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RESEARCH ARTICLE

INTERNATIONAL BUSINESS PENETRATION TO CHINA

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ABSTRACT

The business context in which companies currently exist in has significantly changed over the years forcing organizations to change their competitive strategies in order to survive and compete favorably. International market penetration in itself is a competitive strategy, offering alternative options to the company on which direction to go to achieve maximum advantage. This paper highlights the concept of international business strategies, beginning out with the common reasons why organizations decide to go international. Existing entry strategies are discussed in detail, painting a picture of the alternatives available to firms in case of the need to venture into an international market. Special focus is made on penetration strategies to China, an emergent economy considered favorable for most business ventures. The various strategies discussed are evaluated in regards to their suitability within the Chinese market and their advantages and disadvantages highlighted.

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INTRODUCTION

A company's decision to penetrate an international market is a key important step, triggering new opportunities for the company and opening it up to wider horizons. This step however involves additional risks as international business brings with it complexity as a result of the wider business environment. The most common reason why companies opt to go international is for purposes of growth or expansion, with the international market being considered an avenue for diversification. With increasing globalization, technological breakthroughs have made it increasingly easier to expand to global markets through improved communication channels.

When going global, firms have two key entry strategies available to them

- Non-Equity Mode that includes of contractual agreements and export.
- Equity mode that includes subsidiaries that are wholly owned and joint ventures.

In recent years, China has emerged as an economic giant with most foreign multinational companies (MNCs) enjoying continued revenue growth and profitability.

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In a 2006 survey, China was already contributing to ten percent of the global revenues of over 180 multinational companies. In 2010, the country attracted about 106 billion US dollars and has a sustained high economic growth rate throughout the last few years. Despite challenges such as weak intellectual property rights protection, the protection of local firms by industrial policies and corruption, the country has a number of investment policies that are aimed at encouraging foreign investments, offering foreign firms an opportunity to take advantage of the country's low wage rates, readily available raw materials and a swamped labour market.

To penetrate into China, there are five key factors each global business has to consider

- The Chinese view of the company's products and services. Depending on the home country of the global firm, it is possible that the Chinese population could reject the company's products or services, or embrace it in relation to their culture and societal beliefs.
- The potential demand for the product. Before deciding to venture into a new market, it is necessary to determine whether the products will be received well in the target market or from what avenues resistance for the products and services could arise.
- The potential future growth demand for the products and services to determine whether the firm has a growth potential in the new country.

- The organization's available resources to enable it to carry out the expansion.
- The entry timeframe, highlighting at what period the company wishes to penetrate the market and for how long this should be done.

Market Entry Strategies

To penetrate into an international market, there is a number of entry strategies as discussed below

Strategic Alliances- This approach involves an organization pooling their expertise and resources with other organizations, with the rewards and risks that will accrue from the alliance being shared by the involved parties. This alliances include agreements such as minority equity participation, shared research and formal joint ventures (Chang and Horng, 2010). The current modern form of strategic alliance is increasingly gaining popularity,

Distinguished by three key characteristics

- Focus away from distribution of new products and towards the development of new ones and technologies
- Often formed between organizations in highly industrialized countries
- Often created on a short term duration.

In most cases, the main objective of strategic alliances is an exchange and sharing of technology. This is because technological advancements are occurring daily and technological innovations are often based on interdisciplinary advancements making it almost impossible for a single firm to possess all the required capabilities and resources necessary to perform their own research and development activities. In addition, most technological products have short life cycles as a result on constant updates and innovations, thus companies require to constantly remain competitive throughout this innovation (Twarowska and Kakol, 2013). Exporting and Importing- This is the most common strategy for most international penetrations. Exporting involves the sale of goods and services produced in the home country to a new country or from one country to another. This can be done directly-the firm itself performs the marketing of the products in the new foreign market or indirectly-the firm produces the products and services then distributed to the foreign country through an agent. In this case, the sale of the products in the foreign market is carried out like a domestic one, with the producing company having no direct relation to it. In China, exporting can be a successful market entry strategy, especially if carried out using the right channels. Direct exporting is most likely to face challenges as a global company will face challenges in regards to the local language, shipping considerations within the country and the associated currency issues. However, when carried out using a local distributor, the product can be sold directly to the end-users and the company can take advantage of the familiarity of the distributor with the Chinese market. Indirect exportation however could result in the distributor used being a middleman as they may be required to get an authorized group to sell directly to the end-users. In this case, the products and services can become overpriced, leading to lower total sales. Licensing-In this option, the international licensing firm gives its trademark rights, patent rights, copyrights and product/process development know-hows to the licensee. In return, the licensee will be required to produce the products and services on behalf of the first company, market them and finally pay the required fees and royalties resulting from the sales of the commodities. Franchising- In this option, a semi-independent business owner, also referred to as the franchisee, pays royalties and fees to a parent company- also referred to as the franchiser- for purposes of earning the right to use its trademark as their identification when selling their products or services. The contract can also include the use of the business format and system and only differs from licensing in the sense that the franchising organization is more directly involved in the control and development of the marketing program. When compared to licensing, franchise agreements are often longer in duration and with a wider package of resources and rights including operation manuals, equipment, initial trainings, managerial systems and site approvals.

