**International Marketing**
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**Module - 2**
**Lecture - 5**
**International Business, Entry Modes, and Theories**

Hello, good morning to all of you. Welcome back for my module 2. So, and today we will discuss various international business entry modes. So, how you can enter in an international market or a foreign market; so, there are various modes of entry. So, each one of those modes we will discuss step by step so that you understand each one of them. Then, after once I complete that, then we will discuss certain theories, and these theories you need to understand because these are very essential before you make a huge investment in a country.

So, these are basically the theories which help you to take a very correct decision. So, today's all sections, all these discussions will be based on the various modes of entry as well as couple of theories in international marketing. So, these some theories are in international finance, some theories are in international marketing. So, we will all discuss that today. So, I hope we can have a great learning session and we will start now with the one.

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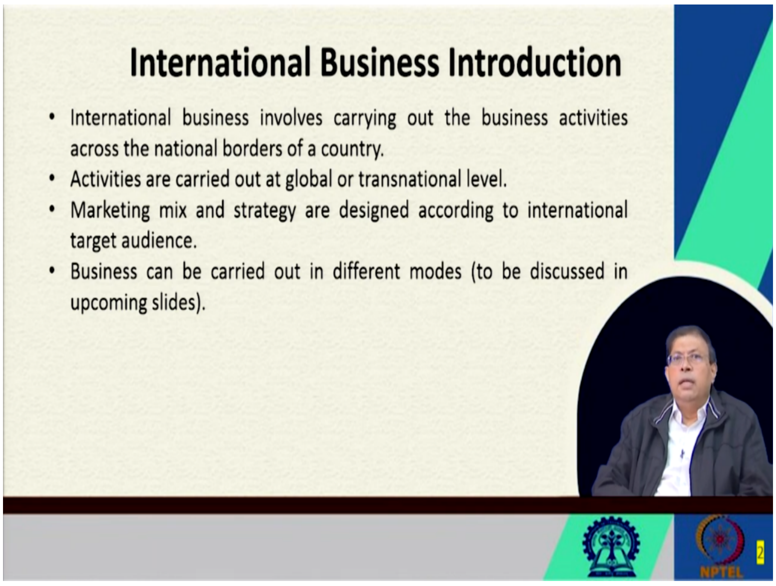


So, the international business, as I have discussed, it involves carrying out the business activities across the national borders of the country. So, imagine you are an Indian company and you are now trying to establish an international network outside India and say our neighboring countries Bangladesh, Myanmar, Sri Lanka and all these countries you want to start your business.

So, it is across the border; so, that means you should have the knowledge about each of these countries, each of these markets and then you have to then decide how I enter in this market with what type of an entity. Is it through a distributor or through a dealer or should I have a licensed agent? So, there are various ways we can decide. So, this is, here comes in most complexity because till now you have done the business within the domestic geography.

So, imagine you are having a plant or the factory somewhere in Chennai and your customers are somewhere in Jammu Kashmir or somewhere in what is called your northeastern states or somewhere in Gujarat, in Ahmedabad. So, the each of these states, the size of the market of each of these states for your product are different. Then the logistics, the supply chain, the complete channel distribution, everything will be different because the way you market or way you distribute a markets in Gujarat or the size of the market in Gujarat may not be identical the size of the market what is in various northeastern states or maybe in Maharashtra or Delhi or Chennai.

So, there are enough complexities are there in domestic business. So, then you have to decide about how you, what is the size of each of the state of your target customer and then currently who are the competitors in that market and then whether you will put your own sales force in that large, in the states where the potential is very high. Will you put your own sales force there or will you put a dealer there?

Or the market, the competition is fierce, they have a directly sales people there, so, should you follow the same structure or not? So, these are all dimensions in your domestic business. Now, imagine you are, you know you are a citizen of this country, you know about the various cultures, you have the data available about the competition, size of the market and all those information is available.

It is also easy for you to send the goods from Chennai to Gujarat or may be to Mizoram or Meghalaya through, by truck or by train or by air you can send it; and there are no customs border there and there is no one; you just send the goods through the transport and your customer or your distributor will receive the goods. So, there is no complexities there in that. Now imagine you are now going to a market Bangladesh.

So, the moment you enter Bangladesh, you have to have an idea about how big is the size of the market of your product. So, same Chennai factory will be now selling in Bangladesh and how big is the size of the market? Who are the players at this point or who are the competitors? What is their market share? And then, what are your products? How that product will be beneficial for the consumers or the customers in that market?

