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FOREIGN MARKET ENTRY STRATEGY

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Abstract. The preparation for international exchange consists of examining marketing mix factors and a value-based approach to customer needs. International exchange has forms ranging from casual export, agency agreements, partnerships, licensing, joint ventures, franchising to wholly owned subsidiaries. There are several ways in which an enterprise can invest directly in a foreign market. The foreign market entry strategy is determined by the consistency of a comparison between the international and domestic environment. Implementation is carrying out strategic activities. Export transactions require that the enterprise provides standard documentation to accompany shipments of goods.

Key words: enterprise, marketing mix, customer value, environment

INTRODUCTION

The main goals of this paper are to present the factors shaping the strategy of enterprises for entry into foreign markets and implementing that strategy. This will be done by applying a review of academic literature, comparative analysis and descriptive research. Marketing mix, value added to customer and foreign environment as hypothesis were put forward to examine foreign entry strategy.

An international exchange is the process of planning and conducting transactions across national borders to satisfy the objectives of customers and enterprises. The concept of foreign market entry is the core requirement for an exchange to take place. An enterprise must develop the products that satisfy customer needs and wants. It has to evaluate real market opportunities for a product. This requires knowledge of the foreign market. Therefore, the enterprise has to study its prospective customers: Who are they? Where are they? What factors are important in their purchase of a product? It also must identify key competitors.

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THE PREPARATION FOR INTERNATIONAL EXCHANGE

The potential of a foreign market is discovered by undertaking the necessary marketing research and planning and then implementation that will help to in being successful. First of all it is necessary to determine if a marketing mix fits within the business context of the foreign market. The marketing mix is intended to describe the strategic elements that must come together in some combination to produce a successful strategy. The fundamental marketing mix 4P factors [Kotler and Keller 2006] are: (i) product – selling the right product to the right market at the right time; (ii) place – determining the best way of getting the product to the customer; (iii) promotion – selecting the most effective means of making the customer aware of the value of the product and (iv) price – creating the price that both fits the market conditions and the costs of doing business in the market.

The enterprise needs to do marketing research to find out whether the product will appeal to customers. Product policy includes all possible distinctive tangible features and intangible characteristics such as branding and warranties. If an enterprise can offer something unique at a competitive price, the chances of success will go up. Conversely, producing and selling ordinary, widely available products usually will not work. Even if an enterprise has an appealing product, it may still need to modify it (possibly at considerable expense) to meet foreign tastes and regulatory standards.

The product is distributed so that it is conveniently available to customers. Distribution policy has two components: channel management and logistics management. Channel management is concerned with the entire process of setting up and operating the contractual organizations consisting of middlemen. Logistics management is focused on providing product availability at appropriate times and places in the marketing channel. Companies must evaluate their distribution options based on the size of the target market for a product and the service requirements of potential customers.

An enterprise must also inform the market about its product. Communications policy uses promotion tools to interact with customers, middlemen, and the public at large [Haag et al. 2009]. The communications element consists of advertising, sales promotion, personal selling, and publicity. It is the most visible and sensitive of marketing mix.

Pricing policy determines the costs of the product to customers. Margins to be made for middlemen who assist in the exchange must be taken into account. An important point to remember is that price is the only revenue-generating element of marketing mix.

In a foreign market, there are other 6P factors that should be considered [FITT 2013]: (i) planning – business, market, account, sales and calls; (ii) personnel – identifying the skills required to design, develop and deliver the product; (iii) practices – business practices within the culture of the target market; (iv) partnerships – potential partners that may strengthen the opportunity; (v) positioning – how the company wants to be perceived by middlemen and customers; (vi) protection – an assessment of the potential risks in all aspects of the transaction.

The number of Ps could be much higher depending on the business the enterprise is in and the unique aspects of the target market. The enterprise's responsibility does not end with the sale. There is an implied warranty of satisfaction with the product; thus, the enterprise must often perform after-sale services.

At present, the American Marketing Association defines marketing as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large[1]. The value-based approach puts the customer at the center of all marketing considerations. Enhancing the international exchange effort really means enhancing the value that the customer perceives in the product offered.

