Which Foreign Markets

- Politically stable nations: Free market systems with no dramatic upsurge in inflation or private sector debt.
- Speculative financial bubbles have led to excess borrowing in politically unstable developing nations.
- Mixed or command economies:

Timing of Entry

- First-mover advantage:
  - Preempt rivals and capture demand.
  - Build sales volume.
  - Move down experience curve before rivals and achieve cost advantage.
  - Create switching costs.
- Disadvantages:
  - First mover disadvantage - pioneering costs.
  - Changes in government policy.

Scale of Entry and Strategic Commitments

- **Strategic Commitments** - a decision that has a long-term impact and is difficult to reverse.
- Large scale entry:
  - Commitment of significant resources.
  - Easier to attract customers (will remain in market).
  - May cause rivals to rethink market entry.
  - Fewer resources to commit elsewhere.
  - May lead to indigenous competitive response.
Scale of Entry and Strategic Commitments

**Small Scale Entry:**
- **Plus:**
  - Time to learn about the market.
- **Minus:**
  - Limits company exposure.
  - May be difficult to build market share.
  - Difficult to capture first-mover advantages.

Entry Modes

- Exporting
- Turnkey Projects
- Licensing
- Franchising
- Joint Ventures
- Wholly Owned Subsidiaries

**Turnkey Projects**

- **Advantages:**
  - Can earn a return on knowledge asset.
  - Less risky than conventional FDI.
- **Disadvantages:**
  - No long-term interest in the foreign country.
  - May create a competitor.
  - Selling process technology may be selling competitive advantage as well.
Wholly Owned Subsidiary

- Advantages:
  - No risk of losing technical competence to a competitor.
  - Tight control of operations.
  - Realize learning curve and location economies.
- Disadvantage:
  - Bear full cost and risk.

Selecting an Entry Mode

<table>
<thead>
<tr>
<th>Technological Know-How</th>
<th>Management Know-How</th>
<th>Pressure for Cost Reduction</th>
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<tbody>
<tr>
<td>Wholly owned subsidiary, except: 1. Venture is structured to reduce risk of loss of technology. 2. Technology advantage is transitory. Then licensing or joint venture OK.</td>
<td>Franchising, subsidiaries (wholly owned or joint venture).</td>
<td>Combination of exporting and wholly owned subsidiary.</td>
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