International Marketing

BMA6100-20

Hierarchical Market Entry Mode

Summary of the previous lecture

- We discussed 'Intermediate' market entry mode.
- It means entering a market through some forms of partnership.
- Examples include franchising, licensing, contract manufacturing, and joint venture (strategic alliance)
- Compared to export, it entails higher risk and requires more responsibility.

What is in this lecture?

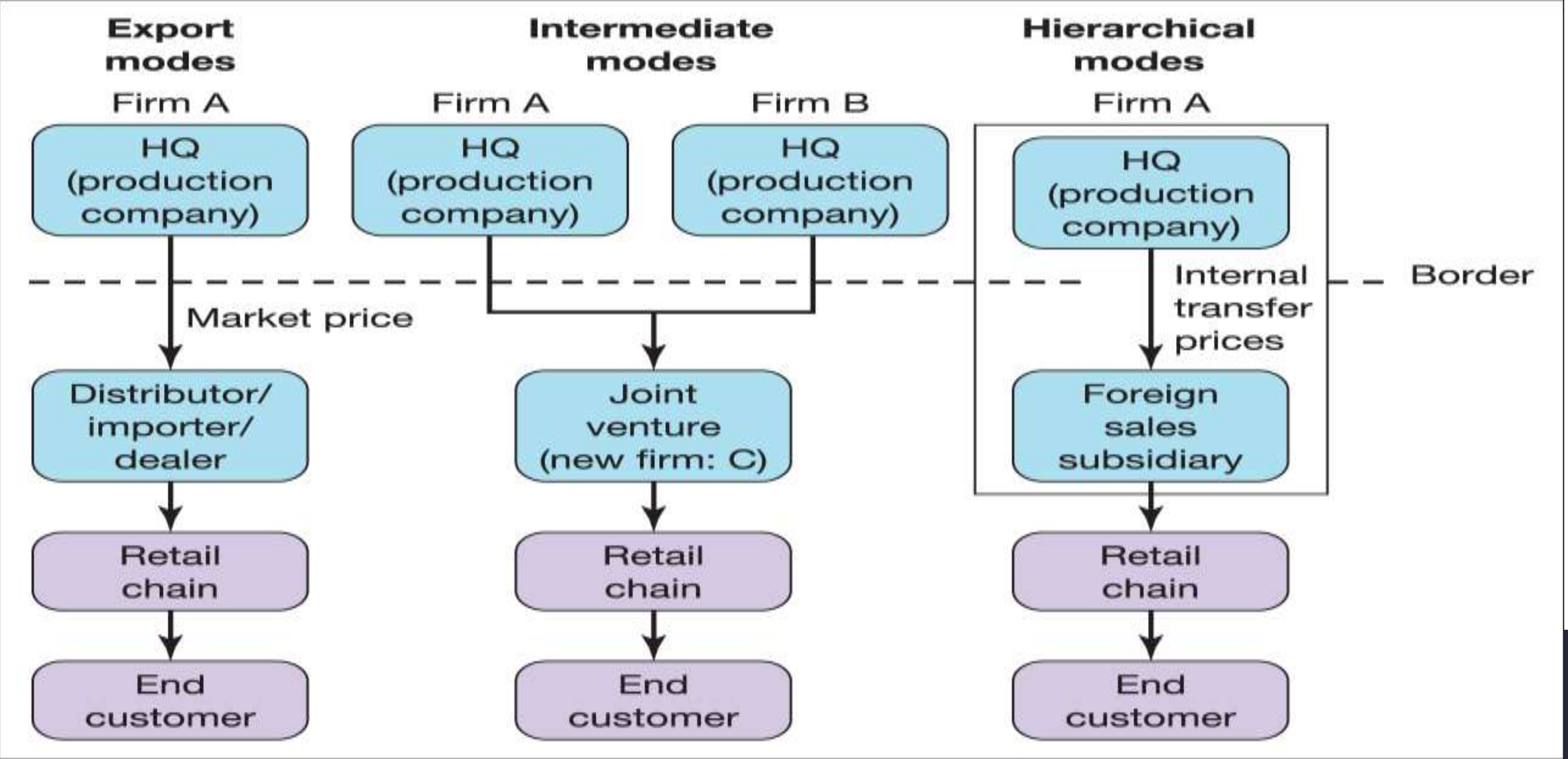
- Explain what hierarchical entry mode is about.
- Define and compare different forms of hierarchical market entry mode.
- Explain the pros and cons of each form of hierarchical market entry.
- Explain how the activities in the value chain process are managed in this form of internationalisation.

Hierarchical mode

- In this form of market entry, the firm owns and controls the foreign entry mode/organisation.

- This requires direct investment in the foreign country, except in the case of having own sales force in the foreign country.

