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OVERVIEW OF FOREIGN MARKET ENTRY STRATEGIES WITH DIRECT INVESTMENT- A CONCEPTUAL STUDY

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Abstract:

When a business is successful in the home country the companies will enter into the global market. It is very risky and expensive to enter into the foreign market. And this research focuses on how the foreign market entry strategies with direct investments and its types. There are many factors to consider when the firmentering into the foreign market that is level of competition, market size, physical infrastructure, and government regulations and level of risk and so on. When the company adopt most suitable strategy it is easy to do the business in the foreign market, by this way we expand our business in the foreign market and also company either can set up a new operations in that country.

However the many MNC's are move on invest the sum of money in to foreign markets so that the company through that they can decide on appropriate initiation strategy to markets. The generally the nature of the foreign market very chilling task because of nature is differ it in consist of joint venture, merger, accusation, wholly-owned subsidiaries etc..

Keywords: Foreign market, strategy, competition, successful, factors

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Introduction:

Foreign market entry strategy withdirect investment is a higher risky strategy. Strategy is planning through firmsachieve their goals and move forward. A company made a decision to enter international market to useful to expand their business in global market. Companies aim to international market can require minimum investment and be limited to exporting with given market. To enterinto global market first to identify the foreign market environmentit is potential to grow or not and also look for the to obtain raw materials, to operating less manufacturing cost, to avoid tariff barriers and satisfy local content requirements and also penetrating the local market. Innovative companies with their products that can be clearly separated, positioned and marketed stand best chance to succeed.

International markets abilities to understand and adept to differences prevalent in foreign markets a awareness and sensitivity are the best solutions these problems. And these should be natured in international marketing originations.

Objectives:

1. To know the foreign marketing entry strategies with direct investment
2. To Study theforeign marketing entry strategies merits and demerits.

Literature review:

Foreign market entry modes can be divided according to level of control, resource commitment, and risk involvement (Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Hill, Hwang and Kim, 1990). In a study of the foreign operations of service organizations in the United States, Erramilli and Rao (1993) classify market entry modes into two categories based on their level of control—full-control (i.e. wholly owned operation) and shared-control mode (i.e. contractual transfer or joint venture). The classification system adopted by Kim and Hwang (1992) is three fold: licensing, joint ventures and wholly owned subsidiaries. Kim and Hwang believe that these techniques provide three distinctive levels of control and

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require different levels of resource commitment. Kwon and Konopa (1993) indicate that each global market entry mode is associated with advantages and disadvantages in terms of risk, cost, control, and return.

RESEARCH METHODOLOGY:

This is a Conceptual Study based on the Secondary data source. The Secondary data is used to high light the conceptual analysis and review of literature. The sources of secondary data for the study were the reports of the over foreign market entry strategies. In addition to those books, articles, journals andinternet.

Types of Foreign Market Entry Strategies: there are several foreign market entry strategies but most of the companies follow:

1.Joint Ventures

2.Merger

3. Acquisition

4.Strategic Alliance

5.Wholly owned subsidiary

6. Assembly operations

7.Integrated local manufacturing

1. Joint Ventures:

Joint venture is the cooperation of two or more independent companies which comes to leads establish third entity. It is very important global market strategy. In joint venture each of the participants is for their profits and also losses. With the help of joint ventures the companies will get huge capital, technical skills, human skills and marketing skills.Some of the examples of joint ventures as follows:

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Maruti and Suzuki

Hero Honda

Bajaj Alliance Insurance

Advantages of a Joint Venture:

1. New insights and expertise

2. Better resources

3. It is only temporary

4. Both parties share the risks and costs

5. Latest technology used in production

Disadvantages of a Joint Venture:

1. Vague objectives

2. Flexibility can be restricted

3. Great imbalance

4. Clash of cultures

5. Limited outside opportunities

2. Merger:

A merger is the combination of two organizationsto one by either closing the old entities into one entity or by one company absorbing the other. In other words,two or more companies are combined into one company.

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Advantages:

1.Increase their large buying power as a result of their large size and increasing their market share by combining product lines.

2. Allows the shareholders of smaller entities to own smaller piece of a large pie, increase their overall net worth.

3. The acquirer to avoid much costly and time consuming aspect of asset purchases, such as assignment of leases and bulk sale notifications.

Disadvantages:

1. As a result of M&A, employees of the small merging firm may require exhaustive re-skilling.

2. Company will face major difficulties thanks to frictions and internal competition that may occur among the staff of the united companies. There is conjointly risk of getting surplus employees in certain departments.

3. Merging two firms that are doing similar activities may mean duplication and over capability within the company that may need retrenchments.

4. Increase in costs might result if the right management of modification and also the implementation of the merger and acquisition dealing are delayed.

