MSc International Business and Management

The Dynamics of Market Entry and Expansion Strategy in Emerging Markets:

The Case of Wal-Mart in Latin America

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Abstract

This research investigates the internationalization process and potential issues related to market entry and expansion strategies. It focuses on Wal-Mart's entry and expansion strategies into the Emerging Markets of Latin America, and discusses the different entry and expansion decisions being made by the company. Furthermore, the research critically evaluates the dynamic challenges facing developed country firms in their market entry and expansion strategies in emerging markets. Its contribution to the existing literature is its focus on the dynamics of entry modes in emerging markets. The research, based on an inductive approach, has been conducted as a case study by the use of secondary data.

Wal-Mart began its internationalization by entering the two geographically nearest markets, namely Mexico and Canada. The entry into Mexico, which occurred 1991, was the first strategic move aiming at reaching the company's overall goal of becoming the leading player in Latin America. Mexico together with Brazil are the two main emerging markets of Latin America characterized by a high growth potential on one hand, but a risky economic and political environment on the other. However, in the 1990s the economic and political environment became more stabilized, leading to an increased targeting by developed country retailers such as Wal-Mart. Due to the cultural differences, different consumer preference and only recently stabilized economic and political environment, Wal-Mart decided to enter the Mexican and Brazilian market through a Joint Venture. The idea has been to use Mexico and Brazil as strategic bases for further expansion into other Latin

American markets. Experience and knowledge from one market should be passed on to other markets in order to have a more smooth entry in the future. However, Wal-Mart was not always successful in doing so and experienced several challenges in the Brazilian market after the entry in 1995. Those challenges, but also the fact that Wal-Mart over a short period had entered several foreign markets, meant that the expansion within the Brazilian market was slowly progressing in the first 0 years after the entry. Wal-Mart expanded its Brazilian operation slowly through organic growth in the rich South Eastern part of Brazil, but it was with the two large acquisitions (of their rivals) in 2004 and 2006, respectively that the company became an important player in the Brazilian market. Wal-Mart has been most successful when acquisition has been used as the entry or/and expansion strategy but as this research shows the external environment of the target markets plays an important role regarding the decisions being made.

This research is estimated to be an interesting source of learning for retailers who wants to expand their operation into the Emerging markets of Latin America and/or other Emerging Markets and more broadly for firms wishing to enter and expand in emerging markets.

Contents

Introduction

Being present and having to enter foreign markets is for many companies natural, while for other it is a new challenge that they have to face. This challenge, known as market entry, consists of three major decisions: where to enter, when to enter and how to enter different markets. Some companies are forced to internationalize in the early stages of their life due to small saturated home markets, while other companies choose to go abroad because of the great opportunities new markets might bring (Peng, 2006). Regardless of the motives, once deciding to go abroad and choosing the target market and timing, companies' need to consider the choice of entry modes. There are several entry modes to choose from; however, in specific industries such as retailing the most common entry modes are: Wholly Owned Subsidiary, Acquisition, Joint Venture (JV) and Franchising (Dawson et al., 2006). Risk assessment, the level of control and return on investment are some of the main factors that decide the choice of entry modes. Another linked strategic consideration is the growth strategy (expansion strategy) within the target markets that includes the dynamics of entry modes. In this case the often considered options are whether to grow organically, through strategic alliances or through acqusition of other companies. Acquisition is the fastest expansion strategy, and is often used as a means to achive product diversification and geographic diversification, but to expand through acqusition can be a coslty affair (Hollensen, 2004).

The choice of entry modes is one of the most critical strategic decisions a company has to make in its foreign expansion. A wrong choice can increase the costs of the entry and in extreme cases it may force the company to leave the market. To change the entry mode after a certain period of time is difficult, because a change of entry modes, from one to another, will lead to losses in time and money. This may lead to early defeats in a foreign and unfamiliar environment. Entry mode choice also affects future operations and decisions of the company in the specific market. As an example, the choice of entry modes might influence the future expansion within the market. If for instance a JV is chosen as an entry mode, a disagreement of how to expand further (e.g. acqusition or organic growth) between the two partners could arise, leading to a long decision making process. In the mean time, the reaction and strategic moves from the competitors might be immediate, which could mean that they would be the one who will acquire a strategically important player before the counter part has made the final decision. (Peng, 2006)

