

## JUSTIFICATION OF INTERNATIONAL MARKET ENTRY STRATEGIES

Modern conditions of world economy's globalization have led to strengthening the role of strategy in the activities of competing companies on markets. The issue of choice and formation of a strategy of competitive behavior that would provide long-term victory not only at the national level but also on international markets becomes crucial.

The main reasons for companies to enter the world market usually are:

- the desire to develop new markets,
- gain access to the birthplace of natural resources of other countries,
- the need to achieve lower costs etc.

In any of these cases, the strategy of entering the world market must clearly correspond to the current situation. Particular attention should be paid to the extent to which consumer tastes and desires, sales channels, growth prospects, drivers and pressure of competitors in the world market differ from the conditions of the national market.

The study of literature has shown that each researcher pays attention to different elements and peculiarities of building strategy for international market entry. For example, K. Wach from Cracow University of Economics [2] investigates market entry modes, bringing theoretical database closer to practical realization.

In contrast, Xuemin Zhao and Reinhold Decker from the University of Bielefeld [3] fully dedicate their scientific work to analysis of theoretical approaches. They discover five basic theories on market entry mode decision with respect to existing strengths and weaknesses and the results of corresponding empirical studies.

C. L. L. Calegario and N. C. P. Pereira Bruhn [1] conduct their research with emphasis on agriculture and define major factors to determine the modes of entry. It is considered that choices are influenced by three types of factors: host country-specific factors and firm related variables divided in: firm-specific variables related to resource factors, firm-specific variables related to financial and performance factors.

As for host country-specific factors, the country's macro-economic and institutional environment may become source of competitive advantages of firms if they can internalize these features and transform them into strategic assets

As for firm-specific variables, the strategic decision to establish a subsidiary abroad is taken by the parent company in order to exploit firm specific advantages, to gain economies of scale or for other strategic reasons. Naturally, the subsidiary will be highly dependent upon the technical, managerial and financial resources provided by the parent company in its start-up stage. Some key factors related to firm have been traditionally utilized for explaining the firm's entry mode choice in foreign markets. They originated basically from the internalization theory which in this model incorporates the transaction cost issues [1].

Being such an important issue market entry mode choice became the object of numerous theories and models developed to understand and explain associated phenomena. Among these five basic approaches are particularly prominent and have been applied widely:

1. the Stage of Development (SD) model (Johanson and Paul 1975; Brooke 1986). The model asserts that the internationalization of SME is a long, slow, and incremental process with two dimensions: the geographical or rather cultural expansion and the commitment.

2. the Transaction Cost Analysis (TCA) model and extensions (Anderson and Gatignon, 1986; Erramilli and Rao 1993). Under the hypothesis that organizational structure and design are determined by minimizing transaction costs, they concluded that managers choose a specific mode of market entry which maximizes the long-term risk-adjusted efficiency.

3. the Ownership, Location and Internalization (OLI) model (Dunning 1977- 2000). The OLI theory stated that entry mode decisions are determined by the composition of three sets of advantages as perceived by enterprises: a) ownership advantages, b) internalization advantages and c) location advantages.

4. the Organization Capacity (OC) model (Aulakh and Kotabe 1997; Madhok 1998). The model argues that entry mode decision, the firm's boundary issue, is a capability related one, and it is made under a calculus governed by considerations related to the deployment and development of a firm's capabilities.

5. the Decision-Making Process (DMP) model (Root 1994; Young et al. 1989). It argues that entry mode choice should be treated as a multistage decision-making process. In the course of decision-making diverse factors, such as the objectives of the intended market entry, the existing environment, as well as the associated risks and costs, have to be taken into account [1].

In general, there are three types of entry modes for international market entry, defined by K, Wach [2].

