

# Study on the Innovation Countermeasures of Entry Mode to International Market

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**Abstract** With the development of international economic integration, the large international enterprises are participating in international competition through various approaches. This paper expands from the point of entry mode to international market, summarizes the advantages and disadvantages of the past traditional modes, proposes the countermeasures of entry mode innovation to Chinese enterprises according to present situation and new trends of the international market development, so as to offer profitable references to participate in international competition preferably.

**Key words** International market; Entry mode; Chinese firms; Innovation countermeasures

## 1 Introduction

### 1.1 Current situation of internationalization development

At the beginning of the new century, the process of Chinese participation in economic globalization is accelerating. The world multinational companies are investing abroad in large-scale under the guidance of the global strategy, especially the direct investment for the purpose of the seizure of Chinese market, which formed the huge impact and challenges to Chinese enterprises.

On one hand, multinational companies develop their own business from the global perspective and expand their international marketing activities all around the world. They break the uniform of economy of nations, but improve the economic ties to be closer with stronger interdependence among nations. On the other hand, they dominate 70% of overseas direct investment and 50% of commodities export through the forms as acquisition, holding, merger, brand-export and so on. They regulate the international professional standards, core technologies, business models, and determine the game rules and development tendency to a great extent of the competition in international market. Because of the continuous afflux of more and more multinational enterprises, China has been involved in the international market omni-directionally. From above, the traditional international market entry modes no longer be able to cope with the complexity of international environment. Chinese enterprises have to comply with the world trend, go the way of internationalization management with their own advantages and make the most effective use of resources in the global scopes so as to constantly improve their competitive abilities in pursuit of survival and industrial expansion in the competition. Therefore, it is of far-reaching significance to study on countermeasures of entry mode innovation to international market for Chinese enterprises.

### 1.2 Literature review

From the point of view of research situation on international market entry mode from home and abroad, various related theories have explanatory power to some extent and many empirical researches have tested these theories successfully. But there are still certain imperfections of existing theories. First, the various theories basically have adopted to static or comparative static analysis instead of dynamic analysis for a long time. Second, in aspect of theory development, various theories can not get rid of the frame of compromise paradigm theory essentially. Finally, most of the current theories centre on investment modes of multinational companies in developed countries with little research in developing countries. This leads to that the existing theory researches are standing on the perspective of developed countries ignoring the effect of enterprises and entrepreneurs in host country. So it is difficult to explain the enterprises' behaviors of entering overseas market in developing countries. This is also one of the main reasons for my paper to go along this research.

## 2 Analysis of Traditional Entry Mode to International Market

Under the circumstance of economic integration in the world today, multinational companies break through borders in various forms and develop towards "stateless" global companies. From the perspective of economics, there are only two ways to get into overseas market. One is to produce outside the target countries then export to them. The other one is to convey technology and capital to target countries, use the local resources directly or in combination, produce and sale in local. From the

angle of management, we can divide them into three types.

**2.1 Exporting**

Exporting is the simplest and the quickest way of entering a foreign market requiring a low level of investment in terms of managerial and financial resources and consequently a low level of corporate commitment and risk. This makes it an ideal first step to internationalization for many firms and a useful strategy for firms in risky and uncertain markets. Its flexibility makes it possible to change exporting direction and modes with the minimum price. On the contrary, Exporting also has limitations to international business. Non-trade or trade barriers and delayed information feedback cannot meet the global strategic target of multinational enterprises.

