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International Market Entry Strategies and Level of Involvement in Marketing Activities

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Since the end of World War II, the international component of world gross national product (GNP) has been growing more rapidly than the world GNP itself. The economic consequences of this tremendous increase in global trade will have significant bearing not only on multinational corporations, but also on domestic companies finding themselves in secured positions in their local markets. As this growth in foreign trade provides opportunities to companies that have reached out of their home markets, it also threatens the market positions of companies that are geopolitically confined in their marketing operations.

For a long time the operating frontier of businesspeople has been their national home market, which they considered understandable and fairly predictable. Currently, faced with an array of new challenges and competitive pressures through burgeoning foreign competition, organizations are reshaping their marketing strategies and broadening their domain of operation. Executives are realizing that the future success or failure of their organizations in today's competitive marketplace depends on their ability to restructure business involvement and marketing strategies in response to changing global environments and markets.

This chapter pursues two major objectives: (1) the identification and analysis of factors affecting the strengths and weaknesses of foreign markets, and (2) the development of a conceptual framework for selecting foreign market entry strategies and programming marketing activities.

To achieve the first objective, a list of economic and political factors have been identified and examined for their contribution to economic opportunity and political risk, two composite variables having significant bearing on business potentials of foreign markets. To achieve the second objective, a matrix showing the interaction between economic opportunity and political risk has been developed for judging the appropriateness of different international
marketing entry strategies, and examining the level of marketing activities involved with each entry strategy. To position the subject matter of this chapter in its proper perspective, the following section briefly explicates the international marketing implications of the emerging global competitive threats and opportunities.

The Great Wall Hypothesis

In this age of discontinuity characterized by rapid change in social, political, and economic fabrics, business executives are finding it necessary to define and redefine their respective markets. Thus, environmental scanning, the process of reading, understanding, and anticipating the environments that come together in a firm’s market, is becoming an important managerial activity for gaining a competitive edge in today’s marketplace.

As international competitors become increasingly sophisticated in developing and implementing effective marketing strategies, firms find it exceedingly difficult to protect their domestic markets. Many companies with well-established home markets have generally considered themselves invulnerable to threats coming from the outside. They think that they have built a Great Wall of customer and distributor loyalty around their markets; a wall that foreign competitors will find impregnable. The reasons for this attitude are twofold: First, these firms operate in their home base, and so consider themselves experts in fending off most international marketing encroachments. Second, even if they see any possibility of threats, they cannot envision that their marketing strategies and understanding of the market can be matched in the long run—let alone surpassed—by foreign competitors. This attitude, not surprisingly, has spelled many major casualties. For instance, American TV manufacturers, failing to realize that they were competing not only in their domestic market but also in the world market, found themselves defenseless against better quality and price competitive Japanese TVs (Davidson 1982). In contrast, however, through successful application of international marketing strategies, U.S. perfume companies managed to reduce France’s exports of perfumes to the United States while increasing their own market share in France (A U.S. Inversion, Sep. 1).

Reduction in international trade barriers along with the increased participation of Eastern European countries in world trade have opened up new vistas of marketing opportunities (Naor 1986). Ideological and economic barriers, once considered inexterminable and hence a deterrent to international trade, are now being slowly removed by pragmatic approaches to politics and economics. Consequently, trade with China, Russia, and other communist countries is expected to increase in the future (Czinkota and Ronkainen 1988; Hisrich et al. 1981). In addition, and as a direct consequence
of the state of the art in information and communication technologies, the economic and social aspirations of people around the world increasingly demand access to a better standard of living, achievable only through mutually beneficial exchange of goods, services, and ideas with citizens of other countries that may not necessarily share the same political and economic dogma.

As international marketing competition increases with increasing international trade, managers are faced with two critical tasks: (1) protect their home market, and (2) establish and/or strengthen their marketing presence internationally. Marketing executives confronting the emerging global competitive reality are encouraged to restructure their market and marketing strategies. For example, Gerber Baby Foods, recognizing the effect on its business of the falling U.S. birth rate, established operations in Costa Rica, where the birth rate was increasing (Norvell 1980). In the future, therefore, not only market boundaries but also relevant competitors will change due to changes in competitive milieu. As international competition increases, managers have to creatively select foreign market entry strategies and design appropriate international marketing involvement strategies.

