ENTERPRISES ENTERING FOREIGN MARKETS

JENÍČEK V.

Institute of Tropics and Subtropics, Czech University of Life Sciences Prague, Czech Republic

Abstract

For enterprises producing commodities or supplying services, the decision to ester a foreign market is one of the basic decisions of their business strategy. It asks for the choice of the target market, the choice of commodities and services suitable for the chosen territory, the choice of the form of entering the market as well as setting the business goals for the given area.

Key words: foreign market, export/import, production and services, foreign direct investments

INTRODUCTION

Decision-making on the form of entering the foreign market is usually based on the analysis of a whole series of factors (Daniels and Radebangh, 2001). Enterprises namely weight the character of the foreign market (its distance, political and economic stability, foreign-exchange regime, market potential, risks of the territory), internal possibilities of the enterprise (its size, hitherto experience, disponible human, material and financial resources, positron in the market), as well as the character of the enterprise product (the kind of the product, the character of its utilisation, demands on the accompanying services etc.).

The basic variants of the enterprise entering the foreign markets are as follows:

– export and import,

– production/services abroad on the base of agreement,

– direct foreign investments.

This basic division of the business possibilities in the foreign market through trade or production abroad has a whole series of partial alternatives

Export/import

Enterprises can take part in foreign trade ether independently through a direct contact with the foreign business partner or indirectly through the intermediation of other home forms. One of the possibilities of the indirect participation is co-operation with home training firms specialised on foreign trade. Indirect import or export is easier for the enterprises, since it is not then necessary for them to employ workers with special expert and language abilities for working in the foreign markets, it is not necessary to take care of the communication with the foreign market, to create own distribution channels etc. Such indirect participation in export or import puts lower demands on the enterprise resources (qualification of workers, financial resources, firm management etc.), and also the risks connected with foreign trade (territorial, foreign exchange) are usually lower. However, there is a disadvantage of the indirect contact with the foreign market, and as a consequence also a more difficult reacting to its demands.

Another form of the enterprise participation in foreign trade is the form of sub-supplies for the exporters of the final product. This form is usual in machinery industry, in the supply of spare parts for transport vehicles, in the supply of investment complexes etc. This sub-supply relationship could be realised also towards the foreign customers and the sub-supplier then becomes an exporter.

If the enterprise participates in foreign trade directly, he/she enters a direct relationship towards the foreign business partners and together with them realises the export and import operations. The legal base of these operations most often is international trade agreements and the connected agreements ensuring different kinds of services (transport of the commodities, insurance, payment operations etc.). The import and export operations in the trade with tangible goods will be analysed in the following chapter.

In decision making on the own export or import, the firm has to solve the question what business method it will use to enter the market. It regards namely the structure of the distribution net through which the product gets from the producer to the consumer, but also the way of ensuring