Since the customer determines value, the customer is where companies should start when considering ways to enhance value [Robbins et al. 2000]. Marketing research can tell the enterprise exactly what customers value. It should have already provided some ideas about the characteristics of target customers. Knowing what characteristics enhance the customers' perception of value is key to determining value. Much, of course, depends on the nature of the good or service offered. Many other factors' influence may be hard to predict. The broad task is to plan and execute market entry strategies that will ensure a long term competitive advantage for the enterprise.

THE ENTERPRISE INVOLVEMENT IN INTERNATIONAL EXCHANGE

Market development in the international area has grown in importance and usually takes one of the forms [Czinkota and Ronkainen 2001] shows in Figure 1. Casual exporting involves distribution the same offering in another country. Because this approach typically requires minimal capital investment and is easy to initiate, it is popular option for developing foreign markets.

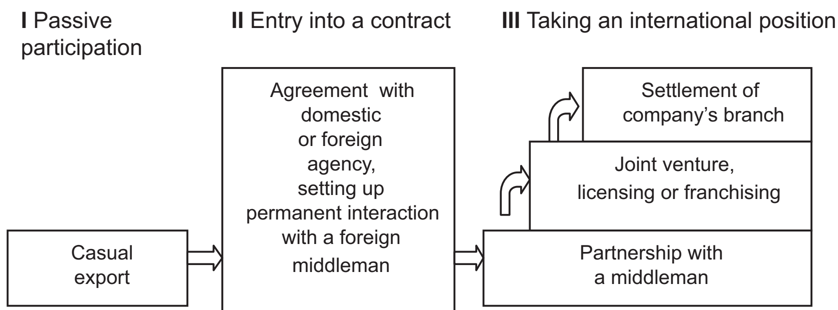

Figure 1. Enterprise involvement into international exchange
Source: Own elaboration.

Recruiting a domestic or foreign agency or setting up a permanent agreement with a foreign middleman has the same advantages as casual exports. Almost every permanent agreement with a foreign middleman leads to partnerships with the result of some form of an international position for the enterprise.

[1] http: //www.marketingpower.com/AboutAMA/Pages/DefinitionofMarketing.aspx (accessed: 15.02.2015).

Licensing is a contractual arrangement whereby one enterprise is given the right to partners, trademarks, know-how, and other intangible assets by its owner in return for a royalty or a fee. Licensing provides a low-risk, quick, and capital free entry to the host country. The two companies share ownership, control, and profits of the entity.

A joint venture, often called a strategic alliance, involves investment by both a foreign enterprise and a local enterprise to create a new entity. Joint ventures are popular because one enterprise may not have the necessary financial, technical, or managerial resources to enter a market alone. This approach also often ensures against barriers being imposed on the foreign company by the government of the host enterprise.

A franchise is an authority that is given by an enterprise to someone, allowing them to sell its goods or services or to take part in an activity which the enterprise controls. Franchising is mutually beneficial to both franchiser and franchisee. The franchise is distinguished by two features: (i) the franchiser owns a trade mark and licenses it to a franchisee in return for royalty payments; (ii) the franchisee pays for the right to be part of the system of doing business.

Foreign direct investment used to involve an enterprise investing in building or upgrading a factory in another country [Kotler and Keller 2006]. Currently it has been expanded to include the acquisition of a controlling interest in a company in another market. There are several ways in which an enterprise can invest directly in foreign markets: (i) construction of facilities or investment in facilities in a foreign market; (ii) mergers and acquisitions; (iii) investment in a joint venture located in a foreign market.

Direct investment in a manufacturing and/or assembly facility in a foreign market is the most risky option and requires the greatest commitment. However, it brings the enterprise closer to its customers and may be the most profitable approach for developing foreign markets. For this reasons, direct investment must be evaluated closely in terms of benefits and costs.

