UNIT 4 – International Marketing (HL)

Methods of entry into international markets (suitable for SVT)

1. Outline the methods of SVT entering into a new country

- Direct exporting
- Using an agent or local distributor for exporting (for consumers division)
- Joint ventures
- Licensing
- Direct investments in subsidiaries

2. Discuss the opportunities and threats of entering a new country

Opportunities	Threats
• Increased sales and profits • Gain global market share • Diversification • Lower Per Unit Costs • Compensation for seasonal demands • Potential for company expansion • Extension strategy (product life cycle) • Gain experience and know-how	• Extra costs • Product modification • Financial risk • Market information • Cultural barriers • Language barriers • Legal restrictions and administration

3. Discuss the advantages and disadvantages of each suitable method.

Direct exporting: The local business takes orders from international customers and ships them to the customer destination.

Advantages	Disadvantages
• Possibility of selling online • Profit is not shared • Complete control of marketing strategy • Shorter channel of distribution • Direct relationship with customer	• No shared risks • Lack of knowledge of local market • Possible import tariffs • No shared costs • Possibly long delivery times • After sales customer service may be difficult

Using an agent or local distributor: The local business uses a distributor or agent to export in another country. Distributors may buy stock to service local demand. The customer is owned by the distributor /agent.

Advantages	Disadvantages
• Agent / distributor has specialist market knowledge and existing customers • Fewer transactions to handle • Can be cost effective – commission or distributor margin is a variable cost, not fixed	• Loss of profit margin as it is shared • Unlikely to be an exclusive arrangement - agent / distributor may have competitors' products, as well • Harder to manage quality of customer service • Agent / distributor keeps the customer relationship

Joint venture: two or more businesses agree to work together on a particular project and create a separate business division to do so.

Advantages	Disadvantages
• Sharing risks and responsibilities with the venture partner • Provide capacity and expertise • Capital injection • Local knowledge	• Different cultures and management styles • Shared profits • Possible imbalance in terms of expertise, investment or assets brought in the venture • Loss of complete control

Licensing: A business arrangement in which one company gives another company permission to to manufacture its product for a specified payment.

Advantages	Disadvantages
• Reduced costs of setting up • Local knowledge • Quicker entry into the market through existing operations • Opportunities for future investments in the market	• Possible loss of control of quality • Cultural differences • Possibly less profit margin • Loss of control of marketing strategy • Disadvantages of outsourcing

Setting up a company owned subsidiary in the foreign country.

Advantages	Disadvantages
• Full control of the business • Control of quality • Control of marketing mix • No shared revenues or profit • Opportunities for future investments in the market	• No shared costs • Cultural differences • Difficult valuation of subsidiaries • Possible high capital investment • Possibly it will be slower • Possible legal restrictions and bureaucracy