Entry Mode Comparison



Internationalisation orientations

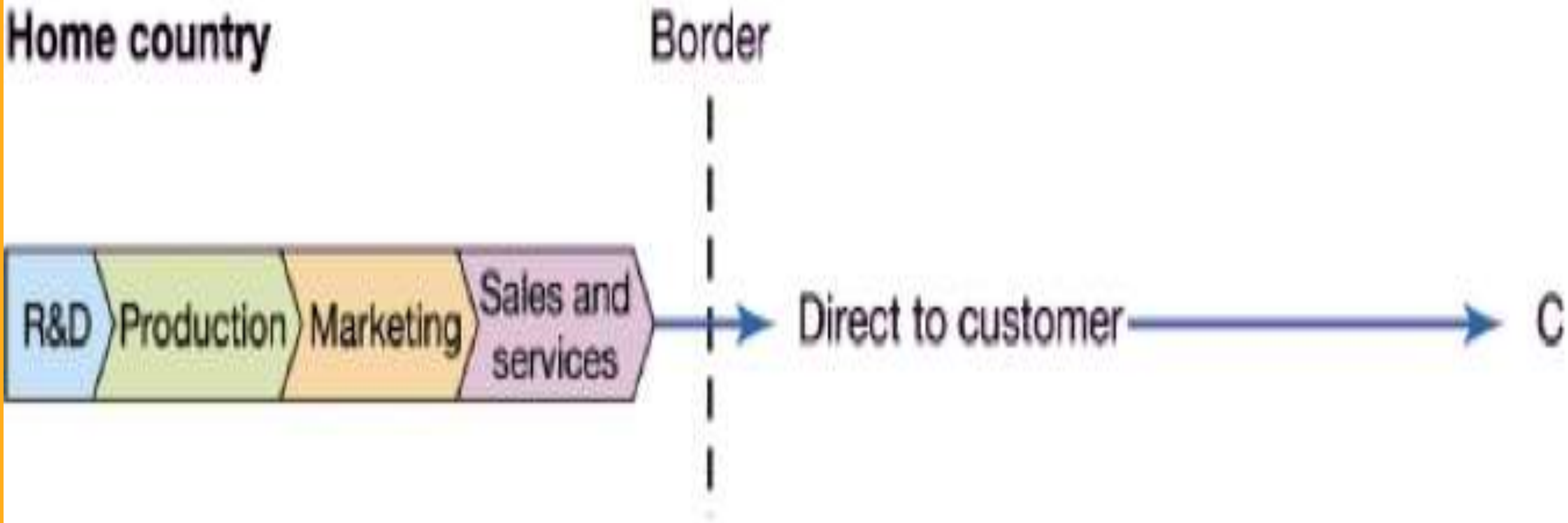
- **Ethnocentric orientation:** The marketing methods used in home country is extended to foreign markets.
- **Polycentric orientation:** Countries are so different that each of them should be managed differently and adapted marketing mix should be used.
- **Regiocentric orientation:** International marketing should be geographically focused.
- **Geocentric orientation:** Countries in the world consist of similarities and differences. It is possible to create transnational strategy that takes advantage of the similarities.

Internationalisation orientations

- **Ethnocentric orientation:** Don't change when you go to foreign places
- **Polycentric orientation:** Adapt to each *country*.
- **Regiocentric orientation:** Organise by regions "I cover EMEA".
- **Geocentric orientation:** Unify some things, localize others, like a transnational organisation

Types of hierarchical entry modes

- Domestic based sales representative
- Resident sales representative/foreign sales branch/foreign sales subsidiary
- Sales and production subsidiary
- Region centre
- Transnational organisation



Domestic based sales representative.

