

Day 3

Methods of internationalization

1. Methods of internationalization

In our last lesson together we tried to imagine the kind of changes a company should think of when trying to internationalize a product. Most of our decisions were taken with common sense and personal tastes, but in reality companies act on the basis of more structured decision-making processes:

PRODUCT: (market researches)

PRICE: (costs, competitors, desired margins)

DISTRIBUTION: (see after)

PROMOTION/ADVERTISING: (Market research, company's strategies)

This is because internationalizing a business requires investments and the companies try to minimize the risks related to wrong decisions.

2. Methods of internationalization

Decisions concerning the way a firm enters a particular foreign market are among the most crucially important that its management will ever have to take.

The firms need to consider carefully all the available options, the costs, possible loss of control and the risks involved. The choice is constrained by the level of resources available to the firm, although we must also consider: financial, human and other resource requirements.

The options for entering into foreign markets are :

- Exporting and Exporting through agents
- Management Contracts
- Contract Manufacturing
- Licensing
- Franchising
- Joint Venturing
- Wholly-owned subsidiaries

3. Moving gradually closer

Typically internationalization is approached as a step-wise process in which firms begin their international operations engaging in low-commitment entry models in nearby markets while, over time, targeting geographically and mentally more distant markets through higher commitment entry models.

The critical point in the internationalization pattern is, thereby, the importance of experiential knowledge that precedes the increasing commitment to the foreign operations. **The more the knowledge of the market and the commitment, the greater the commitment (importance) and the number of the foreign activities (changing aspects).** On the other hand, as the activities performed across international borders are increasing in number and importance, the knowledge of the market and the commitment of the firm will increase. Other criteria relate to the nature of the product and the market the company is entering.

What kind of product should go for very strict control over the partnership: luxury, tech, services, consulting...?

4. Criteria for choosing an option

Here are the most typical criteria's for choosing an option:

Internal:

- Financial resources
- Physical and technical characteristics of the product (is it easy to manufacture abroad??)
- Experience and expertise in selling and operating abroad

External:

- Degree of market quota desired
- Availability of trained and competent staff in a foreign country
- How quickly the firm wishes to initiate operations in the market?
- Volatility and competitive intensiveness in the country concerned.
- Local constraints on the foreign ownership of businesses and other barriers within a market.
- Political stability of the foreign countries and other risk factors.
- Ease of communication with intermediaries (Agents, consortium buyers, etc.)

2.1 Exporting

When exporting, ***a firm sells products to whole-sellers or end-users in foreign countries***. It involves: Transportation, Insurance of the cargo, Payment for the goods, Documentation, Packaging and labeling, Organizing payment.

Once a firm has decided to export, **the next decision is to choose between agents and distributors**. **Agents** put their clients in touch with third parties but then “drop out” of resulting contracts. **Distributors** purchase a supplying firm's products, and assume the responsibility of results.

When is more advisable to chose Agents and when Distributors Instead?

2.1 Exporting

Governments are usually against the importer firm, since it can reduce national companies' sales, as the money does not contribute to the national growth but goes back to the host. For this reason, companies often need to get into negotiations about the terms of the exchange.

We can differentiate 3 ways to trading:

- COMPENSATION:** When Mc. Donald's took over Burgy it had to sign up a deal with Cremonini Group who was supplying meat and guarantee that it would have continued to be the sole supplier for Mc. Donald's.
- BARTER:** Importer goods are exchanged for national products, and no money is involved in the transaction.
- BUY BACK:** One company sells something to another, according that the first company will buy the results of the production. (EG: A company exports oranges and sells them to another company who produces orange juice. The agreement is that the orange producer will finally buy the total output of orange juice to the second company).

2.2 Management Contract

It is a contract in which a firm in one country provides a team of expert managers to an enterprise in another for a fixed period under contract . It is an example of turnkey arrangement, where the team also installs a new system, train local personnel and then hand over the entire systems to local control.

**Eg Grand Hyatt Hotels. Why do you think MC is appropriate for a chain of Luxury Hotels?
What does Management Contr**

HYATT®

Service that will leave you
wanting for nothing.



Expect nothing less
than spectacular.

Destinations that are sure
to take you on a journey.

2.3 Contract Manufacturing

Agreement in which a firm signs a contract with a foreign firm which is going to manufacture goods with designs and materials provided or to assemble parts into final products.

EG: Laura Ashley was a Welsh fashion designer and businesswoman. She originally made furnishing materials in the 1950s. She later expanded into clothing design and manufacture in the 1960s. The Laura Ashley style is characterized by Romantic English designs and the use of natural fabrics.



2.4 Licensing

Licensing is a contractual arrangement whereby the licensor (selling firm) allows its technology, patents, trademarks or other proprietary advantages to be used by the licensee (buying firm).

EG: UK jeans and casual wear manufacturer Lee Cooper



What are the risks of overstretching a brand?