International Market Entry Strategies

Within the parameters of a company’s resources and objectives, foreign market entry decisions should be formulated in the context of economic opportunity and political risk present in different country markets. Broadly speaking, international market entry strategies can be grouped under exporting, licensing, contract manufacturing, management contracting, and investing (cf. Business International 1970; Root 1982; Terpstra 1987). A brief explanation of the different modes of entry follows:

Exporting. Direct and indirect exporting are two options available to a firm wishing to establish marketing presence in a foreign market. In direct exporting, a firm performs the activities necessary for selling products in a foreign market. A firm becomes an indirect exporter when it performs no special activity for the selling of a product in a foreign market. Indirect exporting is performed through an intermediary.

Licensing. Licensing involves payment of a specified fee or royalty by the licensee in exchange for the use of a patent, trademark, product formula, or anything of value. The licensor has little control over strategic and operational decision making and does not participate fully in the profits made by the licensee.
Contract Manufacturing. Under a contract manufacturing arrangement, the firm agrees to let a local manufacturer produce the product, but retains the marketing responsibilities. Entry into the market is obtained with little risk to investment.

Management Contracting. In management contracting the firm provides management expertise and technical know-how to a foreign company that is providing the capital. The management team acts as a consultant to the company, and faces the same problem inherent with staff positions.

Joint Ventures. In a joint venture the company shares in ownership, risk, profit, and control of the business with local businesspeople. It represents a higher level of business involvement than exporting, licensing, contract manufacturing, and management contracting.

Wholly Owned Subsidiary. Compared to the previously mentioned entry strategies, a wholly owned subsidiary provides greater control over strategic and operational decisions, greater economies of operation, and greater potential for identifying with local values and aspirations. With a wholly owned subsidiary, both investment commitment and exposure to risk are the highest.

The selection of a market entry strategy is facilitated by evaluating the following two conditions: those internal to the firm and those existing in foreign markets. In evaluating internal conditions, managers should answer the following: How much risk is the company willing to undertake? How much return does the company expect on its investment? How long is the designated payback period? How much cash flow does the company expect? How much control does it want on decision making related to manufacturing and marketing? How experienced is the company in international marketing? What are the short-term and long-term goals of the company? The answers to these questions help a company select an appropriate entry strategy developed in the context of economic opportunity and political risk present in different country markets.

Determinants of International Economic Opportunity and Political Risk

International markets provide a unique set of opportunities and threats. Primarily, due to lack of information and knowledge about foreign markets, many business executives shirk from committing their resources to international marketing and in the process forgo existing and incipient marketing opportunities.

While acknowledging the existence and importance of several other vari-
ables such as sociocultural, educational, legal, and religious, two factors that have significant bearings on determining foreign market attractiveness are economic conditions and political conditions. The significance of economic and political conditions in determining the strengths and weaknesses as well as the opportunities and threats of a particular market is well accepted in international business literature (Doz 1980; Chakravarthy and Perlmutter 1985). This chapter suggests that the interaction between these two variables generates various viable options for entering a foreign market.

Economic conditions in a foreign market can be dichotomized as representing high opportunity or low opportunity, whereas political conditions can be characterized as representing high-risk or low-risk situations. In this chapter, we relate economic and political conditions to provide a pragmatic framework for developing international market entry strategies and deciding on the level of involvement in marketing activities in a given foreign market. As international marketing becomes more complex, the development of a formal and pragmatic framework to aid practitioners in their decision making process becomes imperative. In the absence of a conceptual framework, decision making proceeds heuristically, generally with adverse consequences.

The matrix in figure 9.1 reflects the interaction between economic and political conditions, and delineates the level of investments that can be thought of as baseline measures from which to derive market entry and marketing involvement strategies for foreign markets. This matrix extends the product portfolio (Henderson 1979) and market portfolio (Harrell and Kiefer 1981) matrices—two decision-making tools that have proved useful for strategic business and marketing decisions. Building on these generally accepted tools, the proposed matrix provides a structured approach for using economic opportunity and political risk in the delineation of international market entry and marketing involvement strategies.