Domestic based sales representative

Foreign sales branch/subsidiary

Sales and Production Subsidiary

Region Centre

Transnational Organisation

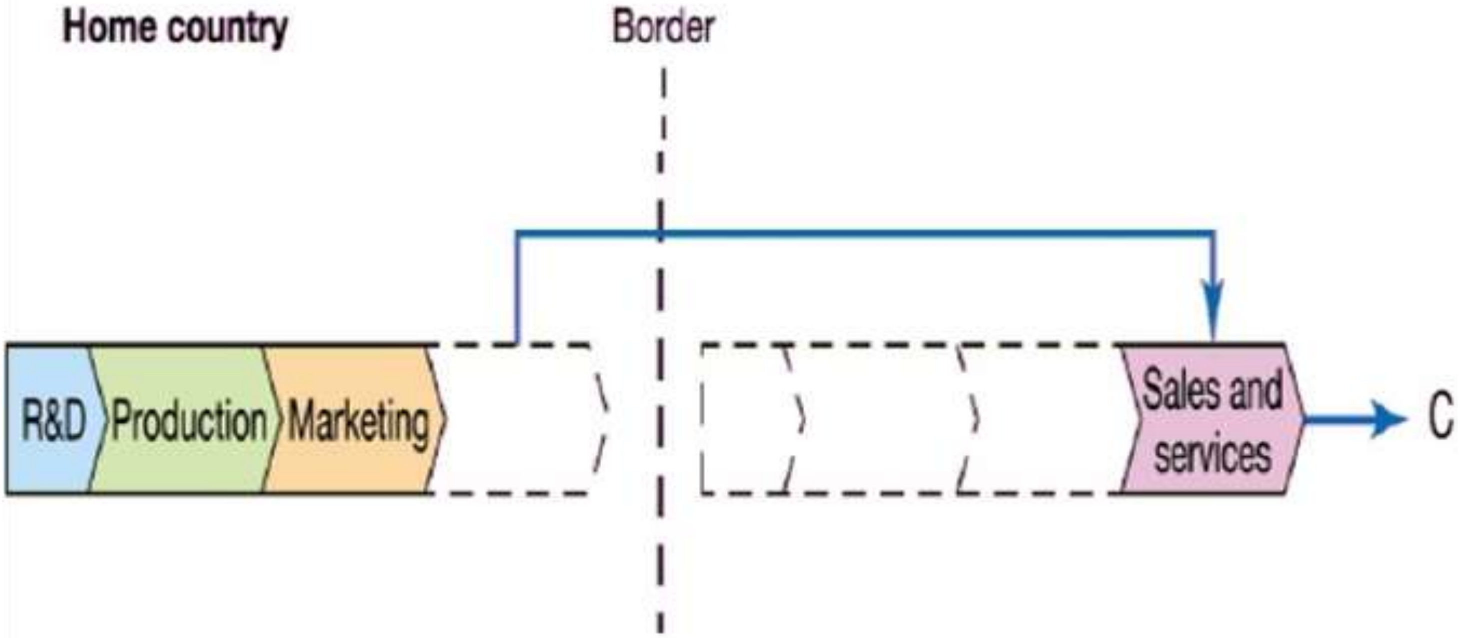
- The sales representative resides in the home country.
- In order to perform sales the representative travels to the foreign country.
- It normally occurs in B to B relationships.
- The number of customers are not many but they are large.

- Domestic based sales representative
- **Foreign sales branch/subsidiary**
- Sales and Production Subsidiary
- Region Centre
- Transnational Organisation

- If the product requires a lot of services and/or supply of parts, more established presence is required in the foreign country and domestic based sales representative is not effective.
- Foreign branch: It is an extension of the parent company in the foreign country. Sales people from the country of the manufacturer are appointed.
- Subsidiary: A local company owned and operated by a foreign company under the laws of the host country.
- https://www.youtube.com/watch?v=-z0aSJt96VM

Branch vs. Subsidiary

- One difference between branch and subsidiary is the way they pay tax.
- A branch may pay tax based on the profit of the parent company.
- A subsidiary pays tax based on the profit owned by itself.
- There are also liability & cost implications
- As always, the local country has a say
- Subsidiary has more autonomy than branch in sales operations.

