ARTICLE 1: ACCESSING FOREIGN MARKETS

Prepared by: Oscar Kalu
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Strategies for Accessing Foreign Markets

There are two alternative strategies available for accessing foreign markets.

1. Transaction based approach and
2. Direct investment based approach

<u>Transaction based approach</u>

With a transaction based approach, there are two main strategies.

i. Exporting route or
ii. Commercial licensing route.

In terms of exporting, the company can attempt to penetrate its chosen foreign markets either through individual 'spot' export sales contracts, or longer-term supply contracts. These can either generated directly by its UK-based sales team, or by the use of foreign country-based agents and/or distributors.

The commercial licensing route is to license patents and other intellectual property rights to foreign companies in the same industry or via franchising agreements.

The export transaction strategy results in the value activity remaining largely within the UK.

<u>Direct investment based approach</u>

i. Joint venture
ii. Foreign direct investment (wholly-owned subsidiary)

The joint venture relationship might simply relate to marketing and distribution of goods and services the UK company, or it might relate to fully integrated manufacturing, marketing and distribution carried out in the foreign country.

The wholly-owned subsidiary strategy can be pursued on the basis of either a fully integrated free-standing operation, or as a simple marketing and distribution facility.

The Foreign Direct Investment (FDI) strategy will depend upon which particular approach is selected that will result in a greater amount of the value-added process being transferred into the foreign country.

<u>Licensing a foreign company</u>

Licensing a foreign company either in terms of the intellectual property or in terms of a straight franchise agreement, in return for specific royalty payments, is a ‘middle-way’ between an export-led strategy and an FDI strategy. It may enable the company to gain rapid penetration of the targeted market, without the investment cost and risks associated with an FDI strategy.

Pike, Neale and Linsley (2015 pp. 702-703) identify five determinants that play a key role in the entry-strategy decision.

1. Source of the competitive advantage
   The concern whether these are location-specific to the company’s current operating base. If they are, then an export-transaction strategy is likely to be more suitable.

2. Import tariffs and transaction costs
   The second factor to consider is whether there are significant import tariffs, high transportation costs or other trade barrier costs which are like to favour an FDI, (or licensing), strategy.

3. Marketing and distribution capability
   Does the company has the marketing and distribution capabilities required to access its chosen foreign markets. If not, then a licensing or joint venture strategy might be the more sensible approach to take.

4. Transaction costs for final strategy chosen
   Consideration needs to be given to the transaction costs involved in the strategy that is finally chosen. If there are high negotiating, monitoring and enforcement costs, then third party agreements such as:

i. Licensing
ii. franchising and
iii. joint ventures, may be view less favourably than direct exporting or the pursuit of a wholly-owned subsidiary strategy.

A key consideration for the company in the strategic decision is the degree to which its intellectual property, brand values and corporate ethos can be enforced and protected in foreign markets. If this were perceived to present a significant challenge, then an export-transaction based strategy is likely to be more appropriate.

Thank you reading, please read my other articles too!

Oscar Kalu