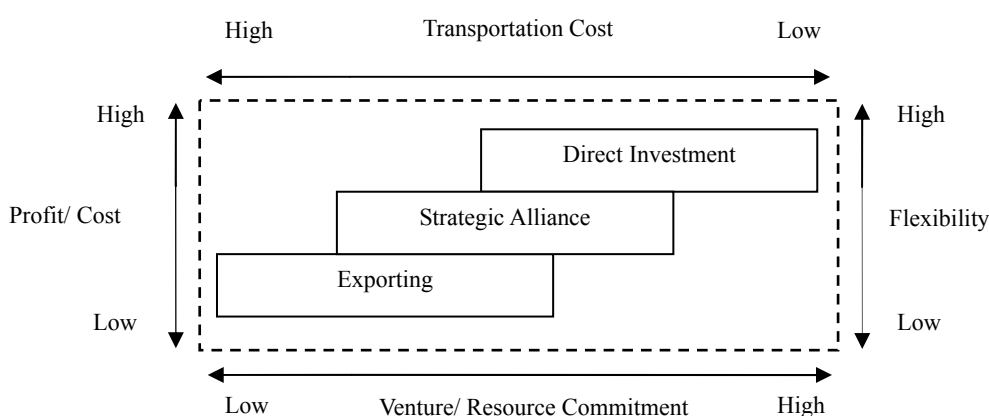
**2.2 Contractual entry modes**

Contractual entry mode is so-called strategic alliance nowadays. Marketing partnership agreements, licensing, franchising, joint ventures are the four distinct forms of strategic alliance. Each involves the need to work closely with a firm located in a different market and culture. The main difference between exporting and strategic alliance is that the latter one outputs techniques and skills rather than products. These kinds of forms also undertake low risk and overcome the limitation from the host on imports and foreign direct investment. This is beneficial for multinational management under the limit of small market scale. But one obvious defect is the cultivation of potential competitors with low control in the meantime.

**2.3 Direct investment**

Participating in international markets through foreign direct investment is often considered to be the most intense form of commitment to international markets. The most representative forms should be acquisition and new ventures, especially the former one. Through acquisition the firms can not only obtain assets that are already in use so that the return is quicker than from fixed-asset investment, but also enjoy immediate market share without any increase in manufacturing capacity. It is an expensive option particularly if the acquired firms are already well established in the market through the possession of a well-known branded product. The disadvantages are that misperceptions about the new foreign market can lead to marketing mistakes and differences of language and culture may aggravate the integration of two management teams. New venture is favored by smaller firms generally and by firms motivated as much by manufacturing reasons as by market reasons. Scale effects can be an important determinant of the new venture mode of entry to international markets. So enterprises should adopt to them according to the conditions of the company and situation of development.

To sum up, Figure 1 shows the contrast of elements involved in above three main modes. Firms can select the most suitable one and innovate properly so as to assure the effective control and flexibility to a certain extent, and realize the profit maximization under the condition of minimum cost.



**Figure 1 Contrast of Elements Involved in Different Modes.**

**3 Innovation Measures of Entry Modes to International Market**

Under the background of economic globalization, in order to conform to the new trend of international market and avoid risks of traditional modes, Chinese enterprises have to keep pace with the times, timely adjust and innovate forms into different patterns appropriately according to the characteristics, current conditions and development requirements of themselves, so that to deal with the

international competition and challenges much more leisurely and easily.

### **3.1 Thinking innovative**

Currently, Chinese overseas investments mainly focus on joint venture, and the entry modes are more adopted to new venture rather than acquisition. Compared with developed countries and some newly industrialized countries, Chinese overseas investment is much smaller and insufficient in scale because of the lack of international competition experiences and financing capability. Firms always lay stress on projects with less investment and rapid return and lack in risk consciousness which restrict the expansion of overseas investment scale. With the development of the international market, this situation must be changed. The strategy should be implemented in form of whole or more stock rights. Acquisition should be given priority in developed countries as Chinese enterprises are much less in scale and superiority than developed countries. So it is difficult for subsidiaries to compete with large firms of developed countries. On the contrary, foundation should be the main strategy in developing countries. The best choice for domestic firms to do transnational business is to enter from nations or regions which are in weak development. As the overall strength and competitive superiority of Chinese enterprises are relatively stronger than those in some developing countries, it is easy to lay the foundation to the broader international market.