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some of the accompanying services. In the international trade, the distribution from producer to the consumer is created by the series of business intermediate partners.
Some of these intermediate parts are of the character of **intermediaries**, who conclude sales in their own name and to their own account. They buy goods and sell them further and their yields are created by the difference between the purchasing and selling price (price margin). A specific type of the intermediary in foreign trade is the so called privileged **seller**. The exporter is bound not to supply the commodity in question to any other customer in the given territory. In such case, the exporter depends on the ability of the privileged seller to fulfil the expected sale results in the given territory to a great extent. Therefore, the agreements on privileged sales to intermediaries are signed rather exceptionally in the branches demanding high level of the accompanying services, and are usually balanced by the obligation of the privileged seller, that he/she will not sell the competitive goods.
More often, there are utilised **commercial representatives** (business agents) in foreign market. As a commercial representative, there usually acts a legal or natural body independent on the capital of the enterprise he/she represents. Commercial representative performs for remuneration (so-called commission or percentage) the activity aimed at ascertaining the sales or purchases of the represented firm in the given market. This activity is not a single one, but continual, and the relationship between the representative and the represented entity is of a long term standing.
Among the representative and the represented entity, an **agreement on commercial representation** is signed, which forms the legal frame of their mutual relationship and sets the rights and obligations of both sides.
The activity of the commercial representative aim at establishing a certain type of contracts (namely purchasing contract or performance contract etc.) between the represented entity and third parties. However, the commercial representative is usually bound by the contract also to perform market research, marketing, he/she can act at the signed contracts realisation, he/she can also store the products, supply services for the customers etc. In some cases, he/she can be even entitled to sign contracts in the name of the represented entity. The level of the commission is usually set as a percentage from the concluded sales value, e.g. 5% of the invoiced price. Sometimes the invoiced prices used as a base for the percentage computation are cleared from the transport costs, insurance and other costs.
A special type of the commercial representation is the contract on **privileged commercial representation**, through which the represented firm is bound not to use any other commercial representative for the given commodity or service in the given territory.
Another type of a business intermediate link in the foreign market is a commissioner agent (dealer). Based on the commitment by the commitment, he/she signs contracts binding him to supply a certain commodity, but these contracts are done to the benefit of the commitment and according to his/her instructions. All rights gained by the sale (namely the sale price) have to be transferred to the commitment and the dealer only gets for his/her activities remuneration from the commitment, expressed in percentage of the sold commodities value (so-called commission).
Fro fulfilling their trading functions abroad, enterprises can create the distribution net also through their **own organisational units abroad**. These can be established in the foreign market as the branches of the mother enterprise or as independent enterprise established according to the legal frame of the given country. The latter procedure is more capital demanding and it is usually utilised by the enterprises having already enough experience from the foreign markets activities. However, these organisational units often co-operate with the mother enterprise in a similar form as the independent foreign enterprises, e.g. based on the contract of commercial representation of on their own account as intermediaries.
A special type of the international trade operations is **re-export**. It regards the export of the imported goods. The motive for these operations might be profit (the re-exporter buys in one market and sells in another at a higher price), or completing, when the imported goods become a part of the exported final product, investment complex etc. Re-exports might serve also for overcoming the trade policy based obstacles to trade. Exporters also use re-exports to sustain their market share if they have not got the sufficient capacity for production (e.g. as a consequence of bad harvest, increased demand etc.).

Production and services supplied abroad according to contract

This group of operations is rather wide. It includes finishing operations, licence relationships, franchising, contracts on production co-operation, contracts on management etc.
Finishing operations are based on the performance contract. The customer contracts at the foreign firm (producer) the processing or finishing of the raw materials, materials or semi-finished goods to a higher level of finishing, eventually to the final product. Very often this utilises the know-how of the contracted producer, his/her investment equipment, lower processing costs etc. As an example, there might serve the production of concen-

trates from ores. In some processing branches, this form of co-operation is called as the so-called **wage labour**. The customer usually supplies the foreign final producer with most of the resources (raw materials, technology, design, often even technological equipment), and the finishing producer only supplies labour. This form is usual also in the textile, clothing, leather and other products and is usually motivated by the lower labour costs of the final producer.

Licences represent a specific form of the enterprises contact with foreign markets. They are used in the trade with non-tangible commodities. Based on licence, the suppliers enable foreign customers to utilise their non-tangible assets, to which their have excusive rights, for remuneration and according to the set conditions. The object of licence contracts usually the right to utilise know-how, patents, trade marks or the firm name of the supplier and setting the rules for the utilisation of these rights.

This form of entering the foreign market is usually chosen by the enterprise disposing of a certain background in the field of research and development. The advantage of this form of entering foreign markets is the speed of the non-tangible asset utilisation without any claims to the own financial resources f the supplier and without risks which use to be undergone at entering the market through direct foreign investments.

Franchising represents one of the often use methods of entering foreign markets in the sphere of services (fast food, retail, hotelling, consumers goods etc.). This form is suitable only for the entrepreneurs who have reached positive results in the given area and created their internationally accepted image. They then supply their entrepreneurial concept to smaller entrepreneurs, who have the knowledge of the home market, on the base of contract.