The enterprise should consider many reasons for making direct investments in a foreign market: (i) some governments prohibit or limit imports of goods produced in other countries, but an enterprise can build a production site in the foreign market and produce locally; (ii) producing goods in the target market avoids import duties and other taxes and the requirement for import permits; (iii) the enterprise can obtain the services of skilled employees in the target market or gain intelligence held by people in that market; (iv) in certain countries, an enterprise can take advantage of lower costs, such as cheaper labor; (v) an enterprise can become more competitive. Investments are often made in countries as a way of gaining access to markets that are closed or limited by trade barriers, procurement practices or government regulations. In some cases, this means manufacturing the contracted equipment in the country.

The enterprise can also make investments as a way of securing information or intelligence. A high-tech enterprise can invest in research and development consortia as a way to find out what others are doing. It can use an investment as a window into a market, helping it gather information and intelligence on market dynamics and the operations of competitors that would not otherwise be available.

Traditionally, investment decisions were based on low factor costs, including inexpensive labor and cheap raw materials. While these continue to be important in many industries, an enterprise today also demands innovation, access to technology and other

things that give it a competitive advantage. Factor costs are not enduring. Currency devaluation, runaway inflation and improved standards of living can all have an impact on costs. If factor costs are an essential element of competitiveness, the company's strategy must be flexible enough to change locations, partners and venues to take advantage of shifting cost structures.

Investments can be made to enhance a competitive position or to anticipate and counter the actions of competitors. This might require opening and operating facilities in foreign markets. The facilities should then be staffed with personnel that are familiar with customer needs and with the degree of customer service required in those markets. An adequate level of inventory and a number of replacement or repair parts would also need to be maintained at the facility.

A foreign affiliate could be as modest as a small sales office or as ambitious as a full--scale manufacturing plant. Regardless of size, the affiliate is wholly owned by the enterprise but operates as a local enterprise with respect to regulations, laws and taxes.

To acquire a foreign business, the enterprise invests in the foreign enterprise by purchasing its shares and/or assets. However, the investment has to be large enough to give it significant influence over the foreign enterprise's activities. If the enterprise acquires 100 percent of the foreign enterprise, it gains complete control over its operations, and has effectively acquired a wholly owned affiliate without building it from the ground up.

In a merger, the enterprise establishes or already has an affiliate in the target market. It then combines that business and a local enterprise into a new enterprise that owns the resources of both enterprises. Both the original businesses disappear and the new enterprise continues as their successor. As with an acquisition, the new business functions as a wholly owned affiliate of enterprise's parent company.

FOREIGN COUNTRY BUSINESS BACKGROUND

Success of an international exchange requires figuring out what is the most appropriate market entry strategy for it and understanding of environmental forces, enterprise capacity, and marketing mix activities with healthy respect for competitor reactions. The marketer is subject to a new set of environmental factors, to different constraints, and quite frequent conflicts resulting from different laws, cultures, and societies. The basic principles of exchange still apply, but their applications, complexity, and intensity may vary substantially.

As shown in Figure 2, a recurrent issue in foreign market entry strategy is determining the consistency of the comparison between international and domestic environments. Proper analysis of these factors depends on the availability and evaluation of relevant information. In recent years enterprises have had to alter or adapt their marketing strategies because of political actions, social changes, economic fluctuations, demographic trends, buyers attitudes, technological advances, growth of the Internet, to name just a few of the environmental changes.

Competitive activities must be monitored to ascertain their existing or possible strategies and performance in satisfying customers' needs. A useful technique for gauging