And what are your points in your brand, whether your points of parity or points of disparity or points of difference there? All those things will be now very important. Then it comes, we will discuss all the marketing functions what we; we will discuss in one of the class; we will discuss these marketing functions. So, we will go and in the Bangladesh market, what we have to do?

We have to also find it out what is the distribution network; that is, channels of distribution. Should we put a distributor there or should we put a direct sales people there or should we have a licensed agent there? All those things are very critical and it becomes very complex also. Now, imagine at the same time, the same factory from Chennai, you will be supplying to Bangladesh.

You will be now going to what is called Sri Lanka and also maybe Thailand and maybe Myanmar and all these countries you will go. So, the complexities will be much more. So, I have explained you the complexities from moving from Chennai within the country to Gujarat and Jammu Kashmir or Punjab or to northeastern states. Now, the complexities will be much more because you are going to a new geography and which is a different country, different culture and the entire marketing, all the 4 piece of the marketing has to be reevaluated at that marketplace.

And at the same time, you are going to 4 different markets or 5 different markets or maybe 10 different markets or 20 different markets; it is all very complex. So, international business, these activities carried out in the global and transnational level. Marketing mix, as I have said, and the strategy are designed according to the international targeting audience. So, I will have a different marketing mix; that means, the product, price, promotion and distribution, these all 4 piece mix.

I will have different for Bangladesh; I may have different for Sri Lanka. I may decide that in Bangladesh I will have my direct sales team there to sell there, because size of the market is big. Maybe Sri Lanka market is small, I might decide to put 1 distributor there. And the market maybe in Thailand or maybe in Malaysia, size of the market is very big, I might put my own plant, my subsidiary there in that market.

So, it all depends on the target audience, size of the market and the decision of the company what type of entry strategy we should do in that market. And business can be defined, carried out in different modes; we will discuss that in the next slide.

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So, why we do the international business? Why? What for we are doing the international business? Suppose we are a large domestic company and we are very happy and we have a large domestic market share, so, why we want to go in the international market? So, there are several reasons can be; one can be the entrepreneur or the owners, they might think to make the brand global; that is one of the reason.

They might have a large production capacity at the plant, they may be using 70% or 60% of the production capacity, there is some available production capacity there; so, they can use that production capacity to build some more equipments so that they can sell in the international market. There is also another dimension there. That is the, some of the foreign markets, as I explained in my previous class; I have explained the GDP and then also I have explained the foreign exchange reserves, balance of payment, balance of trade; and you find the GDP of a certain country; few countries are very, growth rate is very high and you want to invest in that.

Then the third reason comes when the domestic market, there are several constraints in the domestic market, because, you know, the market has become now, too many competitors at the marketplace and huge price competition. And then, to increase 1% typically for FMCG goods, which is fast moving consumer goods, maybe increase of 1% or 2% market share will be a tough task.

So, I have very limited growth can be one of the reason that the, my domestic market is not really growing or domestic market is going through some economic recession or some competitor has come up with a product and I cannot compete with the market leader. So, there are several factors can be there. So, in order to reduce the risk, then the company decides that instead of depending on a single market, let us go and spread and go to the international market.

There is another huge impetus there for earning the foreign exchange, because if you know, if you are earning the foreign exchange for the country, there is a huge gain for the country, because country's foreign exchange reserve increases and also you get several incentives from government for earning the foreign exchange by the way of exports or by the way of exports you earn that. And then you can get some tax benefits from there. So, these are all the reasons why we go from a domestic market to international market.

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So, then there are various modes of entry to the international market. So, first take it as a list and I have used this from the International Finance Management, the book I have referred there, and there are various sources of going to international market. The first one is exporting, the first one. I will explain each one of that. Then number 2 is licensing agreement; number 3 is the franchisee; then joint venture; then setting up a new foreign subsidiary; acquisition of an existing operation. So, each one of this I will discuss step by step with you.

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So, what is exporting? So, here the domestic company decides that I have some excess plant capacity, I have the same product which I am producing in India or in my domestic country; whatever maybe the country; I am producing. This product is having a good market in the neighbouring country or some X country, there is a good market there. Now, it is first I decide that let me test, let me check whether this product can be sold in a market, either neighbouring market or by market may be in the middle east market, whether these Indian products can be sold or not.

So, I will then, what I will do as a domestic company, I will consider, I will discuss, I will find it out a distributor in that country and I will have some arrangement with the distributor, some legal agreement with the distributor and then distributor, I will fix a distributor. Say I am going to a market in Bangladesh. So, I decide that the products what we manufacture in India, I will be marketing these products in Bangladesh.