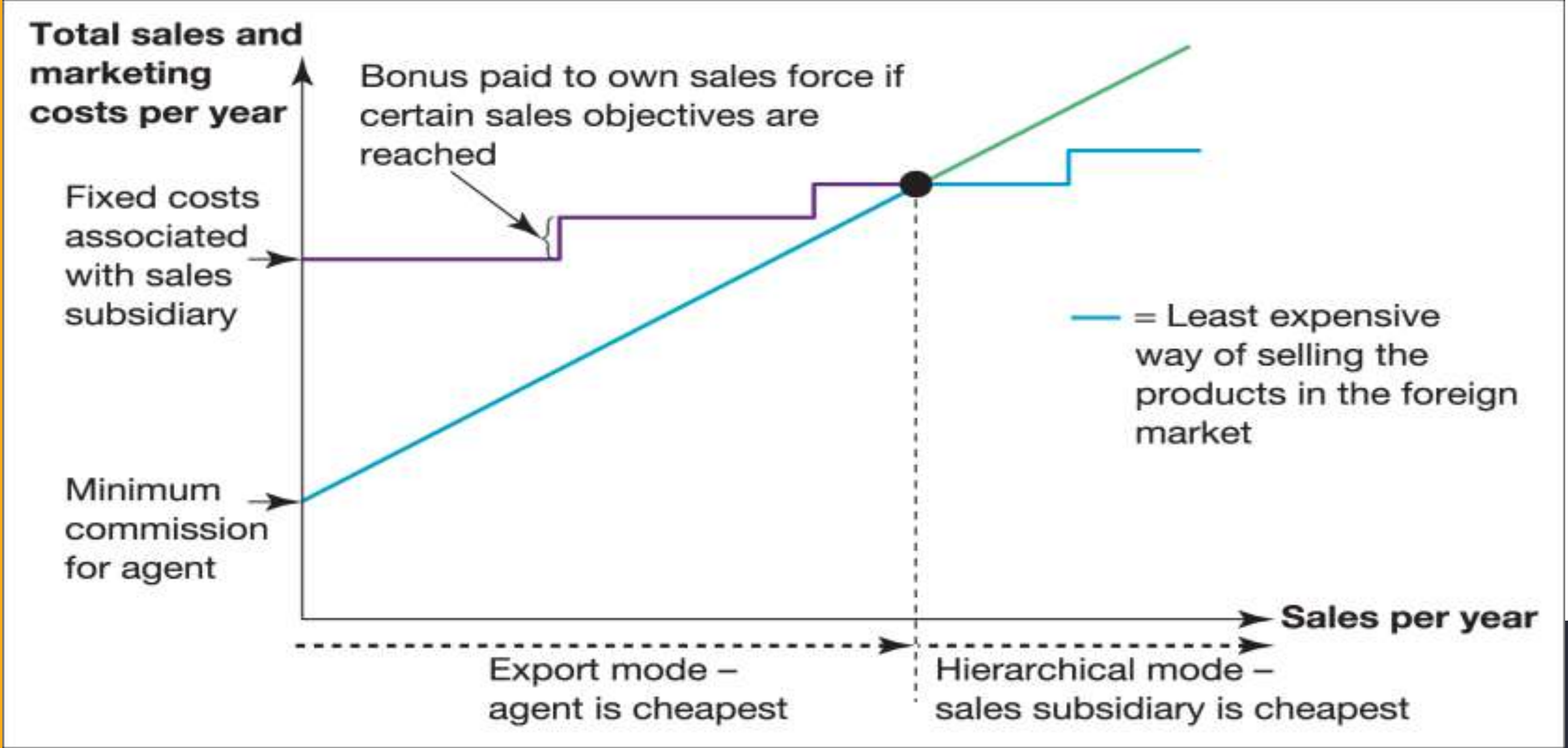

Home country
Border
R&D
Production
Marketing
Sales and services
C

Branch vs. Subsidiary

When should a company switch from local agent to subsidiary?

A cost perspective

Break-even shifting from agent to sales subsidiary



Domestic based sales representative

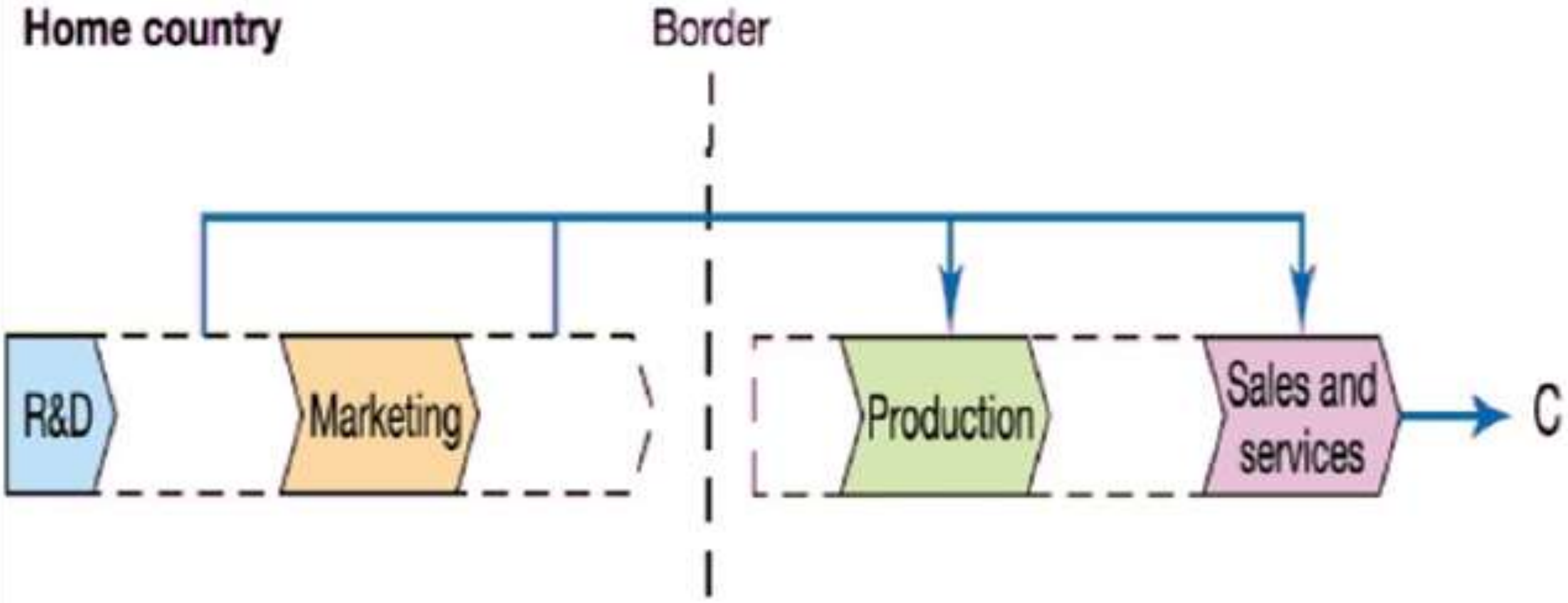
Foreign sales branch/subsidiary

Sales and Production Subsidiary

Region Centre

Transnational Organisation

- If the foreign country is predicted to be stable politically and have long term market potential, then production is also moved as well as sales.
- This form of internationalisation requires great deal of investment and management commitment.
- Withdrawal from the market is very costly.
- Examples: Nissan and Honda set up operations in the UK.
- Another option for firms is to have assembly operations in a foreign country.