**Economic Opportunity**

Economic opportunity exists when the conditions required for conducting business activities are present or can be developed, and also when adequate effective demand exists or can be developed to satisfy the organizational objectives of the firm. High economic opportunity or low economic opportunity, thus, is determined by the relative presence or absence of factors conducive to the production and marketing of a firm’s goods and services. Depending on the business, the factors necessary for the production and/or marketing of goods and services vary and so do each factor’s importance. The first step, therefore, in assessing economic opportunities in a host country is to identify the major factors that determine economic opportunities. These are infrastructure, competition, financial climate, population, and other related variables.
Infrastructure. Infrastructure includes items such as the number of different modes of transportation and their relative conditions, availability of communication media, availability of energy and power, and the level of technological development. The infrastructure of a given nation can be categorized as developed, developing, or underdeveloped, depending on the needs and requirements of production and/or marketing activities of the firm.

A developed infrastructure exists when factors comprising infrastructure are adequately and reliably available to meet the needs and requirements of a company's production and/or marketing activities. An infrastructure is developing when substantial public and private investment has been made to improve the existing market relevant conditions. Infrastructure is underdeveloped when infrastructural conditions do not exist for efficient business operations, nor has any substantial investment been made to change the existing conditions.

Whereas a developed infrastructure represents high economic opportunity and an underdeveloped infrastructure indicates low economic opportunity, a developing infrastructure can be categorized in terms of economic opportunity, only when viewed in its potential for future developments. Analysis of each of the relevant factors of an economy's infrastructure helps determine its

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Figure 9-1. Foreign Market Entry Strategies
effects on market potential. For instance, in summarizing the effect of only one of the infrastructure variables, Sarma and Rao (1972) have shown that deficiency in communications can limit the extent of the market.

Competition. For the purpose of the framework proposed in this chapter, competition can be characterized as either weak or strong. The level of economic opportunity in a market is influenced by the degree of competitive activities challenging the firm. High economic opportunity is present in industries where the degree of competitive activity (indigenous and/or international) is negligible and weak, and low economic opportunity exists in industries that have strongly entrenched indigenous and/or international competitors. However, in some cases, even in the presence of fierce competition, a firm can compete effectively by capitalizing on economic opportunity present in certain untapped market niches.

Financial Climate. Four important variables can be studied under this heading: gross national product (GNP), per capita income (PCI), exchange rate, and inflation rate. GNP provides a general picture of the strength of the economy. PCI, on the other hand, is a good indicator of purchasing power of the people. In general, the higher the PCI, the more discretionary income consumers have, and hence more demand for luxury goods and services. The exchange rate provides a measure of the value of the currency. By affecting exports and imports, repatriation of earnings, and costs of conducting business, varying exchange rates influence the business potential of a market, and thus, should be carefully examined. On the other hand, the inflation rate provides a measure of loss in the value of the local currency. A high inflation rate, therefore, means a decline in the real purchasing power of consumers, and thus a reduced discretionary spending power. The influence of the inflation rate on demand for a product or brand should be evaluated to determine economic opportunity.

Population. The number of people in a given geopolitical area represents the size of the market, but not the strength and potential. Strength and potential of a market are determined by effective demand (demand backed by purchasing power). A large number of people with insufficient incomes creates a low overall economic opportunity, whereas a small number of people with large incomes may represent a profitable market. To illustrate the point, we can take two extremes, Bangladesh and Kuwait. Bangladesh has a population of 100 million people but low PCI of $130, whereas Kuwait has a small population of 1.5 million but very high PCI, around $21,000. However, care should be taken not to apply the above generalization indiscriminately in different situations and for different product categories. For example, although the PCI of Bangladesh is less than $200, it is not sufficient evidence for concluding
that there is no market for expensive goods. In this case, the distribution of income provides better information about market potential for specific product categories.

**Related Variables.** Because of their significant impact on people’s consumption behaviors, cultures, languages, value systems, religions, legal constraints, and other factors play an important part in determining economic opportunity. As evidenced by the discussions of just about every international marketing textbook currently on the market, these factors should be studied carefully. For instance, in Saudi Arabia and in some other Islamic countries one should not think of producing and marketing liquor and pork products because Islam, the religion practiced in these countries, forbids Muslims from drinking liquor and eating pork (Luqmani et al. 1980). Likewise, there are cultural and social constraints that by very strongly affecting attitudes, preferences, beliefs, and the societal role of individuals, can hinder the marketing of certain goods and services (Terpstra and David 1985).