So, I have surveyed the market, I came to know the size of the market is this, I have done some sort of a test marketing, I have done some amount of market research to find out maybe some secondary research, maybe for large product, some civil products we can do some primary research also to find out what is the size of the market, what is the customer expectation and what is the, who is the dealer, what is their share and then all those details we collect typically for the Bangladesh market.

Now, we then wanted to test. So, easiest one is to export first. So, there is not much of cost there. Why? Because you have to find out a distributor there who is already having a legal establishment in Bangladesh. So, he has a legal license to do the business in Bangladesh. Then you would start talking, you identify the distributors. You may have 3, 4 or 5 distributors.

You go, some of your executive visits Bangladesh and meets with couple of distributors, discuss with them and then shortlist them based on their past performance, financials and all those you shortlist. These distributors are a legal entity in that market; so, what they will do? You will sell the product and in foreign exchange, say in this case, in US dollar you will send to Bangladesh distributor.

So, you will first give a quotation to the Bangladesh distributor that my product X, quantity this, unit price is this, will cost this much, I can give you a cost. So, this one is, they will, then distributor will look into that and then distributor might negotiate with you the pricing and then credit terms and all those; we will teach you in the various, how are the various payment mechanisms and all those, we will teach you in the later course of this International Marketing later say lectures.

So, I will, what we will do, we will appoint the distributor, we will have a legal agreement with the distributor. And then, this agreement needs the legal people to weight the agreement and ensure that it follows the law of the country of Bangladesh, it follows the law of the country where the agreement is made and also an international agreement; you have to, this agreement has to be done and both the parties has to sign legally with all the exit clause.

That is, if distributor decides that I will not sell this product after 6 months, after 1 year, so, there should be an exit clause in that and all those. I will take certain business problems with you in the later course of lectures, where a company wants to remove the distributor and come directly to the market, then what are the various options. We will go into detailed discussion in that business problems.

So, here, to make the things very simple, we have identified a distributor in Bangladesh and we have given the product to them, a quotation to them. They bought one, the demo product from us; we have given a demo product at discounted price. And the distributor is now having their own sales force and they are importing in dollars and they are paying the customs duty to Bangladesh government and clearing the consignment and taking the consignment from seaport or airport to their office or to their warehouse and from there their sales people are selling.

So, you do not have anything in that country, you do not have any network there except the distributor who says that they are the exclusive distributor of company ABC India Private Limited. You can appoint 1 distributor, you can appoint 4 distributors, you can appoint 5 distributors, you can have 1 national distributor and then you can have regional distributors. So, depending on the size of the country, depending on the business, all those things you can do that.

So, what happens here? You invoice, you manufacture the goods at your Chennai factory and then you invoice the goods; now it is an invoice. Invoice means you are changing the title of the goods of the, title of the ownership from your company ABC India Private Limited to the company Bangladesh, say XYZ Bangladesh company distributor you are sending. So, you are giving it to your freight forwarder.

We will teach you all this in detail in the next lectures. So, what are the various modes of transportation and all those things? What are the international terminologies? All those things we will teach you; but time being, just you understand that we hand it over to a freight forwarder who carries these goods from Chennai, from your warehouse to the airport in Kolkata and from Kolkata airport it goes by air to Dhaka in Bangladesh.

And then Bangladesh, you send the entire invoice to the, through bank or there may be various mechanisms; we will discuss. Right now, let us not concentrate on the modes or how we collect, the payment mechanism or the transportation and all those things; right now make it very simple to understand what exactly is the situation there in, how we export. So, then we send these goods to Bangladesh.

The Bangladesh, the distributor then receives the goods from there and then he pays the customs duty as per the customs duty structure, duty structure in Bangladesh, clears the consignment and then takes it in his inventory and then he again sells it to his Bangladesh customer. So, he again invoices; so, he becomes the legal owner of your product. So, that means you have transferred your title from ABC India limited to the Bangladesh company XYZ Bangladesh.

You have transferred the title of the goods and the goods he has received in good condition and he has now, in his inventory, he is the owner of the goods. Now he is selling the goods in Bangladesh. You have no responsibility; they will sell the goods and they will earn profit by selling that. In this process, you have earned foreign exchange; they have made you payment in dollars.

So, that is typically, the foreign exchange has come to your India and your company has earned, got the payment in US dollar. So, this is known as a direct exporting. Then comes what is indirect exporting. So, indirect exporting is that; I am just giving example; in this case, you are the same company in India, ABC India Private Limited in Chennai; you have a manufacturing there.

