The Selection of the Entry Mode in International Expansion Using MCDA Methods Belonging to the PROMETHEE Family

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Agenda

Introduction

Motives of international expansion

Stages of international expansion strategy

Entry mode selection

Case study

Conclusions
International Expansion Strategy - stages:

1. Decision about international expansion of the company
2. Analysis of international environment and potential of the company
3. Selection of product/market
4. Choosing the entry mode
5. Preparation of market penetration marketing plan
6. Operations’ monitoring/strategy’s revision
7. Entry into foreign market
Why do companies go abroad?
Why do companies go abroad?

- Gain access to new customers,
- Spread business risk across wider market base,
- Obtain access to valuable natural resources,
- Need to achieve lower costs,
- Explore possessed resource and competencies better.
International Market Entry Strategy – stages

1. Decision about international expansion of the company
2. Analysis of international environment and potential of the company
3. Choosing the target product/market
4. Choosing the entry mode
5. Designing the marketing plan

Operations’ monitoring/strategy’s revision

Entry operation
How can companies enter into foreign markets?
Choosing the Entry Mode

**Export**
- Indirect
- Direct
  - Agent/distributor
  - Branch/subsidiary

**Contractual modes**
- Licensing
- Franchising
- Management contracts
- Turnkey contracts
- Contract manufacture

**Investment modes**
- Solo venture (WOS)
- Joint venture
Alternative entry modes depending on resource commitment, level of control and risk

- Indirect export
- Contract manufacture
- Agent/Distributor Export
- Turnkey contracts
- Licensing
- Franchising
- Branch Export/Subsidiary
- Joint Venture
- Wholly-owned subsidiary

Resource commitment: low to high

Control, risk: low to high
Decision framework for the choice of entry mode

- Target country industry factors
- Target country environmental factors
- Company factors
- Company product factors
## Factors affecting the foreign market entry mode decision

### Target country environmental factors
- Market potential
- Production factors
- Cultural distance
- Geographical distance
- Government policies and regulations
- Property right systems
- External economic relations
- Political risk

### Target country industry factors
- Marketing infrastructure
- Competitive structure
- Demand uncertainty
- Entry and exit barriers
- Relations with suppliers and buyers

### Company factors
- Size of the company
- International experience
- Corporate strategy
- Generic Marketing Strategies
- Nature of the strategic assets

### Company product factors
- Product adaptation
- Life Cycle stage of the product
- Customer service level
- Technical leadership
- Product imagine/reputation
Enterprise of entirely Polish capital

One of leading manufacturers and suppliers of sanitary articles, cosmetics and medical devices

Composed of 51 companies

18 manufacturing companies (in Poland, Russia, Ukraine and India)

26 trade companies (in 14 European countries, India and the United States)

7 service (medical and IT) companies (in Poland and Russia)

Employing over 7.3 thousand of people

Selling its products in more than 75 countries worldwide (in Europe, Asia, Africa, America and Australia)

Cooperating closely with scientific institutions and manufacturing products using the most recent technologies
Case study - the company (2)

TZMO SA

CAPITAL GROUP

51 companies in 16 countries
distribution to 80 countries

FACTORIES

KOWALEWO POMORSKIE POLAND
BEREZAN UKRAINE
EGORIEVSK RUSSIA
TAMIL NADU INDIA

TRADE COMPANIES

LOGISTIC CENTRES

www.tzmo-global.com
# Entry mode assessment factors (I) - external factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Potential</strong></td>
<td>(population, urban population, GDP growth rate, GDP per capita)</td>
<td>high</td>
</tr>
<tr>
<td><strong>Production Factors</strong></td>
<td>(cotton production, labour cost)</td>
<td>high</td>
</tr>
<tr>
<td><strong>Geographical Distance</strong></td>
<td>(distance between the capitals in km)</td>
<td>high</td>
</tr>
<tr>
<td><strong>Cultural Distance</strong></td>
<td>(Cultural Distance Index)</td>
<td>high</td>
</tr>
<tr>
<td><strong>Political Risk</strong></td>
<td>(Political Risk Index)</td>
<td>high</td>
</tr>
<tr>
<td><strong>Government Policy</strong></td>
<td>(investment climate, import policy)</td>
<td>mostly unfree</td>
</tr>
<tr>
<td><strong>Demand Uncertainty</strong></td>
<td>(product-market development)</td>
<td>growth</td>
</tr>
<tr>
<td><strong>Marketing Infrastructure</strong></td>
<td>(modern trade density, number of outlets per thousand inhabitants)</td>
<td>poor</td>
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</table>
## Entry mode assessment factors (II) - internal factors