The first group is called export modes, which concern the sphere of exchange and is dedicated to international trade, mainly by addressing export and import activities. Import of raw materials from abroad, is usually preliminary to export of products abroad. This phase is associated with low risk. The firm only realizes foreign orders as they are received. In most cases this is the only form of engagement (especially SMEs) in international activities. This phase is a natural consequence of growth and occurs when the firm after reaching all its capabilities in the domestic market and achieving an appropriate volume of production, as well as surplus production, aims to expand its market and start exporting. The motive of entering foreign markets is the ability to make profits in these markets, as the firm gains more and more profits in the domestic market. Exporting activities can take various forms, including: indirect export, direct export, as well as take other specific forms of exporting.

The second group – contractual modes - relates to cooperative relations implemented through contacts with foreign partners, mostly manufacturers. These modes include inter alia international licensing, international franchising, international subcontracting, buy also various assembly operations. Management contracting is a type of a knowledge-based service of management (know-how). A foreign firm acquires operational management services from a domestic firm, that after the execution of the contract usually does not plan to be present in the market, although it may turn out that gained experience will result in permanent presence in foreign markets. Contract manufacturing, also known as international subcontracting, is used by firms that hire part of its production outside the country, mainly in order to lower the cost of labor or raw materials.

Third group includes investment modes: the physical and the constant presence of international businesses in foreign markets by making the investment in the form of setting up their foreign branches or foreign subsidiaries (partially or fully depended). These modes are based on foreign direct investment. They provide lower production costs and a direct presence in a foreign market [2].

Taking into account all positive elements of mentioned researches, the essence of strategy itself is not clearly stated. We propose to define international competition strategies as models of behavior of competitors (enterprises, industries, regions, national economies), aimed at achieving long-term competitive advantage on the international market. It is also important to understand that strategy of international competition should be based on existing resources and be aimed at achieving the goal (s), taking into account the conditions of the environment in which a particular competitor operates. Specifics of competitive strategies is to achieve a long-term competitive advantage on the market.

It is worth mentioning, that there are certain reasons for the failure of competitive strategy on the international market:

- Misconception regarding the level of competition on the market; it should be borne in mind that a promising market is always characterized by high entry barriers.
- The desire to copy the behavior of other competitors; imitation of competitive behavior must be backed by similar competitive advantages.
- Wrong choice of market activity, both in geographical and consumer aspects; it is also important to choose a successful method of competition.
- Uncertainty of the duration of the competitive strategy; you also need to consider product life cycle, production technology, situation in the operating environment, etc.
- Consideration as an object of competition of the goods or its production. Experience of famous international firms shows that long-term victory in competitive relations is based on key competencies. Depending on the level of international competition, the key competence of the enterprise may be the accumulation and integration of existing flows of knowledge; generating new knowledge, skills and abilities capable of expanding the commercial potential of the enterprise and its consumer values; development of new directions of business.
- Unawareness of employees regarding the competitive strategy. Lack of awareness and employees' interest in the victory of their firm in competitive relations makes counting on success difficult.

It is important to note, that the choice of entry modes depends on certain scopes such as scope of capital commitment, scope of management commitment, scope of control, scope of risk, scope of potential profits, scope of input costs. These criteria are a natural way to determine the choice of entry mode. Issues related to financing (capital resources), in case of small and medium-sized enterprises in particular, make it impossible to choose more advanced modes of presence in foreign markets.

#### References:

1. Calegario C. L. L., Pereira Bruhn N. C. P. Foreign market entry strategies in The United States/European Union agribusiness trade context. International Journal of Food and Agricultural Economics. URL: <https://www.foodandagriculturejournal.com/vol3.no3.pp47.pdf> (the date of application: 07.03.2021)
2. K. Wach Market entry modes for international businesses. ResearchGate: web-site. URL: [https://www.academia.edu/10311207/Market\\_entry\\_modes\\_for\\_international\\_businesses\\_chapter\\_7\\_](https://www.academia.edu/10311207/Market_entry_modes_for_international_businesses_chapter_7_) (the date of application: 07.03.2021)
3. Zhao X., Decker R. Choice of Foreign Market Entry Mode Cognitions from Empirical and Theoretical Studies. URL: <https://core.ac.uk/download/pdf/15983811.pdf> (the date of application: 07.03.2021)