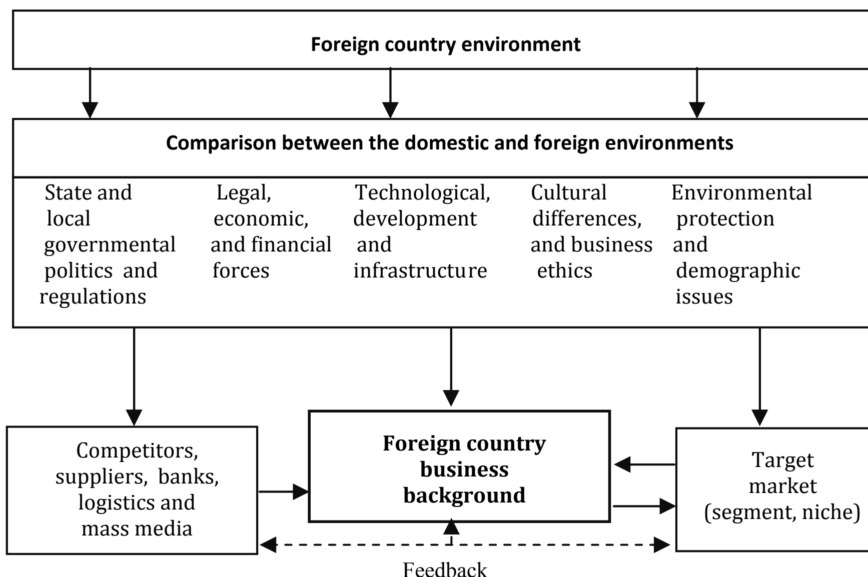

Figure 2. Foreign country business background
Source: Own elaboration.

potential outcomes of alternative marketing strategies is to array possible actions, the response to these actions, and the outcomes in the form of decision tree, so named because of branching out responses from the action taken.

International specialization and cross-sourcing has made production much more efficient. New technologies have changed the way the business is done, allowing to both supply and receive products from across the world by using the Internet. Ongoing technological innovation in marketing has a direct effect on the efficiency and effectiveness of business activities. Products can be produced more quickly, obtained less expensively from sources around the world, distributed at lower cost, and customized to meet diverse customers' needs. Enterprises can operate in a market space rather than a marketplace by keeping the content while changing the context of transaction.

The level of international investment is at an unprecedented high. The shifts in financial flows have had major effects. They resulted in buildup of international debt by governments, affected the international value of currencies, provided foreign capital for enterprises, and triggered major foreign direct investment activities [Czinkota and Ronkainen 2001]. Not only is the environment changing, but the pace of change grows faster. Policymakers have increasingly come to recognize that it is difficult to isolate domestic economic activity from international market events.

To regain some of their power to influence events, policymakers have sought to restrict the impact of global trade and financial flows by erecting barriers, charging tariffs, designing quotas, and implementing other import regulations. Export quotas are restrictions imposed by a government on the amount or number of goods or services that can be exported annually.

However, these measures have also been restrained by international agreements that regulate trade restrictions, particularly the World Trade Organization. Closer economic relations can result in many positive effects. At the same times, however, interdependence brings with risks, such as dislocations of people economic resources and decrease in nation's capability to do things its one way [Stiglitz 2002]. To help a country remain a player in the world economy, governments, enterprises, and individuals need to respond aggressively with innovation, process improvements, and creativity.

International activities can be crucial to an enterprise's survival and growth. Enterprises that heavily depend on long production runs can expand their activities far beyond their domestic markets and benefit from reaching many more customers. Market saturation can be avoided by lengthening or rejuvenating product life cycles in other countries. Production sites once were inflexible, but now plants can be shifted from one country to another and suppliers can be found on every continent. Cooperative agreements can be formed that enable all parties to bring their major strengths to the table and emerge with better products than they could produce on their own. International marketing enables consumers all over the world to find greater varieties of products at lower prices and improve their lifestyles and comfort.

One key facet of marketing concept is adaptation to the environment, particularly the market. Even though many enterprises understand the need for such an adaptation in their domestic market they often believe that international customers are just like the ones the enterprise deals with at home. It is here that many enterprises commit grave mistakes which lead to inefficiency, lack of customer acceptance, and sometimes even failure.

In the short term, the enterprise has to adjust to these environmental forces; in the long term, it can be manipulated to some extent by judicious marketing activities. After analyzing the characteristics of the market(s), the enterprise is in a position to specify the marketing mix variables that will best serve each target market. The actual process of marketing management consists of four stages: analysis, planning, implementation, and control [Kerin and Peterson 2004]. Analysis begins with collecting data and using various quantitative and qualitative techniques of marketing research. Data sources will vary from secondary to primary, internal to external, and informal to formal. The data are used to determine enterprise opportunities by screening a plethora of environment opportunities. The opportunities must then be checked against a company's resources to judge their viability.