5. The uncertainty with respect to the approval of the merger by proper assurances.

6. In many events, the return of the share of the company that caused buyouts of other company was less than the return of the sector as a whole.

3. Acquisition:

Acquisition is also called as takeover. Acquisitions is that the getting associate entity by another entity, this can be done either by acquiring ownership over 51% of its share capital or

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by taking over the assets .The acquiring firm is more influential in terms of structure operations and size as compared to the target company.

Examples:

a. Freecharge and Axis bank

b. Idea and Vodafone

Advantages:

1. Reduced cost due to the economy of scale

2. Higher efficiency in production process

2. Gain assets and experiences

3. Excite the share holder

4. Combining organization culture

5. It is easy to raise money for a large business

Disadvantages:

1. Employee retention

2. Higher cost

3. Productivity

4.StrategicAlliance:

A strategic alliance is an agreement between two or more independent firmsdesign to achieve their mutually beneficial goals for as long as is economically visible.Whilst all market entry ways primarily involve alliances of some kind, during the 1980s the term strategic alliance started to be used, without being precisely defined, to cover a variety of written arrangements that square measure meant to be strategically useful to each parties however cannot be

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outlined as clearly as licensing or joint venture. Bonder and Pritzl have defined strategic alliances in terms of at least two organizations combining value chain activities for the purpose of competitive advantage. Strategic alliances grew in importance over the last few decades as a competitive strategy in foreign marketing management.

Example: An organization or firm may enter into a global market by the way of an strategic alliance with a firm in the global market for marketing are distributing of their products

Advantages:

1.Reduced cost

2. Specialised in competency

3.Reduced competition

4.Avoid government constraints

5.Diversified geographically

Disadvantages:

1. Access to information

2. Distribution of earnings

3.Hold up

5. Wholly-Owned Subsidiary:

Wholly owned subsidiary (WOS) are attractive and most expensive method in foreign market entry strategy. It is hundred present owned by the parent company and all type of business activities are permitted such as manufacturing, marketing and service industry.In this subsidiary global market classified two ways. The company either can setup a new operations in that country, often referred to as a green field venture or it can acquire an established firm in that host nation.

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Example:

Here we give example that American airlines wholly owned subsidiary of the AMR crop

Advantages of Wholly-Owned Subsidiary:

1) It reduces the risk of losing control over core competencies.

2) Tight control over the operations.

3) It gives to realize learning curve and location economies centrally determined decisions.

4) No risk losing technical competence to the competitors.

5) It gives capacity to take part in international strategic coordination.

Disadvantages of Wholly-Owned Manufacturing Subsidiary:

1) Most costly method of entry.

2) Risk associatedwith learning to do business in new culture.

3) To faces most number of regulations and taxations in global countries.

4) By applying acquisitions, some companies significantly increased their level of debt which can have negative effects on the firms.

5) Political risk are also involved.

6. Assembly Operation:

An assembly operation is another strategy to enter into the foreign market. In this strategy product assembly and manufacturing is done in the host country. Many companies fallow or adopt this strategy because to avoid tariff barriers, favourable business law, less competition in the market and other inputs.Local assembly operations is expensive especially tariff, shipping and labour charges (national and international) .

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Example:

Automobiles and farm equipment industries are examples for the assembly operations. Coca-Cola ships its syrup to the Global markets where local battle plants add the water and the containers.

7. Integrated Local Manufacturing:

To setting up integrated local manufacturing production unit is the greatest commitment of the organization in the global market. Building a plant includes significant capital cost. There are number of reasons foreign companies establishing in international market. The reasons behind that primarily to cost considerations, market demand and also lower cost in the country. With the help of local manufacturing the organizations build a plant and gain new customers and market.

Example:

Apples immersive website and store fronts

Southwest bring transparency to airline ticket

Discussions:

To enter in to global market for companies there should have various strategies like joint venture merge acquisition wholly owned subsidiary and etc.. Each one of have its plus and minus. Through this study find that

- Whencompanies are entering in new market areas or in the process of getting globalized the company uses merge strategy for the better survival in the globalization to extend their market to other countries and for getting tax benefits
- company use the strategy of joint venture to enter into foreign market to avoid legal restrictions.
- When companies have their brand recognition in foreign market and doesn't have any

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proper distribution channel over the market that time it chooses the strategy of strategic alliance with the local company those who have huge distribution channels over the country.

- When companies are strong in terms of financially and competitively the wholly owned subsidiary strategy was suitable for the organizations to enter in to global market with direct investment.

Conclusion:

In global market foreign direct investment strategies play an extraordinary and growing role in international market. These can provide to the firms with new markets and marketing channels and access to new technologies. And it's give the boost to national economy and growth of the several industries. Including domestic companies and too.

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