<table>
<thead>
<tr>
<th>Factor</th>
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<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Size of the Company</strong></td>
<td>(number of employees, sales turnover)</td>
<td>large</td>
</tr>
<tr>
<td><strong>International Experience</strong></td>
<td>(sales from foreign markets, number of markets, number of projects abroad)</td>
<td>high</td>
</tr>
<tr>
<td><strong>Corporate Strategy</strong></td>
<td>(corporate strategy; global vs. multidomestic)</td>
<td>mostly global</td>
</tr>
<tr>
<td><strong>Product Adaptation</strong></td>
<td>(product adaptation)</td>
<td>low</td>
</tr>
<tr>
<td><strong>Generic Marketing Strategies</strong></td>
<td>(generic marketing strategies; concentration vs. diversification)</td>
<td>mostly concentration</td>
</tr>
<tr>
<td><strong>Nature of the strategic assets</strong></td>
<td>(R&amp;D intensity, product technical complexity)</td>
<td>medium</td>
</tr>
<tr>
<td><strong>Life cycle stage of the product</strong></td>
<td>(PLC)</td>
<td>mature</td>
</tr>
</tbody>
</table>
**Approach**

- **EXPROM:**

- **PROMETHEE II with veto thresholds and stochastic dominances:**

- **EXPROM II with veto thresholds and stochastic dominances:**

- **PROMETHEE II with veto thresholds:**

- **EXPROM II with veto thresholds:**
## Model of preferences

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Vector of weights no. 1 (H&amp;S)</th>
<th>Vector of weights no. 2 (AHP)</th>
<th>Vector of weights no. 3 (Hinkle)</th>
<th>p</th>
<th>q</th>
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<tr>
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<td>0.1379</td>
<td>0.140</td>
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<tr>
<td>Production Factors</td>
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<td>0.1379</td>
<td>0.140</td>
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<tr>
<td>Geographical Distance</td>
<td>0.04</td>
<td>0.0305</td>
<td>0.013</td>
<td>0</td>
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<td>5</td>
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<tr>
<td>Cultural Distance</td>
<td>0.06</td>
<td>0.0520</td>
<td>0.070</td>
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<tr>
<td>Political Risk</td>
<td>0.09</td>
<td>0.0861</td>
<td>0.100</td>
<td>0</td>
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<tr>
<td>Goverment Policy</td>
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<td>0.013</td>
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<td>0.013</td>
<td>0</td>
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<tr>
<td>Generic Marketing Strategies</td>
<td>0.02</td>
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<td>0.005</td>
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<tr>
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## Rankings of the entry modes by PROMETHEE II with veto threshold

<table>
<thead>
<tr>
<th>No.</th>
<th>Vector no. 1</th>
<th>Vector no. 2</th>
<th>Vector no. 3</th>
<th>No.</th>
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<tbody>
<tr>
<td>1</td>
<td>Joint Venture</td>
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<td>1</td>
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<tr>
<td>2</td>
<td>Branch/ Subsidiary Export</td>
<td>Branch/ Subsidiary Export</td>
<td>Branch/ Subsidiary Export</td>
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<tr>
<td>3</td>
<td>Wholly Owned Subsidiary</td>
<td>Wholly Owned Subsidiary</td>
<td>Wholly Owned Subsidiary</td>
<td>3</td>
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<tr>
<td>4</td>
<td>Agent/ Distributor Export</td>
<td>Agent/ Distributor Export</td>
<td>Agent/ Distributor Export</td>
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<tr>
<td>5</td>
<td>Licensing</td>
<td>Licensing</td>
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<td>6</td>
<td>Indirect Export</td>
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<tr>
<td>No.</td>
<td>Vector no. 1</td>
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Thank you for the attention