Planning refers to the blueprint generated to react to and exploit the opportunities in the marketplace. The planning stage involves both long-term strategies and short-term tactics. A marketing plan developed for a particular market includes situation analysis, objectives and goals to be met, strategies and tactics, and cost and profit estimates. Competition in the foreign market is intense and widespread. The enterprise needs to bring something different or innovative to the market that allows to compete and beat the competition.

The enterprise needs to ensure that has a foreign exchange process is in place to repatriate profits and needs to talk with a bank or a government agency about financing and payment insurance. The enterprise should always remember that the way business is conducted in other countries is not same as in Poland [Michalski 2014]. It should learn about the local business culture, country and politics. Religion, social taboos and cultural preferences will also affect perceived value. No matter how well the country and its

culture is understood, there will always be something missing, so is better to listen and learn from a local partner. Building and developing local networks is time consuming and can be expensive but it is worth every minute and every zloty.

THE IMPLEMENTATION OF A FOREIGN MARKET ENTRY STRATEGY

Once the exporter understands what motivates customers and what they value, the next step is to deliver it. In some cases, enhancing value means actually changing the product to give it new features or a different design. In other cases, companies can enhance perceived value by changing how a product is sold rather than what is sold.

Implementation is the actual carrying out of planned activities. Plans must take into account unforeseeable changes within the enterprise and environmental forces and allow for corresponding changes to occur in implementing the plans. For this reason, concurrently with implementation, control mechanisms must be put into effect. The marketplace is ever dynamic and requires the monitoring of environmental forces, competitors, channel participants, and customer receptiveness. The enterprise must seek to reduce its costs to meet the market's expectations on price while still making enough of a profit to make the transaction worthwhile[2]. Value-based pricing starts by looking at prices from the customer's point of view.

Successful implementation of the international exchange requires figuring out what is the most appropriate market entry strategy for it and understanding of environmental forces, enterprise capacity, and marketing mix activities with healthy respect for competitor reactions [Michalski 2012]. To achieve success in a foreign country, it is necessary to consider international issues and repercussions and make decisions based on answers to such questions as these: (i) How the product fits into the foreign market? (ii) What marketing adjustments are necessary? (iii) What threats from international competition should be expected? (iv) How can we work with these threats to turn them into opportunities? If all these issues are integrated into each decision made by marketers, foreign markets can become a source of growth, profit, needs satisfaction, and quality of life that would not have existed for them, had they limited themselves to domestic activities.

Before entering into an international supply agreement, an enterprise should ensure that it is aware of all international regulations that might affect the purchase, including export compliance in the foreign market and import controls in the domestic market. If regulations are not adhered to, enterprises might find their goods seized by customs or be subject to fines. The importing company will often have to assist the exporter in obtaining an export license from its government, usually by providing an import certificate or other documentation.

The enterprise has to identify staffing needs and have all the proper forms and documents for registration and have all the appropriate government approvals that will allow it to do business in the foreign country. International exchange costs money and the enterprise should be prepared and budget for expenses that are not normally incurred domestically. Enterprises must also offer a price for their goods or services that is both competi-

[2] http://www.getin2marketing.com/discover/what-is-marketing (accessed: 15.02.2015).

tive and profitable. Sometimes the cost of providing additional services is prohibitive and the competitive environment does not require it.

It is usually more complex for a company to provide high levels of service to international customers than to domestic customers. This is often due to factors such as the distances to reach foreign markets, the variety of transportation modes that might have to be used, multiple transfers and handling procedures, and regulations involved with transporting goods or service personnel across international borders.

Risk and ownership of goods may be transferred between exporter and importer at various points in the life of a transaction [Barlett and Beanish 2011]. Similarly, financing can be triggered at various points in a transaction – from pre-shipment financing, which favors the exporter, to import financing at the end of a trade transaction, which assists the importer. For an exporter, selling on open account requires post-shipment financing; one option is to sell receivables at a discount under a process referred to as factoring. Under this arrangement, a factoring enterprise, often a bank, will take the credit risk of the invoice and pay the client a percentage up front. This may satisfy an exporter's need for cash flow but is generally an expensive form of financing.

