II B.A (EM) / SUB: TRADE DOCUMENTATION / UNIT: I

Foreign Market Entry Strategy:

1. DIRECT OR INDIRECT EXPORTING

Introduction

With so many options for market entry, it can be difficult for organizations to decide which strategy will be the most successful at meeting their objectives. Different markets and industries require different approaches. To select the best strategy, organizations must consider the markets they have selected, the products or services they wish to sell and their overall aims for international trade. The range of elements to consider might seem daunting, but without a full analysis of the situation for each potential market, an organization might select an inappropriate strategy. Two of the most popular strategies are direct and indirect exporting. Which one, if either, would make the most sense for your business?

1. What is direct exporting?

Direct exporting involves an organization selling goods directly to a customer in an international market. Organizations can sell to a wide range of customers, some of whom act as intermediaries in the target market. Even if an intermediary is involved, the export is still direct because the intermediary is a customer based in the target market. Some of the most important customers for direct-exporting organizations include importers, wholesalers, distributors, retailers, government procurement departments and consumers themselves.

2. Advantages and disadvantages of direct exporting

Advantages:

Direct exporting as a market entry strategy has its advantages. The organization: Controls all its manufacturing processes, which are based in its facilities, thus avoiding the risks associated with production overseas (e.g. poor production standards, use of child labour) and the risks associated with political instability in a foreign market.

Can withdraw from the market relatively cheaply and easily, if needed.

Can obtain in-depth information about trade in the target market, enabling it to make future decisions about whether to invest in facilities in the market However, direct exporting can be difficult, especially for organizations new to international trade.

Disadvantages:

The need to invest significantly in researching market information and preparing marketing strategies. A lack of exporting skills and experience leading to expensive errors.

The difficulties breaking into target markets in trade blocs.

The difficulties the exporting organization will have when the domestic currency is very strong against the target market's currency.

The inability to rely on intermediaries, who will be representing other organizations and may not operate in the best interests of the exporting organization

3. When is direct exporting a suitable strategy?

Direct exporting is a simple entry strategy that might be suitable for organizations that want to expand their market share or maximize profits.

An organization of any size can start direct exporting activities, but not all will have the necessary resources in terms of skills, knowledge and finances. Direct exporters must make the export sale, arrange for shipping and insurance, organize permits and licences, prepare all the paperwork and process the letter of credit that provides for payment. These tasks are time consuming and require skill to be performed correctly—mistakes can result in serious business losses. Considerable time must also be spent researching the market so goods and services can be promoted and priced appropriately.

Direct exporting can be very successful if the selected market is readily accessible and has similar regulations and customs to the organization's country. If the target market has different regulations, legal systems, cultures or ways of conducting business, and the organization is inexperienced in international trade, direct exporting might be very difficult and risky. In these situations, organizations should consider another strategy.

Depending on the market selected, the distance goods must be transported and the means of transportation, direct exporting can make goods too expensive for customers to purchase. These factors might also seriously impact profits made in the market.

A direct exporter of products must assume responsibility for all losses during shipping and storage overseas. Substantial amounts must be invested in marketing and sales activities, and there is a risk that these expenses will not be recouped if the venture is not successful.

Political and economic instability in the market will also present the risk of business losses.

Direct exporting does provide the exporter with a lot of control over how the product is positioned and sold. It also presents an opportunity for high profits when markets are chosen carefully.

If an organization is interested in long-term growth in an international market, direct exporting can be a suitable entry strategy because it enables the organization to gain knowledge of the market and develop distribution channels.

4. What is indirect exporting?

Indirect exporting involves an organization sells to an intermediary in its own country. This intermediary then sells the goods to the international market and takes on the responsibility of organizing paperwork and permits, organizing shipping and arranging marketing. An indirect exporter can sell to the following intermediary customers: export houses (trading houses or export merchants, confirming houses, and foreign organizations based in the organization's country (buying offices).

5. Advantages and disadvantages of indirect exporting

Indirect exporting is the cheapest entry strategy available to an organization.

It is flexible, and exporting activities can cease immediately if required.

Its greatest advantage is that the intermediary organizations handle all the exporting activities. No exporting experience or skills are required; and the intermediary organization takes on all the risks associated with shipping and organizing payment from the international market.

The main disadvantage is that the control of activities overseas transfers to the intermediary organization.

Organizations interested in expanding into a target market will not gain valuable knowledge about how that market functions.

It is also impossible for organizations to establish after-sales service or value-added activities, and this can have an adverse effect on their reputation in a foreign country.