The determination of economic opportunity is a complex task. A country can have a high economic opportunity for one product and a very low economic opportunity for another. Economic opportunity in international markets should, therefore, be evaluated in relation to each individual product. Each product demands a unique set of conditions to be successful; and complicating matters even further, the success of a product in one country does not assure its success in another.

**Political Risk**

Given that, by definition, international marketers generally operate in several nations simultaneously, the political realities of the nations represent an inescapable uncontrollable business variable that must be considered. An integral component of the political environments affecting a multinational firm is the degree of political risk present in such environments. Political risk exists when as a result of governmental or societal actions, operations and investments of foreign firms are adversely affected (Simon 1982).

Political risk is not a country-specific, product-specific, brand-specific, or even, a firm-specific phenomenon. It is present in industrialized countries such as France and Canada, as well as in the less developed countries (LDCs) (Robock et al. 1977). Therefore, a systematic analysis of political risk should be conducted involving its identification, likely incidence, and consequences on a company’s operations (Root 1968). For a multinational marketer trying to develop or maintain a competitive advantage, an awareness of political risk is not enough. This awareness must be incorporated into the operating procedures and strategic plans of the corporation. A lack of awareness, or the failure to act on such awareness of political risk can negate the best laid international marketing plans. Variables influencing political risk should, there-
fore, be identified, analyzed, and interpreted. Variables relevant to political risk are discussed next.

**Government's Role.** Governments are increasingly playing an important role in regulating the business climate of their countries. Just as a business enterprise programs its business and marketing activities to achieve its organizational goals, governments, likewise, through decrees and legislative enactments, attempt to achieve societal goals.

At a macro level the societal goals of a government are generally concerned with broad social, economic, and political issues, such as monetary stability, inflation, trade deficit, productivity, balance of payment position, and employment of indigenous resources. On the other hand, the corporate goals of both indigenous and foreign businesses are at a micro level, generally concerned with issues such as market share, return on investment, and growth of the firm. To achieve their explicit and implicit societal goals, governments may therefore attempt to restructure different elements of the economy which may adversely affect some firms while benefitting others. The socioeconomic and political agenda of a government, therefore, considerably influences the actions that are taken to restructure the national business climate, thus determining the type of political risk that evolves (Akhter and Lusch 1988).

**Type of Government.** Trying to determine the degree of political risk in a nation by classifying countries based on the type of government (democracy, autocracy, socialist, communist, and military rule) rather than considering the stated and implied agenda of the political party only brings about sweeping generalizations about political risk present in that country. It cannot be said that democratic countries are politically more stable than communist countries and, therefore, have less of the various types of political risk. To gain a proper perspective of the political risk associated with the government of a nation, that government must be evaluated with respect to its stated and implied agenda reflecting the problems and potentials within the existing socioeconomic and political environment.

**Internal and External Strife.** A country with a high frequency of lockouts, strikes, riots, social disorder, and armed conflicts can be characterized as going through a severe adjustment process. Internal strife shows basic discontent among the populace, and occasionally this discontent may be diverted against international corporations within the country. External strife, on the other hand, is depicted by war with neighboring countries which may create uncertainties in the business climate.

**Related Variables.** Related variables like regional alliances, special interest groups, political freedom, nationalism, and human rights issues should be studied when determining the degree of political risk. The nature and compo-
sition of these variables influence the severity of risk. For instance, IBM Corporation was asked to terminate its business in India because of the political objectives of the Indian government. Likewise, a trend toward nationalism can create a situation of high risk. If the citizens of a particular country decide to boycott certain foreign products and services, this can create a precarious situation for international operations.

The assessment of political risk is an ongoing process. Environmental situations may change rapidly and drastically, necessitating a change in societal goals, and thus in the probability of occurrence of different political risks. The social, economic, and political environment should, therefore, be regularly monitored for emerging threats from political risk.

Drawing Up the Matrix

The task before the international marketing manager is to find a way to determine whether a country's economic opportunity and level of political risk are high or low. A grading system can be developed to reduce the complexity of the problem. We can take the example of a hypothetical company X to illustrate the system using, first, economic opportunity.