### **3.2 Combination innovation**

Chinese famous economist professor Wei Jie considers that enterprises should develop by following the principle of comparative advantage in condition of internationalization. Firms should emphasize their comparative advantages in the competition so that to realize the combination of comparative advantage in international division of labor and the combinatorial optimization of entry ways. Therefore, Chinese enterprises should consider more the problems of their comparative advantages in internationalization process, combine them with ones of other international enterprises according to the actual situation of enterprises themselves and optimize the most favorable and most profitable modes for present development of enterprises. Take Chinese beer enterprises for example, some take advantages of brand and marketing network of famous international enterprises in the form of joint venture or material investment in order to make themselves enter the international market at low cost. Cross-investment and collaboration are successful examples for innovation of entry modes. It is especially meaningful for small and medium-sized beer enterprises to promote grade. Therefore the basis and method of Chinese firms' development strategy must adapt to internationalization requirements and base on their own comparative advantages to fulfill stronger alliance and complement each other's advantages.

### **3.3 Technological innovation**

The rapid popularization of the Internet makes a new market entry way—international e-commerce be on the upgrade in world rapidly. It refers to that multinational companies take part in international trade activities through electronic business and make use of the quick modern information technology with low cost to achieve the electronic characteristics of the whole trade process. This greatly improves the efficiency, reduces the transaction cost of enterprises, and increases the deal odds of the both sides. Accordingly, the competitiveness could be improved in international market. Nevertheless, there are certain hidden network securities of this new market entry way at the same time.

### **3.4 Brand innovation**

The significance of overseas expansion for Chinese enterprises lies in spreading the brand's global influence and awareness and enhancing the brand's culture connotation and loyalty so that to obtain the high profit in overseas markets. Many successful Chinese firms have the access to the international market by brands' influence instead of the quantity of marketing. Therefore, the change of Chinese products' images and the establishment of international status of Chinese brands have become the inevitable choice for Chinese enterprises to participate in international competition in condition of the economic globalization. The brand is the business card to enter the international market. The brand innovation therefore becomes one of the strategic choices to enter the international market now. Chinese firms should promote brand marketing for the purpose of creating international brands and setting up the international images in order to make our brands penetrate towards internationalization. Through the establishment of world-class famous brands, Chinese firms can form and promote their core competitiveness in the international market which will be the new pursuit during the business process. In that case, it will not only bring about the promotion of producing and selling, scale economy of production and circulation, but also the enhancement of brands' additional values, international status and enterprise images. The most important point is that brand has become the vital symbol of stepping in the lines of world-class enterprises and the strong evidence of entering the international market in

success.

### **3.5 Service innovation**

The development of service trade is the important sign for the world to step into the service economy times. Service, as a product, has also become a rising method for the third industry enterprises to get into the international market. With the rapid development of international service trade, countries all over the world have adopted to various measures to improve their services competitiveness and expand the international service trade dealings. Therefore, service innovation is an important way to promote enterprises to enter the international market as well. Although the development of this form is speedy and remarkable, the main form is still traditional and the markets concentrate on the developed countries and regions. So the district development is in disequilibrium. This is caused by the factors such as the relative lag of the domestic third industry, the weak of the high value-added industries, the lack of professional talent reservation, etc. Therefore, we should make full use of the steady development of Chinese economy and the favorable conditions of the participation in WTO, base on the maintained faster development in transportation, tourism and other traditional industries, and innovate service mode and actively promote the growth situation of rising service industries such as financial service, information service, telecommunication service, etc. so as to advance enterprises to enter the international market effectively.

### **4 Conclusion**

To sum up, there are various factors which influence the selection of entry modes to international market and different enterprise in different industry differs in its own particularity. The purpose of this paper is to be able to lead a way to how to innovate the modes during the process of entering the international market for Chinese enterprises. In the meantime, each enterprise should considerate the international market and host market's experiences comprehensively and make reasonable reorganization and innovation on concepts, contents, methods, etc. according to their own characteristics and development needs. This would be profound for Chinese enterprises to conscientiously implement strategy of "Going Out" strategy, accelerate internationalization process and promote the participation in international competition.

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