6. When is indirect exporting a suitable strategy?

This market entry strategy should be considered by organizations that want to enhance cash flow or increase profits. However, it will not be useful for those that want to develop long-term market share.

It is also not suitable for organizations with a service to sell rather than a product. This is because once the intermediary business has been identified, the organization does not have to worry about additional planning, marketing or expenses.

It is also a very useful strategy for organizations that cannot deal with considerable risk. With indirect exporting, the buyer assumes all risk associated with exporting and selling the product.

Organizations that choose an indirect exporting strategy must be able to make product adjustments as dictated by the businesses purchasing them. Buyers will also specify delivery times, levels of quality and packaging requirements. If an organization cannot meet these requirements, it can lose the deal with the buyer. Because the buyer takes responsibility for exporting and selling the goods, the organization has no control over the market its products are sold to, how they are sold, how they are marketed or the price obtained for them. This makes it an unsuitable market entry strategy for organizations that must control the export or marketing of their products to maintain their reputation. Organizations that are interested in modifying their products to meet demand in other markets will also find indirect exporting unsuitable, because they will be unable to develop direct contact with the end user.

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II B.A (ECONOMICS/ EM) / TRADE DOCUMENTATION/ UNIT-I

JOINT VENTURE

What is meant by Joint Venture?

Joint venture is a very common strategy of entering the foreign market. In the widest sense, any form of association which implies collaboration for more than a transitory period is a joint venture. Such a broad definition encompasses many diverse types of joint overseas operations, namely,

1. Sharing of ownership and management in an enterprise.
2. Licensing \ franchising agreements
3. Contract manufacturing
4. Management contracts

Three of the above have already been discussed in the preceding sections. The following paragraphs are confined to the first category refereed above, i.e. joint ownership ventures. What is often meant by the term joint venture?

The essential feature of a joint ownership venture is that the ownership and management are shared between a foreign firm and a local firm. In some cases there are

more than two parties involved. For example, Pepsiâ€™s Indian joint venture involved Voltas and Punjab agro industries Corporation.

A joint ownership venture may be brought about by a foreign investor buying an interest in a local company, a local firm acquiring an interest in an existing foreign firm or by both the foreign and local enterprise jointly forming a new enterprise.

It is also a common practice to split the local interest between a partner and public participation. Such a strategy may enable the international firm to retain much control despite a minority holding as the power of the remaining shares is spread out. Further, equity holding by the public would help the enterprise get some public support. Partnership with government organization may help to obtain favorable treatment from the government.

In countries where fully foreign owned firms are not allowed or favored, joint ventures is the alternative if the international marketer is interested in establishing an enterprise in the foreign market. Many foreign companies entered the communist, socialist and other developing countries by joint venturing.

Why Form a Joint Venture?

Usually, many people misinterpret Joint ventures as partnerships as they have some similarities. But the concept of JV is totally different from partnerships. The main purpose of a joint venture to be formed is for a single and combined project, Whereas a partnership is an activity joined by two or more people to form a business entity. In the case of a JV, different entities can join hands together to work on a single project. Though there are many other reasons for forming a joint venture, the above-mentioned one is the prime reason. The other few reasons for the joint venture are,

- **To get better exposure**
- **To merge resources**
- **To work for bigger clients**
- **To combine expertise**
- **To save money**

Examples of Joint Ventures:

The best examples of the joint venture are,

In the year 2011. two major giants **TOYOTA** and **FORD** have joined together with an aim of manufacturing **hybrid trucks**.

In a similar way, **SABMiller and Molson Coors Brewing Company** joined hands together to form **MillerCoors** whose main goal was to market their beer brand and make it famous all over the US.

Ford had set up a JV with Mahindra and Mahindra (M&M). It introduced the Escort and Fiesta models in India. The project involved a total outlay of Rs 2,700 crore. Ford own investment was to be in the range of $ 500-700 million. They project was to manufacture 20,000 vehicles initially and gradually increase its capacity. The cars were to be marketed both in India and abroad. Initially, the company manufactured vehicles using the production facilities of M&M. Ford purchased 5.87 percent of equity in M&M to begin with.

Honda Motor Company of Japan entered with SIEL of the Siddarth Shriram group as partner. The project was to manufacture 1500 cc cars to start with and add a small car later. The JV was named as Honda SIEL Cars India Ltd. Honda was to have 60% of the equity in the joint venture and SIEL the rest. The proposal envisaged an investment of Rs 860 crore over a seven year period. The equity base of the company was to be Rs 180 crore. The company was to manufacture 10,000 cars in the first year and increase to 30,000 units per annum by the third year. Honda-SIEL launched the Honda City a model, which was specifically developed for India.