Home country
Border
R&D
Marketing
Production
Sales and services
C

Google doesn’t sell ads in the UK

- In 2011, Google Ltd revenues of £396 million , but paid corporation tax of only £6 million.
- Google: “nobody in Google Ltd in the UK was selling Google products.”
- 1,300 staff
- Google: around 700 were marketing and digital consultancy, but not in sales.
- If the UK company had authority to conclude contracts and did, the UK company would be subject to UK tax on its profits earned from UK activities
- Not a 'permanent establishment‘?
- They are now paying £50m

Google UK pays just £50m of tax on revenues totalling £1.8bn, while staff are paid almost £1.25bn

The £50m payment follows years of controversy around the tech company's tax arrangements

Google UK's revenues increased by £206m to £1.8bn (Photo: Reuters)

Facebook's UK tax bill rises to £15.8m – but it is still just 1% of sales

Margaret Hodge MP says it is 'outrageous' how little tax the company pays in Britain

Facebook, Google and Microsoft 'avoiding $3bn in tax in poorer nations'

26 October 2020

Coronavirus pandemic

Google, Facebook and Microsoft should be paying more corporation tax in developing nations, says ActionAid.

Case study: Amazon’s EU tax arrangements

Amazon EU

Between 2006 and 2014 Amazon made most of its non-US revenue from its European operations.

Amazon Europe Holding Technologies (AEHT) Luxembourg

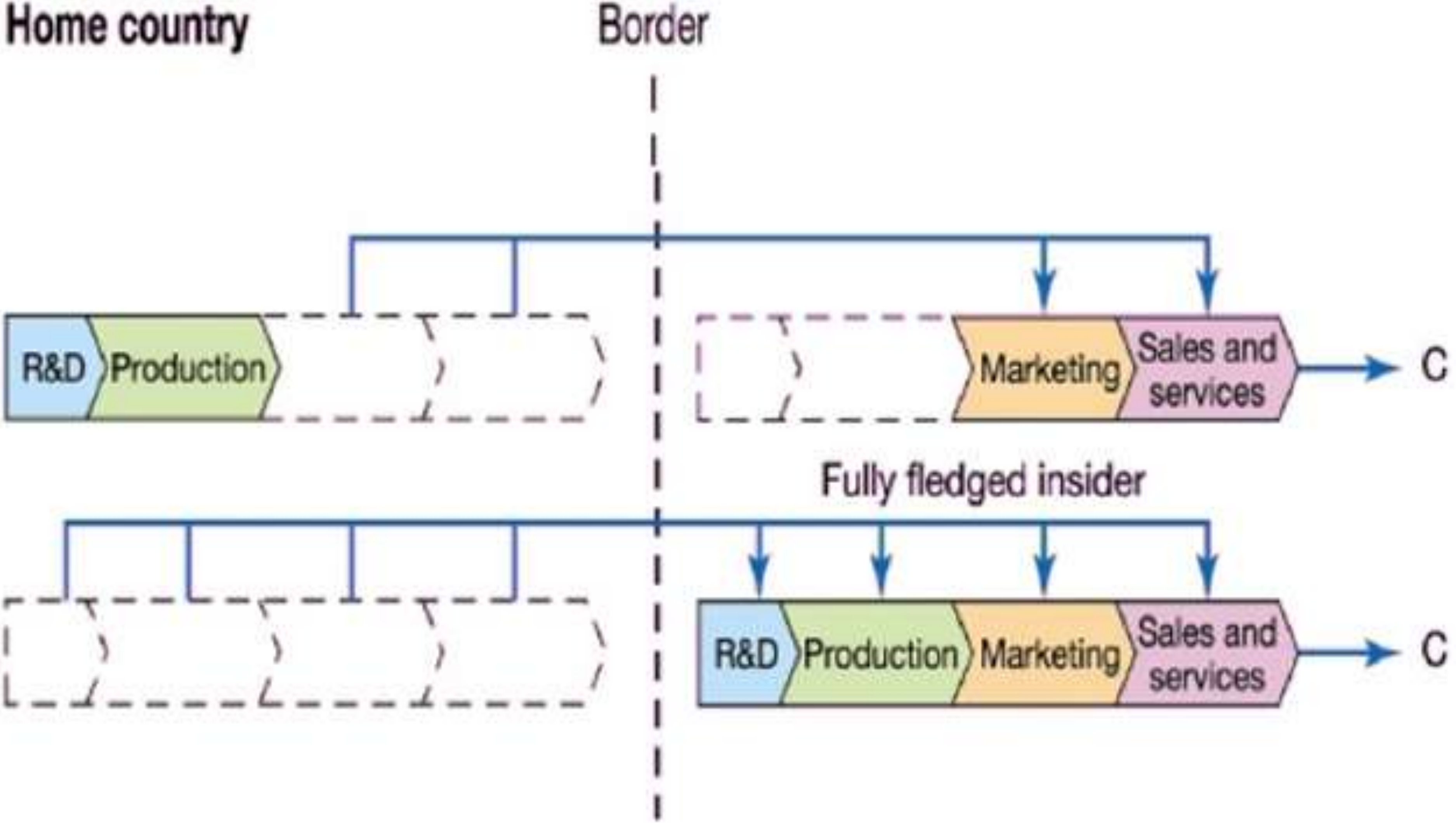
In that period, Amazon moved almost three quarters of its European revenue to a holding company in Luxembourg, which had a tax-free agreement in the country.

