

When First Mover Is Rewarded And When It Is Not

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Small - Scale Entry

- Smaller risks for firms
- Reduction in long-term rewards

Advantages

- Time to learn about foreign market
- Reduce company exposure

Disadvantages

- Difficulties in building market share
- Limiting further growth potential
- Does not allow for first-mover advantage

Advantages for Large Firms

- Greater amount of resources allow for higher probability of successful foreign market
- E.g. Coca entering Indian food and beverage industry



- Greater wealth and knowledge of internationalizing
- E.g. Nestle, who have over 200 subsidiaries in 100 countries

Large firms have monetary resources to withstand periods of negative performance

Market Entry

- Greater risk in entering market with small amount of previous entries from foreign firms
- Great long-term rewards

General Motors

- Entered Chinese market in 1907 and captured away first mover advantages by 2010



Reuters/Philips, 2011

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What issues should a firm consider when deciding on which markets to enter? Why?

Firms should address 3 issues (basic entry decisions)

- Which foreign markets to enter
- When to enter (time timing of entry)
- On what scale they should enter the market

Basic Entry Decisions Which foreign markets to enter?

• The choice must be based on an assessment of a nation's long-run profit potential

• The more than 200 nation-states in the world do not all hold the same profit potential for a firm contemplating foreign expansion (PILL, 2013, p.485)

• The attractiveness of a country depends upon balancing the benefits, costs, and risks associated with doing business in that country

These include:

- Size of market
- Wealth and economic wealth of the consumers in the market
- Economic growth rates
- Political stability
- Type of economic system (i.e. market, command, mixed)

Size of market

China: Population 2.3 billion India: Population 2.2 billion

Over the last 20 years, China has developed a strong presence in the international market, India is making moves to the global market and will overtake China in the next few years (Hart, 2013, p.485)

• People spend money and buy goods and services, therefore a market composed of people. This means that the more people there is in a country, the more likely it will be a large market. However, there is a catch, just because a market is big in terms of the population, this doesn't necessarily make it attractive.

Type of economic system

MARKET ECONOMY

In a market economy, a producer makes and distributes goods and services in response to the demand of the market. The goods will be produced in response to the demand of the market.

COMMAND ECONOMY

In a command economy, the government owns the means of production and distributes goods and services in response to the demand of the market. The goods will be produced in response to the demand of the market.

MIXED ECONOMY

In a mixed economy, certain means of the country are owned by the government and certain means are owned by private individuals. The goods will be produced in response to the demand of the market.

• If a firm is a business and it is looking to expand internationally, it is looking to expand into a market which offers a profit. It is looking to expand into a market which offers a profit.

Political Stability

Political risk is the risk that a country's political environment will change in a way that will negatively affect the firm's ability to do business in that country.

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The value an international business can create in a foreign market

Another important factor is the value an international business can create in a foreign market. This depends on the suitability of its product offering to that market and the nature of indigenous competition. If the international business can offer a product that has not been widely available in that market and that country is a good match, the value of that product to consumers is likely to be much greater than if the international business simply offers the same type of product that indigenous competitors and other foreign firms are already offering.

Once an attractive market(s) has been identified, when should a firm enter that market(s)? Why?

First mover advantages

establishing a strong brand name, build up sales, gaining cost advantage

ING



ING, 2015

European Insurance Company entered into US market on large scale

Demonstrated commitment to market attracting customers and distributors

Discovered other international businesses from entering market because posed a strong threat to their business

When First Mover Is Rewarded And When It Is Not

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Small - Scale Entry

- Smaller risks for firms
- Reduction in long-term rewards

Advantages

- Time to learn about foreign market
- Reduces company exposure

Disadvantages

- Difficulties in building market share
- Limiting further growth potential
- Does not allow for first-mover advantage

Advantages for Large Firms

- Greater amount of resources allow for higher possibility of conquering foreign market
- Coca-Cola entered Indian food and beverage industry
- Greater wealth and knowledge of internationalizing
- C.J. Ramo, who was once Coca-Cola's top executive, said: "The most important reason for our success in India is our significant reputation in the country."
- Large firms have statutory rights to additional periods of negative performance



July 2019

Market Entry

- Greater risk in entering market with small amount of previous entries from foreign firms
- Great long-term rewards

General Motors

- Entered Chinese market in 1997 and captured many first mover advantages by 2010



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Firms should assess 3 factors (first: every decision)

- Which foreign markets to enter
- When to enter them (timing of entry)
- On what scale they should enter the market

Basic Entry Decisions Which foreign markets to enter?

- The choice must be based on an assessment of a nation's long-run profit potential
- The more than 200 nation-states in the world do not all hold the same profit potential for a firm contemplating foreign expansion (Hill, 2013, p.456)

The attractiveness of a country depends upon balancing the benefits, costs, and risks associated with doing business in that country. These include:

- Size of market
- Present and future wealth of the country in the market
- Economic growth rates
- Political stability
- Type of economic system (i.e. market, command, mixed)

Size of market

- China Population 1.3 billion in 2018. Population 1.3 billion
- China has developed a strong presence in the international market. India is making waves in the global market with over 1.2 billion in 2018 (Hill, 2013, p.456)

People spend money and buy goods and services, therefore a market consists of people. This means that wherever there are a large number of people, there will be a large market. However, there is a catch. Just because a market is big in terms of its population, this doesn't necessarily make it attractive.

Type of economic system

- MARKET ECONOMY: In a free market economy, the products and services are produced and sold in a free market. The goods and services that a country exports to other countries are sold in a free market.
- COMMAND ECONOMY: In a command economy, the government owns the goods and services that a country produces, the goods and services that a country exports to other countries are sold in a command economy.
- MIXED ECONOMY: In a mixed economy, the government owns the goods and services that a country produces, the goods and services that a country exports to other countries are sold in a mixed economy.

Political Stability

- Political stability is the state of a country where there is no significant risk of a change in the government. It is a measure of the stability of a country's political system.
- Political stability is a key factor in determining a country's attractiveness to foreign investors. A country with a stable political system is more likely to attract foreign investment than a country with an unstable political system.
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Economic growth rates

- Economic growth rate is the rate at which a country's economy is growing. It is a measure of the rate at which a country's economy is growing.
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Another important issue is the value an international business can create in a foreign market. This depends on the relationship of its product offering to that market and the nature of indigenous competitors. If the international business can offer a product that has not been widely available in that market and that satisfies an unmet need, the value of that product to consumers is likely to be much greater than if the international business simply offers the same type of product that indigenous competitors and other foreign entrants are already offering.

Once an attractive market(s) has been identified, when should a firm enter that market(s)? Why?

First mover advantages

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Large Scale Entry


- Requires the commitment of significant resources
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ING



ING, 1915

- European Insurance Company entered into US market on large scale
- Demonstrated commitment by market, attracting consumers and distributors
- Encouraged other international businesses from entering market because posed a strong threat to their business



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Firms should address 3 factors (basic entry decisions)

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- When to enter them (timing of entry)
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Basic Entry Decisions

Which foreign markets to enter?

- The choice must be based on an assessment of a nations long-run profit potential**
- The more than 200 nation-states in the world do not all hold the same profit potential for a firm contemplating foreign expansion**
(Hill, 2013, p.486)