Joint Ventures can be a mixed picture of success and failure. While some joint ventures are very successful, some face problems from the very beginning and in case of some others problems develop after a period of mutual benefit and success.

Types of Joint Venture:

The dictionary meaning of the word '**venture**' is a **hazard or a risk**. However, a joint venture in business deals with risk as well as benefits. A joint venture is an enterprise

that lasts for a finite time. There are several types of joint ventures, which a company can implement based on the firm. There is no fixed structure of the joint venture program. There are **two major types of joint venture** i.e. **insider and outsider joint venture** along with their variants. However, the joint venture partnership varies according to the contractor the agreement between the companies. An **international joint venture** is one of the most successful approaches to set up a business in foreign countries.

1. Insider joint venture:

The word insider means someone from the organization who has an access to the confidential information of the company's operations. Well, the term is almost similar when you include in the joint venture firm. Insider joint venture type allows joint effort of the people to focus on a single product. Each participant share an equal right, access, and contribution in operating various functions that need attention. Here the company can view any information, as it possesses equal rights. Some insider functions of joint venture include pooling the resources for efficient research and development, product examination facility, abundance space, etc.

2. Outsider joint venture:

If you think that being an outsider is referred to someone who is not an insider then you are right. Outsider joint venture means the same. Each participant of the outsider joint venture enterprise takes up a function relating to the product. However, the focus of each participant is limited to the function he or she is assigned to perform. For example, a company produces a product and implements the joint venture deal in it for the promotional purpose. Both the firms are equally involved in the same product however; the functions are different.

3. Marketing joint venture:

The word '**marketing**' is not a foreign term to you. Marketing refers to the promotional process of a certain product. In a marketing joint venture structure, two marketing companies come together to promote the product equally. A joint marketing venture can benefit in cutting down the individual cost and avails a better reach. Most of the large enterprises or firms implement this efficient technique. Benefits of a joint venture marketing include combined advertisement, co-hosting facilities for promotional seminars, etc. A joint venture is a flexible enterprise and you can choose its types, according to the requirement. The flexible nature depends and differs according to the contractual agreement between the participating organizations.

Advantages and Disadvantages of Joint Venture:

Advantages of Joint Ventures	Disadvantages of Joint Venture
Profit at low cost	Flexibility is restricted
Flexible nature	Assets and claims
Start-up push	Equal involvement is impossible
Shared costs, expenses, benefits, and risk	Rapport formation
Learning ground	

Advantages of Joint Ventures:

The joint venture brings along many advantages to the firm as long as the objectives are accomplished. Let us look at some of the advantages of a joint venture that are mentioned below.

1. Profit at low cost:

The joint venture is created to complete a certain task or a project. However, in a small-scale company, it is difficult to build up the machinery that the product needs. In the moment of need, the joint venture is the perfect solution. **For example**, if a company has a plan for the perfect product. However, due to the financial shortage, there is not enough machinery or resources available. At such a time, if another company, which is equipped, lends a hand in the form of a joint venture, then it becomes easier to produce.Moreover, if the product acquires success then both the companies can enjoy the profit.

2. Flexible nature:

By now, flexibility is the new favorite word in the corporate sector. The corporate world always looks out for the success and benefit. The joint venture enterprise runs around the word ‘flexible’. Here, by **flexibility**, I mean to say is that each participant has the freedom to continue with the individual business. The joint venture participants can only interfere with the participated project. Thus, during the term of the contract, participants can freely resume their business as long as they fulfill the needs mentioned in the agreement. This is one of the benefits of joint ventures.

3. Start-up push:

The credential is very important in the early stage of the business. However, if you have the perfect plans of production and other resources, the joint venture can be useful. Affiliating with a well-known brand can provide a good consumer base as well as

market credential and recognition. Moreover, for the other participant, this is the best way to enter into the foreign market. As some of the rules and regulation of places, prevent the foreign industries unless affiliated with the local brand.

4. Shared costs, expenses, benefits, and risk:

The joint venture brings along the boon of sharing. It is truly said that sharing is caring. In business, shared costs, expenses, benefits, and risks facilitate the company to flourish. Shared cost lessens the required financial burden. Moreover, the equal participation enables the company to focus on the betterment of the product. If the product receives appreciation in the market then the participants enjoy the profit. However, if the product fails to bring success then you should divide the loss according to the contract. This is one of the best joint venture benefits.