Amazon.com US

From Luxembourg, regular payments were made to Amazon in the US. The EU defined AEHT as an “empty shell”, incapable of generating actual profit.

- Domestic based sales representative
- Foreign sales branch/subsidiary
- Sales and Production Subsidiary
- **Region Centre**
- Transnational Organisation

- Similar to regiocentric ,
- A geographically focused start-up to serve a particular region.
- HQ for Europe, for example
- In this case, a regional HQ in a 'lead country' is appointed which coordinates the following:
- Corporate and subsidiary strategies are coherent.
- One subsidiary does not harm another.
- Synergy between corporate and subsidiaries.

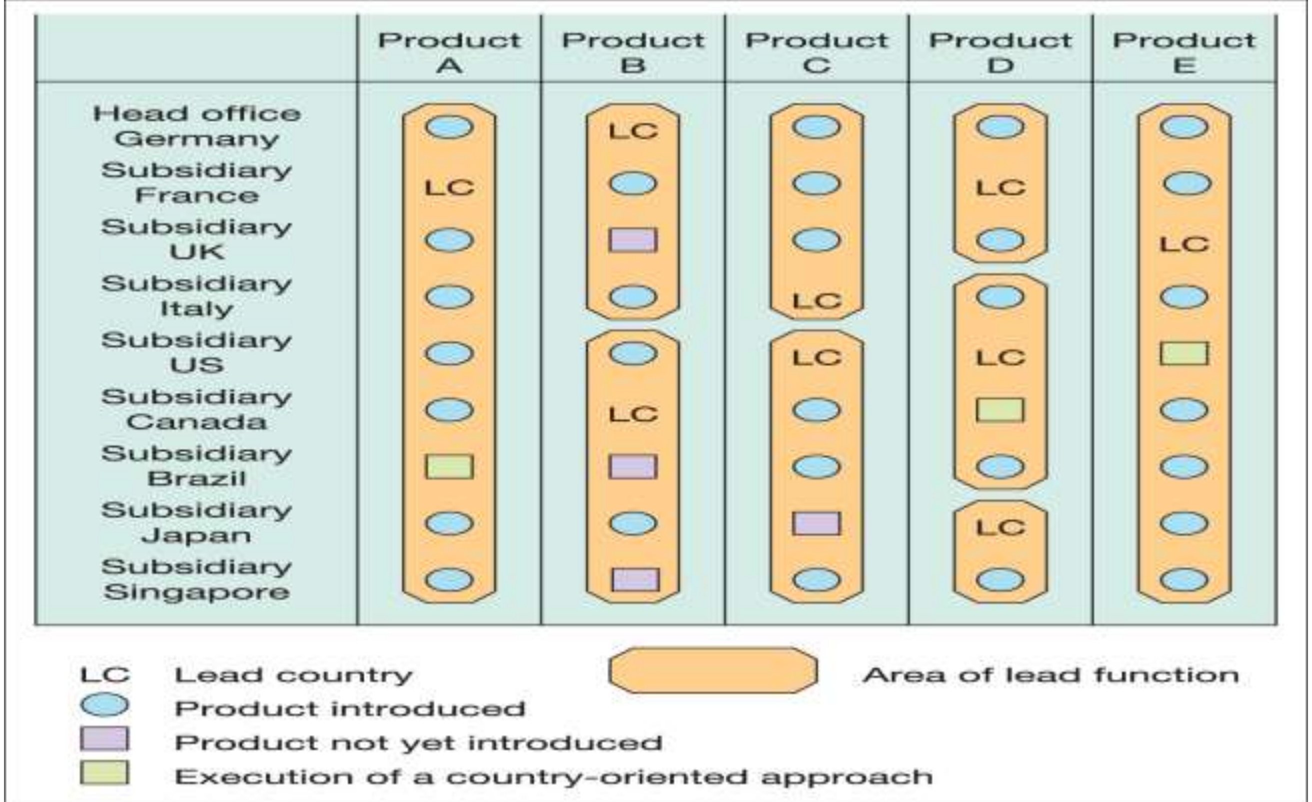


Home country
Border
R&D
Production
Marketing
Sales and services
C
Fully fledged insider
R&D
Production
Marketing
Sales and services
C

