How to Enter Foreign Markets

Which foreign markets

The profit potential of a foreign market will differ from company to company. The decision on which market to enter, lies not only within the potential of a company to increase its profitability, but also the risks associated with doing business in that specific country. Preference should be given to countries that are more attractive in terms of long run profit potential.

When should you enter?

Another important decision to make is when to enter a foreign market. The entrepreneur should decide whether he wants to gain a “first to market" advantage and build sales volume, but then also run the risk of a product not establishing itself in the new market. The alternative is to wait for a competitor to enter the chosen market first, and then reverse the “first to market" effects.

The scale of entry

Entering a market on a large scale implies that that the company will have to invest in significant resources, which will definitely make it easier to attract customers and distributors - simply because it may create the impression that the company is in the market to stay there.

However, by entering on a small scale, the company can learn about the foreign market and thus limit the risks associated with trotting in unknown waters.

Ways of entering a foreign market

Exporting

This is the least risky way to enter foreign markets, as it avoids the substantial costs of establishing manufacturing operations in the new market. A disadvantage of exporting is that high transportation costs can make exporting uneconomical.

Turnkey projects

Turnkey projects can be described as exporting process technology to other countries. In a typical project, the contractor agrees to do the training of operating personnel, above other similar start up activities, so that at the end of the contract period, the foreign client is handed the “key" to a plant that is ready for full operation.

Licensing

This is an agreement whereby a licensor grants the rights to intellectual property (patents, inventions, copyrights etc.) to another company (licensee) for a certain period. The licensor would benefit from royalty fees without having to bear the development costs and risks associated with operating in a foreign market.

Franchising

The Franchiser sells intellectual property to the franchisee, but also contractually forces the franchisee to abide by strict rules as to how it does business. As with licensing, the franchisor typically receives a royalty payment. The franchisee assumes the costs and risks of opening in a foreign market.

Joint ventures

A joint venture is formed when two independent companies establishes a firm that is jointly owned, one of which is a local company. The two companies would typically contribute a team of managers to share operating control. A joint venture enables a firm to benefit from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems and business systems and also to share costs.

Wholly owned subsidiaries

In a wholly owned subsidiary, the firm owns all the stock. The firm can either set up a new operation in that country, or it can acquire an established firm in the host nation.

Stroebel, C. (2008). Top entrepreneur. Retrieved from http://www.topentrepreneur.co.za