Case Studies on

Market Entry Strategies – Vol. I

Edited by

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Case Title	Page No.
Business in India – The LG Way	1
Carrefour in China	11
Carrefour in Japan	19
China's Beauty Industry: L'Oreal's Foray	33
GM in China	43
H&M: The Swedish Fashion Discounter in USA	55
Hang Seng Bank in China: The Growth Strategies	63
Heineken in Russia: The Growth Strategies	73
Indica's Foreign Foray	81
KFC in China	89
Market Entry Strategies of Gmail	107
McDonald's in China	113
Metro in India: Fighting Against Odds	131
Microsoft's Entry into Antivirus Industry	143
Samsung in India: The Growth Strategies	151
UBS: The Swiss Bank in China	161
Wal-Mart in Japan	169
Whole Foods in UK: The Growth Challenges	181

AN OVERVIEW

With saturation of domestic markets and intense competition, it is imperative for companies to internationalize their operations. In order to survive and grow, the companies are forced to seek and exploit opportunities in newer markets. But the process of penetrating and then developing an international market for the product is a laborious activity. With no sales and marketing infrastructure in place, and little or no knowledge of the market, the efforts required to enter a new market is similar to that of establishing a start-up venture.

Companies enter international markets for varied reasons. But, the fundamental reason is the potential demand of the new market. Besides, internationalization can help the company achieve greater economies of scale. But in certain cases, a company may enter a new market as a reaction to a competitor's move. This is driven by the belief that the competitor would gain a significant advantage if it were allowed to operate alone in that market. At times, some companies undertake foreign market entry with the objective of learning. Learning indirectly, via a local distributor or a partner, is less effective and does not contribute significantly to enable the company develop itself into a global player. Apart from the varied marketing objectives, government incentives to boost exports and global operations also encourage companies to enter markets it would otherwise not have ventured into.

Companies often follow, what is sometimes referred to as the "increasing commitment" pattern of market penetration, in which it starts with exporting its products to the target countries, thereafter has a tie-up with a local distributor or a partner and later switches to a directly controlled subsidiary.

The choice of the alternative modes of market entry is also determined by the level of risk-control, trade-off the company desires. On the one hand, low-intensity mode of entry minimizes risk, as the company does not have to make any investment in the target country in the form of offices, distribution facilities, sales personnel, or marketing campaigns. At the same time, the company will have little or no involvement in most elements of the marketing plan, including the investment in marketing, distribution arrangements, and service standards. The company is also clueless about timely and accurate market information, such as customer behavior, market shares and price levels. On the other hand, a higher-intensity mode of market participation, involving investments in on human resource, distribution, and marketing programs, would ensure control but increases the risks for the company.

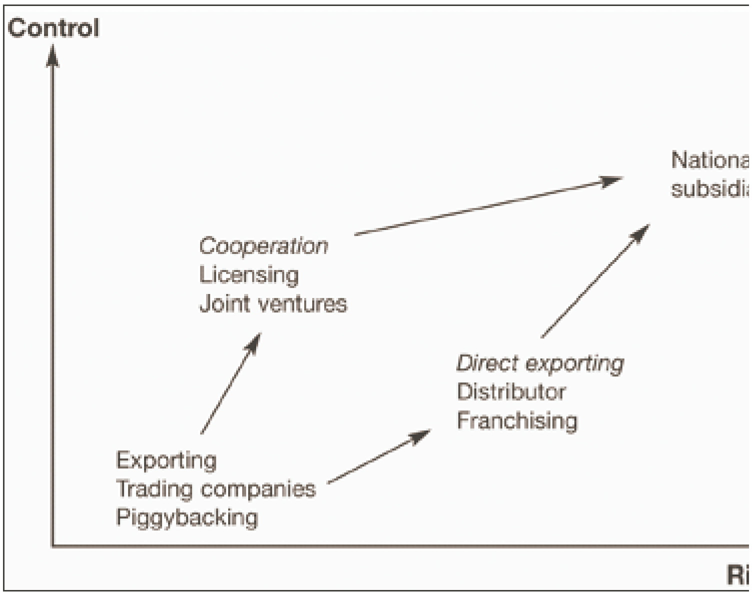
The potential financial and marketing risk also plays a decisive role in the choice of market-entry mode. Financial risk is usually the major consideration at the point of market entry, and it is minimized by low-intensity modes of market participation. But in such cases the marketing risk is maximized, with a local partner making all the important marketing decisions.