The Lead Country Concept

- One country in the region takes the leading position, from which the further development of the international strategy is carried out.
- It can vary by product range

The Lead Country Concept

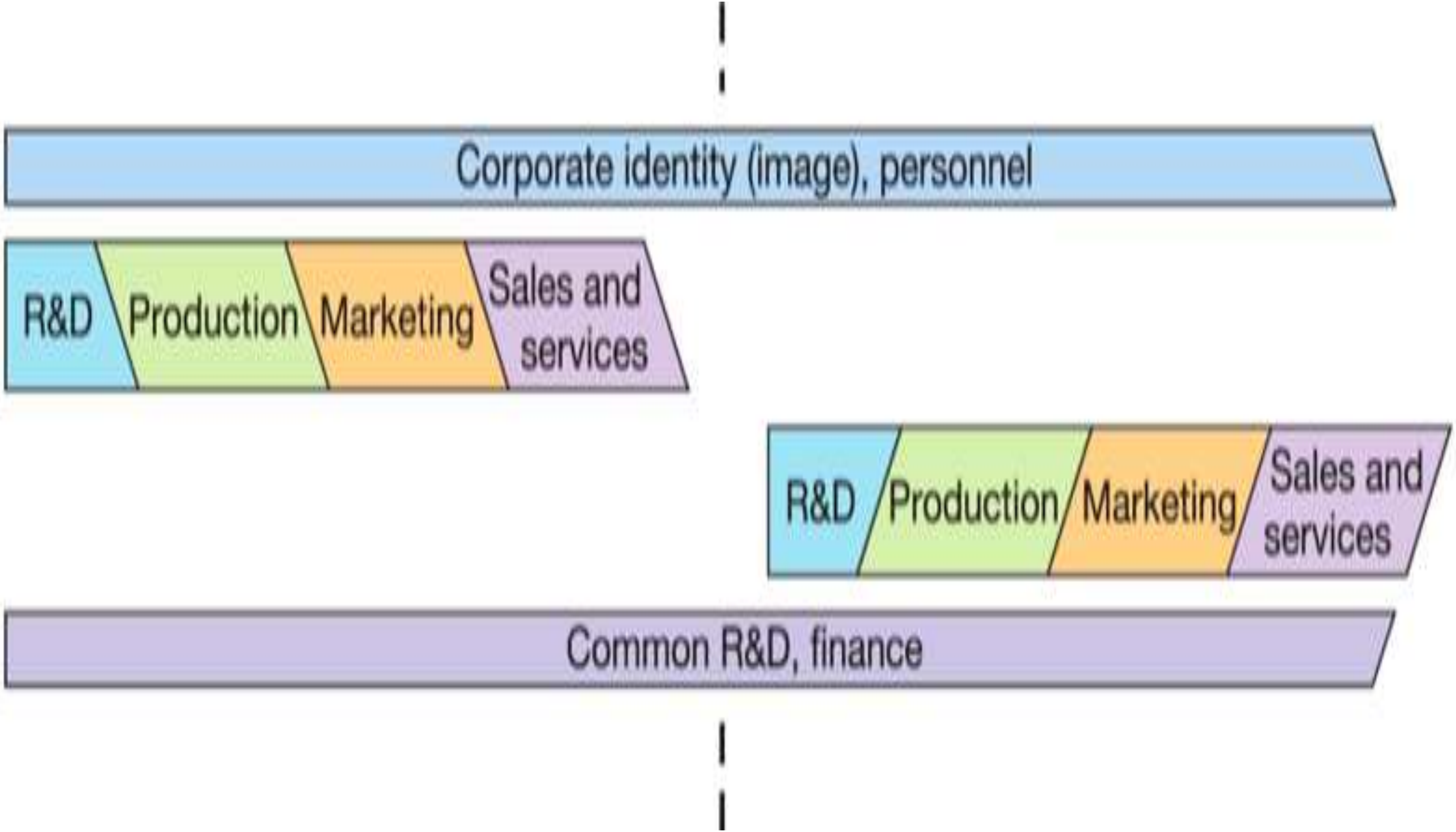


Factors of choosing the lead country?