5. Learning ground:

An entrepreneur may acquire a qualifying degree but he also requires practical knowledge. However, practical knowledge comes with experience in any field. Thus, affiliating with a joint venture for a certain period or task gives experience and proves to be a benefiting factor for the present task. Moreover, the other party can provide a good consumer base and social contacts. There are innumerable advantages of the joint venture. However, the disadvantages also tag along in the process.

Disadvantages of Joint Venture:

Advantages may exceed the disadvantages, however; you should remember that sometimes faith and risk play the key role in the journey of success. Let us look at some of the disadvantages of the joint venture that are mentioned below.

1. Flexibility is restricted:

Flexibility is important however, some projects require full concentration and thus the simultaneous work may become impossible. In times like such the participants need to focus on the product of the joint venture and the individual businesses suffer in the process.

For example, If company A requires technological assets in joint venture then company B avails the facility. In the same time, if the company B requires those technical assets then he has to postpone the individual project for the time being.

2. Assets and claims:

This point will clarify the need for a proper joint venture agreement. It is required to mention the assets and involvement of the participants in order to prevent claims of the other parties. Thus, it is important to abide by confidentiality and royalty rules in the contract. This will save you in the future from legal troubles.

3. Equal involvement is impossible:

50/50 profit is ideal but it is impossible to maintain a 50/50 contribution. Let us make it easier by a simple example. If the Company A is planning the production process, whereas Company B is responsible for the production and the Company C is responsible for planning and implementing market strategies. Company A will not be involved in the production and promotion process, as a result, the pressure will be on Company B and C. Moreover, this will affect the individual business.

4. Rapport formation:

Disputes are one of the major problems that lead to various problems in the joint venture. In the corporate world, it is important to maintain relations. However, it is difficult to form rapport between people of a different culture as a result; it will hamper

the process of the completion of the task. Thus, the joint venture brings a bit of obstacle in the form of relationship maintenance. The joint venture is a perfect strategy for the entrepreneurs. Although it helps in expanding the company in the market it also requires experience and co-operation. However, the organization should always analyze and compare the joint venture advantages and disadvantages before implementing.

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LICENSING ARRANGEMENT-MEANING, ADVANTAGES AND DISADVANTAGES

MEANING

A licensing agreement gives a licensee rights to use a product that the licensor already owns. Numerous items can be part of a licensing agreement, including a trademark, a patent, or even branding. The rights of the licensee are fully outlined in the agreement for the license, which may allow them to sell items, use a trademark, or take advantage of a specific brand message.

The licensee is able to keep the profits earn by their use of the licensed items. In return, the licensor receives an agreed-upon royalty out of those profits for the ongoing use of their items. Most licensing agreements include a one-time upfront payment for access to the desired items as well. There are advantages and disadvantages to licensing for both parties to consider before finalizing their agreement.

TYPES OF LICENSING

Exclusive license

The broadest scope of licence that can be granted is an exclusive licence. An exclusive licence excludes the use of the property right licensed to everyone but the licensee. After granting an exclusive licence, the licensor is also often (but not always) excluded from continuing to use the licensed products within the territory of exclusivity. The licensor retains ownership but licences away everything else.

Sole license

A sole licence, once granted, prevents the licensor from licensing the rights to anyone else. The licensor retains the right to use the licensed products.

Non-exclusive license

A non-exclusive licence can be granted as often by the licensor to as many licensees as desired. Most commercial software licensed today is licensed on a non-exclusive basis.

ADVANTAGES OF LICENSING

1. It creates an opportunity for passive income.

If you are the owner of an intellectual property, then licensing it is an opportunity to create an ongoing stream of passive revenues. You don't need to do anything to generate those revenues either. Just sell licenses after developing the IP and you're good to go. As long as the licensees are making money, then you're going to be making money too and you don't risk losing your ownership rights. These payments could last for several years without interruption.

2. It creates new business opportunities.

A licensee can benefit from this type of arrangement because it requires less money from them to start a business opportunity. They can purchase a license instead of outright ownership, then begin to make profits right away. It takes less upfront cash to pay for a license. When a licensee can improve upon a product, they can make even more money off their venture. Even if the item wanted is a trademark or brand name, the new business benefits from the reputation and consumer awareness of the information.

3. It reduces risks for both parties.

Licensing is designed to reduce the risks involved in doing business for everyone involved. From a licensee standpoint, there are fewer risks in product development, market testing, manufacturing, and distribution. From a licensor standpoint, there are fewer risks in the selling and service of what is being offered. Neither party is required to throw their own money in these areas to earn profits, which creates a win/win situation for everyone involved.