The supplier of franchise (franchiser) enables the franchisee to utilise the established business concept for repayment. Based on the trade mark of the franchiser, he/she usually enters the contract; he supplies the acquirer with the object of enterprising, his trade mark and know-how. The franchiser usually supplies a series of services, e.g. technological support, schooling of the personnel, centralised purchases etc. The franchise acquirer is bound to pay the contracted remuneration, which includes a single entering payment and further the contracted payments for the whole franchise period. He/she is also obliged to sustain the supplier’s commercial policy including the quality of the supplied services and is also controlled by the supplier according to this aspect. The acquirer is financially independent on the supplier and is responsible for the economic results of the activities in question. Owing to the goodwill and trade mark of the franchiser, he/she usually enters business with a lower risk of failure.

Among other forms of international co-operation, we can include the agreements on supplying building works, contracts on supplying different types of services, management contracts, contracts on inter-firm co-operation etc.

Foreign direct investments

From the global view, foreign direct investments have become a decisive form of the foreign economic relationships of enterprises during the last decades. The characteristic feature of direct foreign investments is the ownership participation of the investor in the foreign firm (having a seat in the so-called host country) and his/her interest to participate in the management of the firm (Yarbrough, 2000). Entering foreign markets through foreign direct investments is typical for big enterprises with experience in international business and a sufficient financial background, but also in some cases for smaller enterprises if they are obliged to create distribution net in the country in question or if it regard a highly specialised enterprises.

Among foreign direct investments of an enterprise, there are e.g. included (in the CR) in harmony with the foreign currency law“

1. Origin or acquiring an exclusive share in business activities abroad including their extending.
2. Participation in the new or existing business, if the investor owns or acquires at least 10% of the business company assets or at least 10% in the business assets or at least 10% of the voting rights.
3. Financial credit for 5 or more years supplied by the investor for the business activities in which the investor participates according to the item 1 or 2, or a credit connected with the contract on dividing profit.
4. Utilisation of profit from the standing direct investment into this investment (profit reinvestment).

Enterprise could acquire foreign direct investments by different forms. It regards namely:
– founding new enterprises abroad,
– acquisition of the existing foreign enterprise,
– merging of two or more enterprises,
  – founding the so-called joint ventures, on the ownership of which investors from more countries (of the hosting or third countries) participate.

In the long term, there is pushing forward the tendency of increasing the importance of foreign direct investments on the world level. This tendency is connected to the international capital flows liberalisation and removing the obstacles for foreign direct investments during the last decades. In the period of the 90s, this was contributed by the opening of the transition economies markets, privatisation of enter-prises in many countries and namely the approach of governments to foreign direct investments. While in the 80s many countries still put obstacles into the way of the foreign capital flow, at present foreign direct investments are understood rather as a factor supporting economic growth and employment in the hosting country, and the majority of governments supplies advantages for foreign investors in the form of so-called investment incentives. The Czech Republic introduced investment incentives by the end of 90s, what contributed to a considerable increase of foreign direct investments in the country.

The majority of foreign direct investment is in the form of mergers and acquisitions; it comes from developed countries and aims also to the developed countries. Typical representatives of the investors are trans-national corporations, but also so-called institutional investors, different investment funds etc.

CONCLUSION

The present economic globalisation is connected with the liberalisation of the international flow of goods and capital conditions (Jeníček, 2003). This gave the enterprises new possibilities to participate in the international business. Also in the EU frame the internationalisation of business activities is made easier owing to the gradual harmonisation of the rules, what supplies new opportunities also for the new member countries firms.

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Corresponding author:

Prof. Ing. Vladimír Jeníček, DrSc.
Institute of Tropics and Subtropics
Czech University of Life Sciences Prague
Kamýcká 129
165 21 Prague 6-Suchdol
Czech Republic
e-mail: jenicek@its.czu.cz