**BACHELOR OF INTERNATIONAL BUSINESS**
**Year Three**
**Semester One**
**Export and Import Management**
**MRK 3126**

# MARKET ENTRY MODES

Exporting is an entry mode for foreign Market penetration in which production processes for a particular good or service happens in the country of the exporter and then finished products are shipped to another country for sale.

Exporting can be done Directly or Indirectly:

- Direct Exporting is export activity that is undertaken by the exporter through his/her own structures and systems.
- Indirect exporting happens when the exporter uses intermediaries to sell his products in the foreign market.

Indirect entry involves the use of intermediaries through;

- Piggybacking
- Licensing
- Franchising
- Distributorship
- Export Management Companies
- Consolidated importing and exporting

## Merits and Demerits of Exporting

Both direct and indirect exporting have merits and demerits.

## Merits of direct exporting

- There is elimination of the middlemen and their associated costs which makes the export business more profitable

- The exporter has control over his business instead of leaving it in hands of middlemen
- As the exporter does the export business, learning about the market is taking place and experience is gained for future export business dealings
- The business secrets such trademarks and patents are better protected
- There is direct contact and interaction between the exporter and the customers., this makes export marketing more effective and efficient
- It improves the company's agility to respond to changes in the export market so easily and faster
- The export product prices are always under control by the exporter because he eliminates the middleman's markup which usually escalates the price

**Demerits of direct exporting**

- It is quite engaging in terms of time and money allocated to direct exporting- at times middlemen are worth the cost
- For small firms, it puts a lot of strain on the human resource factor and demands more advanced skills in export business management
- The cost of maintaining visibility in the foreign market can be so high and prohibiting for business survival
- Customer complaints especially in the foreign market may not be acted upon swiftly
- Technical products may require constant interactions with the customers, which in the long-run may be difficult
- The exporter carries all the risks and in case of a loss, he/she bears it all.
- It also requires the exporter to be knowledgeable about export business, the practices in export business and how to deal with the challenges of exporting as a whole.

**Indirect exporting**: Indirect Exporting is when the exporters products are carried to the foreign market with the help of other market players other than him/herself or through his structures. These can be: Export agents /export management companies, Franchising agents, Licensing agents and Piggybacking.

**Merits of Indirect Exporting**

- It’s the safest way to start exporting considering the costs and the risks involved
- It demands minimum participation of the company employees
- In case the company has no expertise in exporting, indirect exporting is best recommended
- There is an opportunity to learn from the mistakes of others and perfect your turf for the future export business engagement
- Shipment and logistics handling is easier handled by the intermediaries- this shifts the risk and divides it between the exporter and the intermediary

**Demerits of Indirect Exporting**

- There is reduced profit
- No effective learning of the export trade on the side of the exporter
- There are possibilities of price escalation of the export product as the middlemen attempt to skim the highest profit
- There is also probability of creating a competitor unknowingly who could drive you out of business

| | Advantages | Disadvantages |
|---|---|---|
| **Direct export:** | direct customer contact | greater financial risks |
| | higher profit margins | investment of time and staff |
| | independence from foreign partners | limited market coverage |
| | | insufficient knowledge of market and culture |
| **Indirect export:** | no or very few extra staff required | lower profit margins |
| | agent knows and has access to the market and distribution channels | dependence on commitment of partner |
| | more complete market coverage possible | no direct customer contact |
| | smaller financial risks | |

## INDIRECT EXPORTING

### EXPORT MANAGEMENT COMPANIES

An EMC handles export operations for a domestic company that wants to sell its product overseas but doesn't know how (and perhaps doesn't want to know how). The EMC may help with coordinating advertising, marketing and promotions; overseeing marking and packaging; arranging shipping; and sometimes arranging financing.

In some cases, the EMC even takes title to (purchases) the goods, in essence becoming its own distributor.

EMCs represent others for commission or work as distributors that perform specific international business services. They usually focus on particular geographic regions where their expertise enables them to offer specialized services. EMCs have mainly two primary forms of operation; they perform services as agents or they take title to goods and operate internationally on their account.

When working as an agent, the EMC is primarily responsible for developing foreign business and sales strategies and establishing contacts abroad. Because the EMC does not share in profits, it depends heavily on high sales volumes from which the commission is paid. The EMC may thus be tempted to take on as many products and as many clients as possible so as to obtain high sales volumes. As a result, the EMC may spread itself too thin and may be unable to adequately represent all the clients and products it carries.