You have not gone and searched the distributor. In this indirect export, you have not, you have no idea who are the distributors, you have not done any search cost for the distributors or anything there. So, you have gone there and you have wanted to, you have not been to the Bangladesh but you; maybe you had been to Bangladesh but you could not find it out a good distributor or you do not have the resources to do that.

So, what you do in this case? You approach some export house. So, there are several export houses. Their job is to get the orders internationally and supply it from the local market. So, you approach one of the export houses and this export houses participate in various international tenders. And then, you get one of these order from this export house and you sell to a export house.

So, export house, you will sell your goods in the export house in India in Indian rupees. So, your goods, the export house in India will place an order on you in Indian rupees for the goods as per your quotation and then you supply the goods to the export house. Then export house will finally sell the goods say in Bangladesh or in middle east, somewhere to their, to their customer directly.

So, export house will invoice your goods to the foreign customer who is located in middle east or maybe in Bangladesh or maybe in any foreign country. In this case, you are not in contact with your end customer where in the, say in middle east or in Bangladesh. The export house is in contact; but the product; say this is the product what you have manufactured is now moving across the Indian geographical boundary and going to international market, say in middle east or Bangladesh, but this is done by in the export house.

You have not done anything, you have only sold to the export house. So, the export house will make the payment to you in Indian rupees and you will deliver the goods to the export house, but your good has moved out out of Indian geography and gone to middle east or Bangladesh or any country. So, the goods have moved to the foreign market, but foreign exchange has not come to you, foreign exchange has come to the export house.

So, you understand the difference, indirect export. In indirect export, goods or the services has moved outside the country but the payment mechanism, the foreign exchange or the invoicing has been done by a different company, the export house who has done the invoicing. This is known typically as indirect export. That means, your good has moved to the foreign country but the payment has, the foreign exchange has not come to you, foreign exchange has come to an export house.

So, in this case, you have changed your title of goods from your company's name to the export house and then export house then change the ownership or the title of the goods from their name to the foreign company's name. And the transaction, the financial transaction, the foreign exchange transaction is between the foreign country and the export house, not with you, but your good has moved the geographical boundary and gone there to the international market. So, this is known as indirect export.

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So, direct exporting which I have explained to you, the exporters deal directly with the foreign customers. As I have told, the ABC India Limited will directly deal with the foreign customers. They can build the connection with the customers, we can, the distributors, we can do. However, direct export may be costly for exporter because documentation and international involvement, because there are several documentation required for sending the goods and also the international involvement.

You need, there people need to travel for direct export, meet with the distributor, search distributor, meet with the customer, understand the requirement; if the product requires service, then that service setup should be there, your distributor's technical people or the engineers has to be trained to provide the service; all those things cost lot of money. So, direct exports directly deals with the foreign customers.

So, remember it is a directly dealing with a foreign customer, where you change the title of your goods from your company's name directly to the foreign company's name and earn foreign exchange against the supply of the product. Indirect export as I have explained to you, exporting firm do not directly deal with the foreign country. So, I am not dealing with the, I do not know who is the foreign customer.

So, intermediaries like the export house are the dealing hands. No direct relation between exporter and foreign customer and no direct relation; there is no direct relation between exporter and foreign customers. And exporter, I do not know who is my customer and exporter is dependent on intermediaries or for market intelligence. So, I do not know, I have to depend on the intermediaries like these export houses for the market intelligence.

What is the size of the market? How much is the demand? And then, what is the feedback about the product? I do not have any access to this market. And relations with the customers in the foreign market. So, I do not have any relation, it is totally within the intermediaries or the export house who is in between there. So, these are the very first and very beginner thing in this international marketing what is known as export and indirect export.

So, next session, we will teach about the various other modes of entry, but you all remember, first attempt to go to the international market is through direct export or maybe you can start through indirect export initially and then once you have sufficient amount of sales of indirect export, you get some knowledge about the market through these customs houses selling the large amount of your products in this foreign markets, then you slowly convert this to a direct export model, go to that country, visit and then fix up a distributor there or a dealer there and then sell it to them or maybe start up your own subsidiary there; all those things we will discuss later.

So, the first step can be indirect export for some domestic companies. Some domestic companies might decide the first step can be a direct one also. So, it can be a mix of both. In some countries you can start with indirect export, in some countries you can start with direct export, depending on your finance, depending on your capital available with your domestic company. That is all from my side in this slide. Thank you very much.