Company X divides all the factors that determine economic opportunity into three broad categories: critically relevant, moderately relevant, and marginally relevant. Next a weight is assigned to these categories on a scale of 1 to 9. Marginally relevant factors have a range of 1 to 3; moderately relevant factors fall within 4 to 6; and critically relevant factors are assigned weights from 7 to 9. The weight assigned to each factor is called its relevance weight.

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Critically relevant factors are those factors without which the company cannot produce and/or market its goods and services in a foreign country. For instance, widespread availability of electricity is critical for marketing TVs, but not for transistor radios. Moderately relevant factors are those factors whose presence or absence affects the company's operations, but not critically. Marginally relevant factors are those factors whose absence or presence have little significant bearing on the company's operations.

The next step is to evaluate the extent to which these three categories of factors are present in a particular country. The extent to which they are present can be divided into three categories: satisfactory, moderately satisfactory, and unsatisfactory. A weight can also be assigned to these categories on a scale from 1 to 9, with unsatisfactory from 1 to 3, moderately satisfactory
from 4 to 6, and satisfactory from 7 to 9. The weight assigned to the degree of factor availability is called presence weight.

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We can determine:

$$\sum_{i=1}^{n} x_{e,i} \cdot j_{e,i} > o_{e}^*,$$

where $x_{e,i}$ is the relevance weight assigned to each factor taken to determine the economic opportunity of a country.

$j_{e,i}$ is the presence weight assigned to each factor taken to determine the economic opportunity of a country.

$o_{e}^*$ is the cut-off point chosen to categorize economic opportunity into high and low categories.

Next, the same method is applied to the analysis of political risk, and we thus obtain:

$$\sum_{i=1}^{n} x_{p,i} \cdot j_{p,i} > o_{p}^*,$$

where $x_{p,i}$ is the relevance weight assigned to each factor taken to determine the degree of political risk of a country.

$j_{p,i}$ is the presence weight assigned to each factor taken to determine the degree of political risk of a country.

$p_{p}^*$ is the cut-off point chosen to categorize political risk into high and low categories.

Both the relevance and presence weights of different factors comprising economic opportunity and political risk vary from business to business and from country to country. For instance, a company planning to establish a manufacturing plant for digital watches evaluates the market related factors differently than a company planning to build a paper factory.

We acknowledge that in the procedure just described the determination of factor and presence relevancy, and the assignment of weights require considerable analysis, insight, and a priori managerial judgments. However, we suggest that the framework presented here systematically provides directions for appropriately examining market relevant factors and making international
market entry decisions. Different entry strategies for each cell have been proposed so that firms can select the most appropriate one based on their objectives, resources, and experiences. (See figure 9-1 for entry strategies.)

When both political risk and economic opportunity are high, the managers are faced with an interesting dilemma of how to tap the market opportunities and also reduce exposure to political risks. The four recommended strategies for this cell, joint-venture, management contracting, contract manufacturing, and exporting, are motivated by the idea of reducing exposure to risk. Joint venture, in comparison to the other three strategies, involves the highest level of resource involvement and the most exposure to risk. However, by allowing local participation in equity and by increasing the stake of indigenous people in the business, the firm not only establishes its marketing presence but also may reduce the adverse consequences of political risk in the event of governmental intervention. Joint venture is therefore a viable option, although political risk is high for this cell.

When political risk is high and economic opportunity is low, contract manufacturing, management contracting, and exporting are recommended. Given that political risk is high and economic opportunity is low, a firm should reduce its financial commitment in the market, which can only be achieved by following the strategies recommended for this cell.

When political risk is low and economic opportunity is high, a firm should consider a joint venture or a wholly owned subsidiary. These two strategies are motivated by the idea of establishing a strong presence in the market. As the economic opportunity is high in these markets, it would encourage competitors to expedite their entry into these markets. Therefore, by establishing a subsidiary, a firm would not only preempt some competitors from entering the market but also improve its competitive performance by a better understanding of the market.

When both political risk and economic opportunity are low, firms should export or license to establish marketing presence in the market. These two strategies are recommended because they provide the company with the necessary experience for higher levels of business involvement in the future when the business climate improves.

Level of Involvement in Marketing Activities

The matrix developed by the interaction of economic opportunity and political risk serves as an indicator of business opportunities and threats. Placement in the respective quadrants of the matrix serves as the general basis from which appropriate international marketing involvement strategies can be developed.