## Services Provided by an Export Management Company

- **Market Research and Strategy Development**: EMCs identify potential markets, analyze demand, and develop tailored export strategies.
- **Regulatory Compliance**: They ensure adherence to international trade laws, customs regulations, and documentation requirements.
- **Sales and Marketing**: EMCs promote products in foreign markets through targeted advertising and local partnerships, often acting as the client's international sales representative.
- **Logistics and Shipping**: They manage transportation, freight forwarding, and coordination of shipments to ensure timely delivery.
- **Financial Management**: EMCs assist with currency exchange, secure payment methods, and credit risk management.
- **Customer Support**: They provide after-sales services and act as a liaison between the manufacturer and overseas buyers.

## Advantages of using an EMC

- **Expertise in Global Markets**: EMCs possess deep knowledge of international trade practices, regulations, and market dynamics, helping businesses avoid costly mistakes.
- **Cost-Effective Expansion**: Instead of setting up a dedicated export department, businesses can leverage EMCs to minimize operational and staffing costs.
- **Comprehensive Services**: From market research and regulatory compliance to logistics and financial management, EMCs handle all aspects of exporting, saving time and effort.
- **Risk Mitigation**: EMCs help businesses navigate complex legal requirements and safeguard against financial risks like payment defaults or currency fluctuations.
- **Established Networks**: With connections to distributors, agents, and buyers, EMCs accelerate market entry and enhance product reach.
- **Focus on Core Operations**: By outsourcing export activities, businesses can concentrate on improving their products and domestic operations.

## How to Choose the Right Export Management Company

- **Industry Expertise**: Look for an EMC with proven experience in your industry. A company familiar with your product and its market trends can deliver tailored strategies and solutions.
- **Market Coverage:** Ensure the EMC has a strong presence or established networks in your target markets. Their local knowledge and connections will be instrumental in building a customer base.
- **Service Range**: Evaluate the services offered, such as market research, compliance management, logistics, and after-sales support. Choose an EMC that provides comprehensive solutions to meet your specific needs.
- **Track Record**: Assess the company's success stories and client feedback. A good track record of facilitating successful exports indicates reliability and capability.
- **Communication and Transparency**: Opt for an EMC that maintains clear communication, provides regular updates, and ensures transparency in processes and fees.

- **Cost Structure**: Understand the EMC's pricing model, including commissions or service fees, to ensure it aligns with your budget and profit margins.

## Challenges and Risks with Export Management Company

- **Loss of Control**: Relying on an EMC for critical export functions can lead to limited control over key decisions, such as pricing strategies, customer relationships, or branding in international markets.
- **High Costs**: EMCs often charge commissions or service fees, which may reduce profit margins, especially for small businesses with tight budgets.
- **Potential Misalignment of Goals**: An EMC may prioritize its profitability over the client’s long-term objectives, leading to conflicts in strategy or market focus.
- **Limited Transparency**: Businesses may face challenges in monitoring the EMC's activities, such as how products are marketed or represented abroad.
- **Dependency Risk**: Over-reliance on an EMC can be risky if the partnership ends abruptly or if the company fails to deliver as expected.
- **Reputation Risk**: The EMC acts as the business's representative in foreign markets, so any mismanagement or unethical practices by the EMC can damage the company’s brand reputation.

## PIGGYBACKING

This happens when one manufacturer (the carrier) uses its foreign facilities to sale another company’s products (the rider) alongside its own. Piggybacking is considered as an early form of strategic alliance where firms join together voluntarily, usually with no equity ties, to reach some objectives together that they cannot reach efficiently by themselves.

All types of products can be exported by this technique such as textiles, industrial and electrical machinery and equipment, chemicals and books etc. for example in the past, General electric and Borg Warner in the USA viewed piggybacking as a way of broadening the product lines they can offer to the foreign markets.

Other companies engage in this type of operation in order to improve decreasing export sales. Pillsburg company, for stance, first began to sell the products of other companies packaged foods, farm machinery when export sales of its flour began to decline. Finally, some companies actually seek out smaller manufacturers because piggybacking can be profitable.

### Advantages/Benefits:

The rider benefits:

Piggybacking provides an easy, low risk way for the rider company to begin export-marketing operations. It is especially well-suited for companies that are small, or that do not want to invest extensively in foreign markets. The only criteria necessary for piggybacking process is to produce quality products and to find a firm willing to carry the products.

Carrier Benefits:

The piggybacking option is one of the best ways to obtain a new product quickly. It requires minimum investments and the products are received with maximum speed. It also allows the carrier to allocate resources to other purposes and projects.

Since the rider provides a product already on the domestic market, the probability of the product to succeed in the foreign market is also high. The carrier gets access to a fully developed product that has been tested both commercially and technologically in the home market.

**Disadvantages:**

The rider can lose control of their products marketing abroad

Your reputation depends on your partner company

Difficult to Meet Growing Customer Demand: Sometimes, a piggyback strategy yields results beyond your expectations. That said, you may run short of resources to meet the increasing customer demand. This may force a business to install new production units and hire more workforce. On the other hand, if they fail to meet the consumer demand, it will leave a bad impact on both companies.

