manufacturing

An arrangement where a company outsources production to a third-party manufacturer in a foreign country while maintaining control over marketing and distribution.

### Advantages

- Cost savings on labor and facilities
- Focus on core competencies
- Reduced capital investment

### Disadvantages

- Quality control challenges
- Intellectual property risks
- Dependency on third parties

*Example: Apple contracting with Foxconn in China to manufacture iPhones and other devices.*



2. MANUFACTURED ITEMS. \_\_\_\_\_ agrees to sell, and \_\_\_\_\_ agrees to buy, the following products (the "Goods") in accordance with the terms and conditions of this Contract:

<u>Description</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Price</u>
TOTAL			\$0.00

3. PRODUCT STANDARDS. \_\_\_\_\_

4. TITLE/RISK OF LOSS. Buyer shall pay reasonable shipping costs in accordance with its shipping instructions, but the seller shall be responsible for packaging, shipping and safe delivery and shall bear all risk of damage or loss until the goods are delivered to the Buyer's address.

# Equity-Based Modes: Wholly Owned Subsidiaries

## Greenfield Investment

Building new facilities from the ground up in a foreign market

### Advantages

- Complete control over operations
- Protection of proprietary technology
- Integration with global strategy

### Disadvantages

- High initial investment
- Slower market entry
- Greater exposure to political risk

*Example: Toyota establishing manufacturing plants in various countries*

## Acquisition

Purchasing an existing company in the target foreign market

### Advantages

- Rapid market entry
- Established customer base
- Access to local knowledge

### Disadvantages

- Integration challenges
- Potential hidden liabilities
- Cultural clashes

*Example: Walmart's acquisition of Flipkart in India*

## 5 COMMON INTERNATIONAL EXPANSION ENTRY MODES



EXPORTING



LICENSING  
AND FRANCHISING



PARTNERING  
AND STRATEGIC  
ALLIANCE



ACQUISITION



GREENFIELD  
VENTURE

# Equity-Based Modes: Joint Ventures & Strategic Alliances

## Joint Ventures

A partnership where two or more companies create a new, jointly owned entity to pursue specific business objectives while maintaining their separate identities.

### Advantages

- ✔ Shared risk and investment
- ✔ Access to partner's knowledge
- ✔ Overcome regulatory barriers

### Disadvantages

- ✘ Potential for conflicts
- ✘ Shared control and profits
- ✘ Complex management

*Example: Sony-Ericsson (mobile phones), Starbucks-Tata (India)*



## Strategic Alliances

A formal relationship between companies to pursue common goals while remaining independent entities, typically without creating a new organization.

### Advantages

- ✔ Flexibility and adaptability
- ✔ Access to new markets/tech
- ✔ Lower commitment than JV

### Disadvantages

- ✘ Less formal structure
- ✘ Potential IP/knowledge leakage
- ✘ Limited integration benefits

*Example: Starbucks and Barnes & Noble, Spotify and Uber*

# Summary of Market Entry Modes

Entry Mode	Investment Level	Risk Level	Control Level	Speed of Entry	Example
<b>Non-Equity Modes</b>					
Exporting	Low	Low	Low	Fast	Toyota exporting vehicles
Turnkey Projects	Medium	Medium	Medium (temporary)	Medium	Bechtel building power plants
Licensing	Low	Low	Low	Fast	Microsoft licensing Windows OS
Franchising	Low	Low-Medium	Medium	Fast	McDonald's global franchise network
Management Contracts	Low	Low	Medium	Fast	Marriott managing hotels
Contract Manufacturing	Low	Medium	Low-Medium	Fast	Apple and Foxconn
<b>Equity-Based Modes</b>					
Joint Ventures	High	Medium-High	Medium (shared)	Medium	Sony-Ericsson
Strategic Alliances	Medium	Medium	Medium (shared)	Medium-Fast	Starbucks and Barnes & Noble
Wholly Owned Subsidiary (Greenfield)	Very High	High	High	Slow	Toyota building new plants
Wholly Owned Subsidiary (Acquisition)	Very High	High	High	Fast	Walmart acquiring Flipkart



# Case Study: IKEA's Entry into India



## Entry Timeline

- 2006** IKEA first expressed interest in entering the Indian market
- 2013** Received approval from Indian government to invest \$1.5 billion in retail operations
- 2018** Opened first store in Hyderabad after extensive market research
- 2021+** Continued expansion with additional stores and online presence

## Why Wholly Owned Subsidiary?

- ✓ **Operational Control:** Maintained full control over operations, marketing, and decision-making to ensure standardization
- ✓ **Brand Protection:** Reduced risk of losing control over core competence and concept
- ✓ **Long-term Investment:** Viewed India as a strategic long-term market worth significant investment
- ✓ **Local Adaptation:** Customized products for Indian market while maintaining IKEA's global identity
- ✓ **Regulatory Compliance:** Committed to sourcing 30% of products locally to meet FDI requirements

**Discussion Question:** Why was a wholly owned subsidiary the most suitable entry method for IKEA in India compared to other entry modes?

# Summary & Key Takeaways

## Risk vs. Control Trade-off

Market entry decisions involve balancing risk exposure against the level of control desired. Non-equity modes offer lower risk but less control, while equity modes provide greater control at higher risk.

## Equity vs. Non-Equity Distinction

Understanding the fundamental differences between equity and non-equity modes is essential for strategic decision-making. Each category serves different strategic objectives and resource capabilities.

## Context-Specific Selection

The optimal entry mode depends on multiple factors: company resources, market conditions, strategic objectives, competitive landscape, and regulatory environment. There is no one-size-fits-all solution.



# Questions & Discussion

Thank you for your attention!

For further inquiries about international market entry methods