Multinationals' operations in different countries' markets provide them
with significant competitive advantages accruing from their global network (Kogut 1984). Therefore, the level of business involvement in each country’s market should be determined by the overall contributions of each market. This suggests that, if in a given country conditions for establishing a joint venture are not present, the firm can examine other relevant possibilities. Effective international business and marketing decisions are generally multidimensional involving not only numerous countries, but also numerous resources and strategies (Naylor 1985).

For each market entry strategy proposed earlier, the delineation of levels of involvement in marketing activities is important. The important question for a multinational is to decide how many of the foreign marketing activities should be performed by the firm in a given market. In each market, however, the firm should attempt to attain success through a differential advantage in one or several business and marketing variables (Porter 1986). The level of involvement in marketing activities and the entry strategy selected are closely interlinked. For instance, the level of involvement desired in marketing activities may determine entry strategy, and vice versa. The latitude in the level of involvement in marketing activities associated with each alternative is discussed later.

In the case of exporting, the company does not have much choice when it chooses indirect exporting as a mode of entry. In direct exporting, however, the firm has a choice about performing and controlling marketing activities in foreign markets. Under this scenario, the firm may decide to open its own distribution network in foreign markets, and thereby control marketing mix decisions.

Licensing as a form of entry does not provide much leeway in deciding about the level of involvement in marketing activities in foreign markets. The licensee, in most cases, is not only responsible for the manufacturing of the product, but also for marketing-related tasks.

In contract manufacturing it is the company’s responsibility to market the product. Contract manufacturing is becoming an important way of establishing marketing presence in foreign markets. This arrangement capitalizes on the expertise of the firm in marketing products, while it delegates manufacturing problems and responsibilities to the contractual partner in the host country.

Management contracting provides an excellent opportunity for gaining firsthand marketing knowledge about a given country’s market. The multinational can be responsible for day-to-day management of the foreign firm, and thus, in the process, may acquire information and expertise that can be most useful for subsequent business involvement. Management contracting, by itself, does not result in a permanent market presence for the multinational.

Foreign direct investment can take two forms, joint ventures and wholly
owned subsidiaries. In a joint venture, the performance of marketing tasks can be shared with the local owners, or alternatively, the firm may contractually agree to fully control the marketing activities. On the other hand, in a wholly-owned subsidiary it is the responsibility of the multinational to market the product.

Determining the level of involvement in marketing activities is not equivalent to determining international marketing strategies. Whereas the former can be derived through the matrix discussed earlier, attempting to prescribe specifics about the latter would be unrealistic and naive. The idiosyncratic elements of marketing mix strategies to follow in given markets are directly dependent on factors such as the product or service being marketed, the number of markets currently being served, the experience of the organization, economies of scale and critical mass, and the life cycle of the product or service in both the host and home markets. The specific marketing strategies to follow, therefore, depend on the specific circumstances and realities of the market in question. We contend though, that in the process of arriving at these appropriate strategies, our framework simplifies managerial decision making, and is thus a useful tool.

By delineating the basic entry strategies to follow in the internationalization of the firm, we are de facto setting up the parameters to the number and possible alternative strategies one may utilize. One may think of the different market entry alternatives as a continuum ranging from exporting to wholly owned subsidiaries. Moving from the exporting stage to the wholly owned subsidiary stage takes the firm to progressively higher levels of commitment, risk, income, control, challenges, and complexity, and to progressively lower levels of convenience, uniformity in decision making, and homogeneity of operating procedures.

Conclusion

International marketing is becoming important not only for the survival of companies but also for the growth and development of host countries' economies. The intricate mixture of economic and political environments determine economic opportunity and political risk. The grid developed by the interactions of these two variables suggests appropriate market entry strategies and levels of involvement in marketing activities for different countries' markets.

The trend toward internationalization of business will continually force companies to reorient their strategic thinking. The development of marketing involvement and market entry strategies in today's competitive international environment require considering not only the local competitive milieu but also all relevant country markets. Business executives have to consider foreign
competitors’ expertise in encroaching their established markets, both domestic and foreign. As we increasingly become a part of the global village, today’s firms need to philosophically declare, as Socrates did centuries ago, “I am not an Athenian or a Greek, but a citizen of the world.”

References