## DISTRIBUTORSHIP

A distributor (also known as a wholesaler) buys your product at a discount from the retail price and resells it to other companies. Distributors move large volumes of product and often with nation-wide economies of scale. Distributorship contracts are one of the most frequently used means for organizing the distribution of goods in a foreign country. Almost every company engaged in international trade has some distributors abroad, which means that most exporters will be faced with drafting an international distributorship agreement at some point.

## LICENSING

In an international licensing agreement, a firm, the licensor, grants the rights of using its patents and trademarks, technology, know how to another company abroad, which is the licensee. In return, the licensee agrees to pay a royalty or other form of payment, usually based on either production volume or sales, as agreed upon by the two parties.

In a broader sense, contractor defined licensing as a transfer of technology, which is a transfer of capability in production, management, or marketing. It includes the rights to use of patented information and trademarks in certain territories abdicated by agreement in favour of the licensee, information that is proprietary but not patented commonly called know how, services such as equipment installations, start-ups, testing, recruitment, management development etc.

As a form of market entry, international licensing is deemed as more risky than exporting but less risky than direct investments in a foreign country. The licensor exports its know how instead of products but does not invest any equities. There might be a number of reasons for a company to use licensing as a vehicle of tapping foreign markets.

a. Generating extra income from existing technologies and services they developed, spreading out the costs of their R&D projects.
b. Accessing markets that have been closed or protected.
c. Testing new markets before making capital investments.
d. Minimising risks in entering and expanding foreign markets.

Although a simple licensing agreement is limited to a patent, trademark, or know how, more complex licensing agreements include the delivery by the licensor to the licensee one or more of the following: a patented product or process, a trade name, manufacturing techniques, and other proprietary rights generally referred to as company or industry know-how, supply by licensor, to the licensee of components, materials, or equipment essential to a manufacturing process, technical advice and services of various sorts, market advice, and assistance of various sorts, capital and/or managerial personnel.

Although licensing offers advantages such as entering into a foreign market without capital investment, testing a foreign market, and receiving Know how without large capital investments, it is not free of some risks. The licensee might become a competitor, fail to pay royalties, imitate the technology or trade mark licensed, and sell the patent or trademark without consent of the licensor. The experience of many MNCs that licensed their patents or trademarks to a firm in a developing country shows that it is very difficult for the licensor to exert full control over the licensee's manufacturing and marketing operations. On the other hand, we can observe a more professional conduct in licensing agreements between two MNCs from industrialised countries.

**Franchising**

Franchising is a special form of licensing in which the franchisor grants the use of a brand name, trade mark, business system, and other property rights to a franchisee that agrees, in return, to pay a fee based on the volume of sales. In recent years, there has been an explosion of franchising throughout the world due to the expansion of major franchising companies such as Coca-Cola, Pepsi-co, McDonald's, Burger king, Kentucky Fried Chicken (KFC), Hilton Hotels and Holiday Inns. franchising works similarly to licensing except that franchising is considered a more continuous relationship between franchisor and franchisee. Also, the franchisor usually exerts more control over the franchisee to assure product or service quality. Moreover, it is common to see the franchisor mandating that the franchisee just buy equipment and some key ingredients from the franchisor. For example, McDonald's and Burger King dictate in their franchising agreements that the franchisees should buy from them the cooking equipment, patties for burgers and other company specified products. A variety of U.S. firms have embraced international franchising as a way to get their products into foreign markets. When combined with the phenomenal growth of emerging markets, international franchising as a business development strategy has proven to be incredibly successful for many companies.

## CONSOLIDATED EXPORT AND IMPORT

Consolidation refers to the process of combining multiple shipments from the same sender in a single larger shipment.

Cargo consolidation, also known as cargo groupage, refers to the process of combining and bundling multiple small (cargo) shipments from different shippers, consignees, or traders from the same country of export and purchase into a single larger shipment or container heading to the same destination, country, or point of final customs clearance.

Each of the individual shipments or cargo bundles is entitled to a House Bill of Lading indicating the true actual owner, cargo description, quantity, and weight of the cargo bundle or shipment. This individual House Bill of Lading is the title of ownership that a formal consolidator awards each individual shipment cargo bundle to prove a shipper, trader, and customer's ownership of that specific cargo. It is also the first document that enables the shipper, trader, or consignee to process their final tax clearances under the acceptable customs clearance procedure and take possession of their cargo.

**Why consolidation?**

Cargo consolidation is mainly done to optimize transportation efficiency and reduce shipping costs by sharing space and freight forwarding resources, resulting in economies of scale.

# The End