- The marketing competences of the foreign subsidiaries.
- The quality of human resources in the countries represented.
- The strategic importance of the countries represented.
- Location of productions.
- Legal restriction of host countries.
- Internal politics

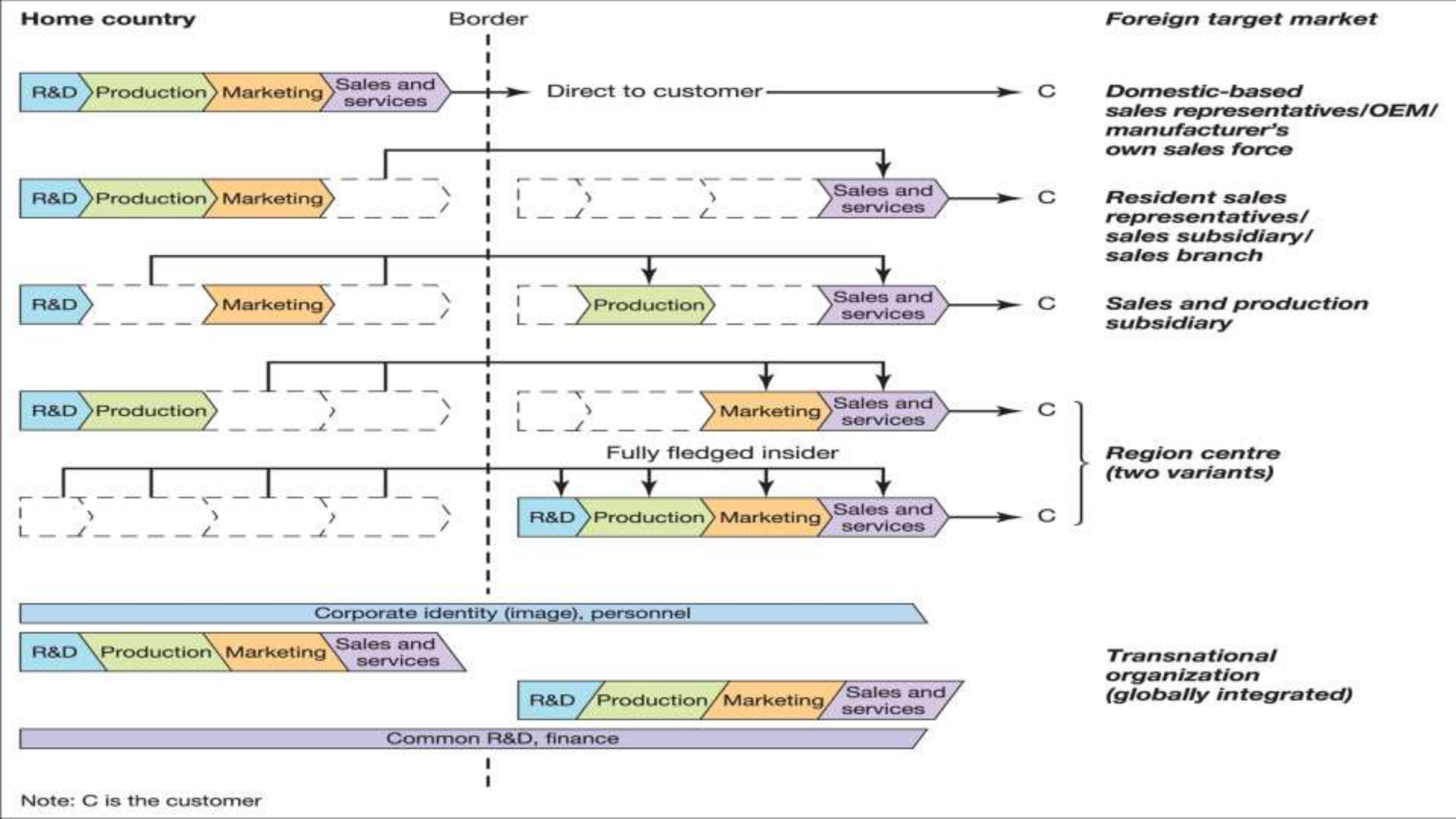
- Domestic based sales representative
- Foreign sales branch/subsidiary
- Sales and Production Subsidiary
- Region Centre
- **Transnational Organisation**

- The final stage of internationalisation.
- All activities of value chain (R&D, production, marketing, sales and services) are integrated and coordinated across national borders to achieve synergies on global scale.
- One objective is to create a global brand.


Corporate identity (image), personnel
R&D
Production
Marketing
Sales and services
R&D
Production
Marketing
Sales and services
Common R&D, finance

How to establish wholly owned subsidiaries

- Acquisition: Buying existing company in the foreign country. This provides rapid entry into the market and access to existing distribution channels.
- Greenfield investment: Sometimes due to difficulties with acquisition, it is preferred to establish a company/plant from the ground up.



Home country
Border
Foreign target market
R&D
Production
Marketing
Sales and services
Direct to customer
C
Domestic-based sales representatives/OEM/ manufacturer's own sales force
Resident sales representatives/ sales subsidiary/ sales branch
Sales and production subsidiary
Fully fledged insider
Region centre (two variants)
Corporate identity (image), personnel
Transnational organization (globally integrated)
Common R&D, finance
Note: C is the customer