Comparison of Foreign Market Entry Modes

Mode	Conditions favoring this mode	Advantages	I
Exporting	• Limited sales potential in the target country; little product adaptation required • Distribution channels close to plant • High production costs in target countries • Liberal import policies • High political risk	• Minimizes risk and investment • Speed of entry • Maximizes scale; uses existing facilities.	• • • •
Licensing	• Import and investment barriers • Legal protection possible in target environment • Low sales potential in target country • Large cultural distance • Licensee lacks ability to become a competitor	• Minimizes risk and investment • Speed of entry • Able to circumvent trade barriers • High ROI	• • • •
Joint Ventures	• Import barriers • Large cultural distance • Assets cannot be fairly priced • High sales potential • Some political risk • Government restriction on foreign ownership • Local company can provide skills, resources, distribution network, brand name, etc .	• Overcomes ownership restriction and cultural distance • Combines resources of two companies • Potential for learning • Viewed as insider • Less investment required	• • • • •
	• Import barriers	• Greater	•

Source: www.quickmba.com

Risk and Control Trade-off



Source: Arnold, David "Strategies for Entering and Developing International Markets", www.phptr.com, October 17th 2006

Often, multinational companies presume that the market-entry strategies that served them well in one market would hold good in other markets as well. Such strategies plan to leverage on competitive assets such as brand names, managers, and suppliers of marketing services. However, it ignores the fundamental tenet of marketing — companies should adapt their product offerings to meet the different market conditions. The more experienced international companies find ways of adapting to local market conditions, including new locally-oriented brands, distribution channels, and new packaging and pricing.

This book helps in understanding the difference between doing business in a domestic market vis-à-vis an international market. The assortment of 18 case studies across industries provides a better perspective about the various market-entry strategies and the rationale behind adopting those strategies given the socio-economic conditions and the business environment of the target country.

Name of the Case Study	Industry	Core Theo
Business in India – The LG Way	Consumer Electronics	Wholly-own customizatic
Carrefour in China	Grocery Retail	Competitive market
Carrefour in Japan	Grocery Retail	Developing competitive
China's Beauty Industry: L'Oreal's Foray	Personal Care Products	Marketing st market
GM in China	Automobile	New market initiatives by
H&M: The Swedish Fashion Discounter in USA	Retail	Challenges: prospects in
Hang Seng Bank in China: The Growth Strategies	Banking	Adapting op change in bu environment
Heineken in Russia: The Growth Strategies	Beverages	Developing new market
Indica's Foreign Foray	Automobile	Partnership/
KFC in China	Fast Food	Customizing new market
Market Entry Strategies of Gmail	Information Technology	Entering a n domain
McDonald's in China	Fast Food	Modifying c for a new ma franchising r wholly-own company or restaurants
Metro in India: Fighting Against Odds	Retail	Hurdles in n regulation
Microsoft's Entry into Antivirus Industry	Information Technology	Entering a n domain
Samsung in India: The Growth Strategies	Electronics	Marketing m market
UBS: The Swiss Bank in China	Banking	Developing market – the information

The case *Market Entry Strategies of Gmail* details how Google through its innovative offerings for customers entered a new business domain, which was dominated by Yahoo! and MSN. *Wal-Mart in Japan* highlights the trend of going international because of stagnant growth opportunities in the domestic market. Wal-Mart forayed into Japan – an economy with spiraling deflation, shrinking consumer spending and cutthroat competition.

The case study *McDonald's in China* showcases the company's shift in market entry policy to enter China. Owing to the Chinese government's regulations and policies, McDonald's restaurants are either wholly-owned by the company or jointly-owned, contrary to the setting up of franchising stores elsewhere. Despite the presence of western fast food joints like McDonald's and Subway in China and tough competition from domestic food chains like Ronghua Chicken, how KFC managed to expand its business through customization is highlighted in the case – *KFC in China.*

Indica's Foreign Foray elucidates how India's first indigenous car, Tata Indica made its debut in the European market through an agreement with MG Rover Group of UK. The importance of catering to customers' need and customizing operations to the local conditions to spur growth is the highlight of the case – *Business in India – The LG Way.*

Microsoft's Entry into Antivirus Industry demonstrates the trend of entering a new business domain to beat competition. Business growth challenges in a new market is the focus of the case *Whole Foods in UK: The Growth Challenges*.

The market entry strategies adopted by Carrefour in order to become one of the leading retailers in Japan is the focus of the case study – *Carrefour in Japan.* How local rules and regulations and protests by local trading communities affect the business, is the focus of the case *Metro in India: Fighting against Odds*.

Hang Seng Bank in China: The Growth Strategies describes the business expansion strategy in a new market taking advantage of the relaxation in government regulations. *Carrefour in China* deals with how multinational companies change the way the industry operates leading to the emergence of different business formats. *China's Beauty Industry: L'Oreal's Foray* highlights entry and marketing strategies in a new market. It also provides an insight into the business environment of a country, which poses a challenge to the operations of the company.

H&M: The Swedish Fashion Discounter in USA highlights the difference between doing business in a domestic market vis-à-vis an international market. Failing to discern the difference has resulted in many companies missing the growth and profit targets. The case study *UBS: The Swiss Bank in China* explains how a business gradually gains exposure in the new market by its active participation, thus gaining a strong foothold in the market.

The opening up of China's automotive sector to foreign companies came with a rider – technology transfer to the local companies. *GM in China* highlights how government regulation acts as a hurdle in developing business in a new market. *Heineken in Russia:*

The Growth Strategies unveils Heineken's increasing presence in the Russian market through its investments. *Samsung in India* focuses on the mix of product features, technology and aggressive marketing, which has given the company a strong position in India.