This agreement is limited to operating know-hows and the trademarks, as opposed to licensing agreements that consist of trade secrets and intellectual property rights. Its greatest advantage is the low political risk and costs involved while its greatest disadvantage is the likelihood of the franchisee turning into a competitor in future as a result of having all the information required to produce and market the products and services (Terpstra and Sarathy, 2001). Joint Ventures-This approach is almost similar to licensing except that in joint ventures, the partnership between the host firm and the home country firm results in the formation of a third firm and that the international firm usually has an equity position and a voice within the management of the foreign firm (Yip, 2002).

Through the access to the numerous network of relationships, the international firm is less exposed to risks as the partnerships can be used to cushion it against this. In addition, the firm is placed in a position to access all the required local market knowledge and control the venture's operations. Its popularity as an entry strategy for international firms is as a result of the ability to avoid the control problems posed by the other entry strategies as well. The agreement with the local firms enables the integration of the foreign firm in the local environment, enabling easier acceptance by the target market.
In China, joint ventures are a great opportunity to gain access to its domestic market as well as take advantage of the low-cost labor force in production. Joint ventures also bring about tax exemptions and direct support from the government as well as an avenue to access local resources.

Direct Investments

With this, the international firm directly invests in a production unit from a foreign market. The risk in this is considerably high as it offers the company a 100 percent ownership. To effect this strategy, the international company can apply two options- either make a direct acquisition from the host market or create its own facilities in an approach referred to as Greenfield investment. Between the two, acquisition is more widely practiced since it offers quick access and involves lower risks since its outcomes can be easily estimated as compared to those from a Greenfield Investment. Greenfield Investment is often expensive and complex as it involves the formation of a new wholly owned subsidiary. Despite offering the organization full control of the established firm, it poses a greater risk to the business as it requires high establishment costs. However, this strategy is more likely to earn above average returns and takes more time to effect as it requires that

a new operation, marketing strategies and distribution networks be established, as well as the time taken to become conversant with the new market. Regardless of the strategy, (Carpenter and Dunung, 2012) insists that it must be able to address the five elements of strategy;

- Arena-The specific channels and geographic markets and value chain activities available in the new market
- Vehicles- The choice on how to drive success, be it alliances, acquisitions or organic investment.
- Differentiators- How venturing into the international market will differentiate the company or its products and services from its competitors.
- Economic Logic-How the strategy will contribute to the company's overall economic position through the generation of positive returns.

Each of this strategies involve a varying degree of risk as well as commitment from the host organization, with their implementation bringing about varied results. In most cases, companies that are beginning out on international penetration start out with indirect exporting. This is done as a result of the less risk involved, the less costs required and the opportunity to explore the new market to determine the feasibility of its production line within it. It is often from the success of indirect exporting that an organization determines other agreements it can engage in, as well as what other organizations in the host country the organization can associate with. In addition, resea rch on the Chinese market has to be carried out before prior to the investment. In doing this, the business will be able to understand the Chinese culture, gain insights on the business environment and possible regulatory frameworks as well as identify the relevant communication channels that will help create awareness about the company's products and services.

Conclusion

Evolution in the economical processes during current times have an impact on the structure of mechanisms that generate the economy thus requiring economic entities to reorganize in order to remain competitive. In the international environment, transnational organization is the key to adapting to the dynamic changes within the environment. With the increased globalization, traditional methods of carrying out business are increasingly being rendered irrelevant, forcing organizational management to develop newer strategies of survival. It is in this regard that global strategies emerged, the only concern being determining which is most appropriate for the organization in relations to the risks involved and the returns expected. China is a hugely fragmented market, requiring business organizations to utilize more than one strategy to reach out to their intended market. Each of these strategies have their advantages and disadvantages, being able to work in one market segment better than in another. In conclusion, combining a number of entry strategies will enable a firm to gain a number of multiple entry points, enabling the company to fully penetrate the target market.

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