4. It creates an easier entry into foreign markets.

When a licensing arrangement is in place, then the licensor is able to get their product into new markets much easier than if they were doing the work on their own. It is much easier to enter foreign markets in this manner, as the license allows for the intellectual property to jump border requirements. That means tariff barriers to entry can be avoided because a domestic company is using the IP, just as the licensor might be using the IP domestically.

5. It creates self-employment opportunities.

Licensing allows people to go into business for themselves. They get to experience all of the advantages of self-employment, such as setting their own hours, while you get the benefits of

having someone invested into your IP. From a licensee standpoint, there is the opportunity to gain a monopoly over a product or service in a specific territory at a lower investment rate that going alone. For the licensor standpoint, personal IP carries the same advantages as well.

6. It offers the freedom to develop a unique marketing approach.

A licensee knows their market much better than the average licensor. That knowledge allows an intellectual property to be marketed in a way that is more attractive to the average consumer. It is a chance to expand the reach of a message, product, or concept without actually needing to invest into them fully. Even when certain elements of the arrangement are pre-planned, there is still a certain level of freedom and control given to the licensee in the management of their business.

DISADVANTAGES OF LICENSING

1. It increases opportunities for IP theft.

Once you begin to license your intellectual properties and products, you are exposing yourself to higher levels of exposure. There will be more opportunities for theft, piracy, and misuse because you don't have full control over how the licensee conducts operations. You can police how your IP is being used to some extent, but you can't see everything that is being done. One slip-up is all it takes for your items to be distributed illegally, which means you don't see the royalties on the profits being made.

2. It creates a dependency upon the licensor.

When a licensing agreement is signed, then the licensee is taking on all the risk in the arrangement. They are dependent upon the quality of the IP being used to make their own profits. If they do a great job and earn plenty of cash, the licensor might ask for a renewal that costs more than the initial license. There is also no guarantee of exclusivity with many licenses, which means multiple businesses could be competing in the same marketplace, using the same tools and products, to generate revenues.

3. It creates added competition in the marketplace.

Many licensors have found that their licensees eventually become competitors in their own marketplace. That creates a difficult situation, as one company or the other stands to lose from the process of selling IP in the same way. For that reason, many licenses include geographic barriers to protect against a needlessly competitive marketplace. With internet access growing around the world, however, an e-commerce platform makes it easy to be competitive without intending to be.

4. It is offered for a limited time.

Most licenses are only offered for a limited time. Although that time period may be 5-10 years, there is an expiration date which must be considered by the licensee. Is it worthwhile to invest time, effort, and cash into the promotion of goods or services that may not be available to them at the end of the licensing period? Is there a guaranteed renewal rate for the license, especially if

the expiration date is fewer than 5 years? There must be a balance struck between royalties and revenues which makes sense for everyone involved.

5. It could damage the reputation of both parties.

When one element of the relationship is mismanaged with licensing, then both parties can see a reduction in the brand reputation of the IP involved. If multiple licenses are offered, then the reputation may suffer globally, affecting multiple businesses who are not involved in the situation. The only way to resolve this potential management is to have good quality management practices in place. That is why many license agreements include a series of best practices to follow, creating consistency within the brand across all licenses.

6. It is not a guarantee of revenues.

There is no guarantee that a licensing agreement will generate cash. You could agree to a specific royalty rate with a licensee, then never see anything because the licensee is unable to generate any sales. Many products don't get licensed either, even when they are offered at discounted rates, because there is no interest in the product. You might face returns of damaged merchandise as a licensor as well, which reduces your overall profits as well.

7. It takes time for royalty payments to arrive.

In a franchising agreement, royalties might be paid weekly out of the sales that are generated at the register. This can be an automatic process, withdrawn directly from a bank account or the batch sales created. For many licensing agreements, however, the royalty payments are offered just once per quarter. That means it could be 5-6 months before you see your first meaningful royalty payment as a licensor, even when your product is doing well in other markets.

8. It may lead to royalty litigation.

One of the biggest issues that licensors face with licensing agreements is a refusal by the licensee to validate royalty statements. They may not let you audit their statements at all for accuracy. This does allow you as the licensor to take legal action, but that tends to get very expensive, very quickly. For that reason, arbitration clauses are becoming a common component of licensing agreements. Some are even requiring ongoing royalty statement audits as a condition of the license continuing. The advantages and disadvantages of licensing can be managed when due diligence by both parties is performed before agreeing to anything. A licensing agreement can be beneficial because both parties get the chance to earn profits. It can also be detrimental if a license is over-extended or one of the parties acts in bad faith.