2.4 Licensing critical factors

- ✓ When you don't sell a "product" but an image or a logo
- ✓ When you're idea of business is to exploit a success to the most and until it lasts rather than to endure
- ✓ When the characteristics of a product are not as relevant as the logo
- ✓ When you want to grow rapidly in brand awareness
- ✓ The cost of transporting goods to the local market would be prohibitive.



2.5 Franchising

With a Franchising agreement, a foreign firm adopts the franchiser's entire business format in the local market, its name, trade marks, business methods, layout of premises, etc. and the franchiser provides a variety of supplementary management services.

Franchisor: Retains complete control over the product

Franchisee: carries all the risk of failure

EG: Mc Donald's

Mc Donald's and IKEA run most of their selling points with a contract of franchising. When do you think it is better to ch

rent?



2.5 Franchising critical factors

- ✓ When you have a tested , **successful business model and or a competitive advantage (critical factor of success)**
- ✓ When you want to grow rapidly without investing too much
- ✓ When you need to have economies of scale
- ✓ When the business model is relevant
- ✓ When there are the premises to grow globally (the product/service can grow with one brand image)



2.5 Mc Donald's figures

About Mc Donald's Ray Kroc, a milkshake mixer salesman, ventured to California in 1954 to visit McDonald's hamburger stand, where he heard they were running eight mixers at once. Kroc was impressed by how rapidly customers were served and, seeing an opportunity to sell many more milkshake machines, encouraged brothers Dick and Mac McDonald to open a chain of their restaurants. Kroc became their business partner and opened the first McDonald's in Des Plaines, Illinois in 1955. McDonald's and the Golden Arches have since become an internationally-recognized symbol of **quick-service** hamburgers, fries, chicken, breakfast items, salads and milkshakes.

	U.S.	INTERNATIONAL	COMPANY OWNED
• 2012	12,605	14,125	6,598
• 2011	12,546	13,407	6,439
• 2010	12,477	12,764	6,399
• 2009	12,221	12,,510	6,357

2.5 Mc Donald's figures

Total Investment: \$1,068,850 - \$1,892,400 Franchise

Fee: \$45,000

Term of Franchise Agreement: 20 years, renewable

FINANCIAL REQUIREMENTS Liquid Cash Available: \$750,000

Training: Available at headquarters: 1 week. At local McDonald's restaurant : 12-24 months.

Ongoing Support: Newsletter, Meetings, Toll-free phone line, Grand opening, Internet, Security/safety procedures, Field operations/evaluations, Purchasing cooperatives,

Marketing Support: Co-op advertising, National media, Regional advertising, In store Adv

Other marketing support: Restaurant-specific support

2.5 Planet Fitness

Planet Fitness is a fast-growing gym franchise that offers competitive prices to its customers, as well a couple of promotions, like pizza night—who said going to the gym had to be healthy? The Dover, New Hampshire-based company also has a "Judgement Free Zone" philosophy, aimed at providing a comfortable environment in which members can work out without feeling the pressure of having to look good. Founded in 1992 and ranked No. 920 on the 2010 Inc. 5000 list, the company has exhibited a 326 percent growth rate over the last three years. **What is the critical factor of success?**



2.5 Red mango One

Red Mango One of the fastest-growing purveyors of all-natural frozen yogurt, Red Mango made its U.S. debut in 2007 when it relocated from South Korea to Texas. In 2009, the Dallas-based company opened 42 franchises in its home state and New York and hopes to expand to over 550 locations across the country by 2015. "We're experiencing the strongest franchise growth in our company's history," said James Franks, the company's VP of franchising, in a recent company statement. **What is the critical factor of success?**



2.5 Junk King

If you've seen the reality TV show "Hoarders," you'll understand how necessary a service like Junk King truly is. Founded in 2005 by Mike Andreacchi and Brian Reardon, the San Carlos, California-based company quickly began spreading to locations across the country and most recently to Massachusetts, Arizona, and Colorado. Dennis Mulgannon, Junk King's director of franchises, recently noted on the company's blog that "The growth of [Junk King's] business is skyrocketing due to the millions of people constantly looking for dependable services to clean clutter and unwanted items from their homes or businesses." **What is the critical factor of success?**



4. Points of further reflection

Work in a team of 4. Imagine to be :

the export managers of a company producing electronic cigarettes. As a strategy of growth you want to expand your business abroad. In order to decide which countries you will consider as a start, what kind of studies would you carry out? What kind of agreement would you try to have in order to sell your product in another country? Would you consider exporting through agents , licensing, directly owned shops, or franchising? Write a list of pros and cons of each model of business. And make your decision.



4. Points of further reflection

Work in a team of 4. Imagine to be :

the manager of a shop producing high quality leather sandals from Capri where craftsmanship, and materials are essential . What kind of agreement would you try to have in order to sell your product in Spain? Consider that :There are many similar sandals in Spain but none of them is produced in Italy. The price range is 70-180 €. Would you consider exporting through agents , manufacturing contract, licensing, directly owned shops, or franchising? Write a list of pros and cons of each model of business. And make your decision.