Export transactions require that the enterprise provides standard documentation to accompany shipments of goods. The documentation typically includes: commercial invoice, Bill of Lading or transport document, export declaration, packing list, insurance documentation and certificate of origin. Documentary requirements can vary significantly, as a result of both the specifics of a transaction or shipment, and as a result of the arrangements related to payment and financing.

The enterprise can improve its odds of foreign success by carefully examining the business, finding ways to capitalize on its strengths and taking action to remedy its weaknesses. Here are five important areas that deserve close attention: (i) performance – if the business is doing well in Poland, that's a big plus. A solid cash flow and comfortable profit margins, supported by an effective business plan, make an excellent launching pad for an export project; (ii) human resources – if the export is more than a modest success, the enterprise will need more people to handle the increased workload. That means recruiting, hiring and training, all of which will require enterprise resources ranging from more office space to a bigger payroll; (iii) financial resources – most small and medium-sized exporters can't start an international operation using their own financial resources, so they go to their lenders for the working capital they need. Unfortunately, it can be much harder to get financing for exporting than for domestic operations. This is because international trade is inherently riskier than domestic trade, and because the banks know that most export ventures need a couple of years to start turning a healthy profit; (iv) production resources – one sure way to fail internationally is to secure a large contract and then be unable to fill it. The enterprise has to make sure that it has enough spare production capacity – or can create it quickly – to meet unexpectedly large foreign demand; (v) logistics resources – producing enough to fill an order is only part of the job – its important make sure the customer gets goods on time and in the expected condition [Carter 2014].

If the enterprise finds some weaknesses, though, it should not give up – almost all non-exporting enterprises, at this early stage, have gaps in their preparedness. But once the enterprise fills those gaps, it can go abroad with confidence and a solid foundation

for international success. The choice of strategy will, in most cases, determine the mode of entry. For example, Comarch, a global supplier of business information technology, builds up diverse strategies of foreign market entry. It makes good use of traditional distribution channels as well as e-commerce (Internet shop, B2B platform) and mobile selling [Michalski 2014]. Some product-market mismatches might be eliminated over time.

CONCLUSIONS

The hypothesis that the marketing mix, value added to customer and foreign environment, play the crucial role in foreign entry strategy has been proven. The most successful enterprises are those that know how to assess customer needs effectively and apply the findings to their strategy. Many different strategies can assist an enterprise in successfully entering new, foreign markets.

When an enterprise has examined its strengths in the context of its corporate objectives, it should be able to determine what it needs for an effective market entry strategy. If a main gap for meeting a strategic goal is financial constraints, an enterprise might consider looking for investors rather than partners. However, if there is still something missing, such as special expertise or market presence, partnership options must be examined more closely.

Research enables enterprises to make a realistic assessment of the strengths of their products and the amount of competition in a potential market. Strategies help the enterprise decide which markets to target and what approaches to use in entering them. Strategies indicates how management should balance costs and risks against potential returns. Analysis provides comparisons with competing products and identifies the modifications required to address new markets.

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STRATEGIA WEJŚCIA NA RYNEK ZAGRANICZNY

Streszczenie. Przygotowanie do wymiany międzynarodowej polega na zbadaniu zmienności składników marketingu mix i na podejściu do potrzeb nabywców opartym na wartości. Wymiana międzynarodowa przybiera różne formy począwszy od przypadkowego eksportu, pośrednictwa agenta, partnerstwa, licencji, spółki i franszyzy do założenia filii. Przedsiębiorstwo może zainwestować bezpośrednio kapitał na rynku zagranicznym. Strategia wejścia na rynek zagraniczny jest określana przez wyniki porównania środowiska międzynarodowego ze środowiskiem krajowym. Przedsięwzięcia strategiczne prowadzą do jej wdrożenia. Transakcje eksportowe wymagają przygotowania standardowej dokumentacji towarzyszącej wysyłce dóbr.

Słowa kluczowe: przedsiębiorstwo, marketing mix, wartość nabywcy, środowisko

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