Companies often begin their internationalization process by entering physically close markets with similar characteristics as domestic markets, but when deciding to expand into emerging markets the challenges becomes greater. These markets have a more turbulent external environment, a different culture, and less developed infrastructure making the Foreign Direct Investment (FDI) a more risky affair. It is however, the growth opportunities and large population with increasingly higher purchasing power that bring developed country companies into these markets (Zang and Wang, 2006). The retailing industry has been late in its internationalization, but this picture changed in the 1990s with European and U.S. retailers expanding rapidly to foreign markets. Latin America, with Brazil and Mexico as the two main emerging markets, was also targeted by foreign retailers. Wal-Mart, the world biggest retailer, began its internationalization into Latin America in 1991 by entering the Mexican market (Rocha and Dib, 2002). Today the company is the leading player in Latin America with a presence in 9 of the Latin American markets (Moreau, 2009). The question is: how did Wal-Mart manage to become the leading player in such a short time and what was their strategy for conquering Latin America? In Mexico the company was more successful, while in Brazil it experienced several challenges, thus making the Brazilian market more interesting for further investigation.

Wal-Mart's experience faced in the Brazilian and Latin American markets is estimated to be an interesting source of learning for developed country retailers who consider an entry and expansion into the emerging markets of Latin America. Furthermore, it is argued that this experience also can be useful for companies who want to enter other emerging markets since similarities between the different emerging markets can be found. Given that the internationalization of retailers into emerging markets has basically just begun, research covering that topic is estimated to be relevant and useful. Furthermore, after having covered the existing literature, it became obvious that not much data was available (and the data that is available does not cover the dynamic aspects of entry modes) for companies who want to study the internationalization topic from secondary sources.

Aims and Objectives

Therefore, this study aims at investigating the internationalization process of Wal-Mart into the emerging markets of Latin America. Furthermore, the objectives are:

1. To outline the potential issue relating to market entry and expansion strategy for international firms;
2. To analyze the development of market entry and expansion strategies in the food retail sector;
3. To critically evaluate the dynamic challenges facing international firms in their Market entry and expansion strategies in Emerging Markets;
4. To identify some key success factors for firms entering and expanding in emerging markets.

The research focuses solely on the entry and expansion strategies into the emerging markets of Latin America. Within this area it looks at different challenges: operational, cultural, consumer, product and economic, experienced by Wal-Mart in Brazil and other Latin American markets. The research is limited in terms of looking at issues regarding the challenges of creating strategic alliances (e.g. JV or acquisition). This is a broad topic with several different aspects, and will only briefly be mentioned as it is beyond the scope of this research. In addition issues relevant to market entry and expansion, such as pricing and promotional strategies are not focused on here. The author is aware of the importance of these other issues when entering foreign markets, but has decided to place the emphasis on the issues outlined above.

The Research Structure

Chapter two is reviewing the available literature regarding the internationalization process and expansion strategies. Companies need to make three major decisions when deciding to go abroad: where to enter, when and how. In particular, the literature of How to enter the market, also known as entry modes, is reviewed in detail. Not only is it important to give a picture of available modes of entry, but also to investigate this topic when dealing with emerging markets and specific industries such as the retail industry. Furthermore, this chapter reviews the literature dealing with the expansion strategies when being present in the market. The literature is reviewed critically; hence this chapter also discusses the pros and cons of the literature already available and how this research will build on the existing literature.

The third chapter evaluates the research methodologies and discusses the methodology that will be used in order to reach the research objectives. Starting broadly by discussing the research philosophy, this chapter goes through all layers of the research onion identified by Saunders et al. (2007). Moreover, this chapter discusses the reliability, validity and generalisability of the findings. Whether the findings are reliable and whether they can be applied are among other things being discussed in chapter 3.

The Findings and Analysis chapter covers Wal-Mart's internationalization into and expansion within the emerging markets of Latin America. It gives a picture of Wal-Mart's entry and expansion strategies and identifies the obstacles Wal-Mart experienced within the markets. Furthermore, a discussion of Wal-Mart's modes of entry and expansion strategies is to be found together with a discussion of how to be successful as a retailer in the emerging markets of Latin America. The main emphasis is placed on Wal-Mart's experience in the Brazilian market but parallels to other Latin

American markets are drawn and Wal-Mart's experience is compared with some of their main competitors.

Finally, in Chapter 5, a conclusion together with a discussion of key success factors is given. Furthermore, the last chapter discusses the wider relevance for the research, its limitations and important issues for future research covering this, or similar topics.

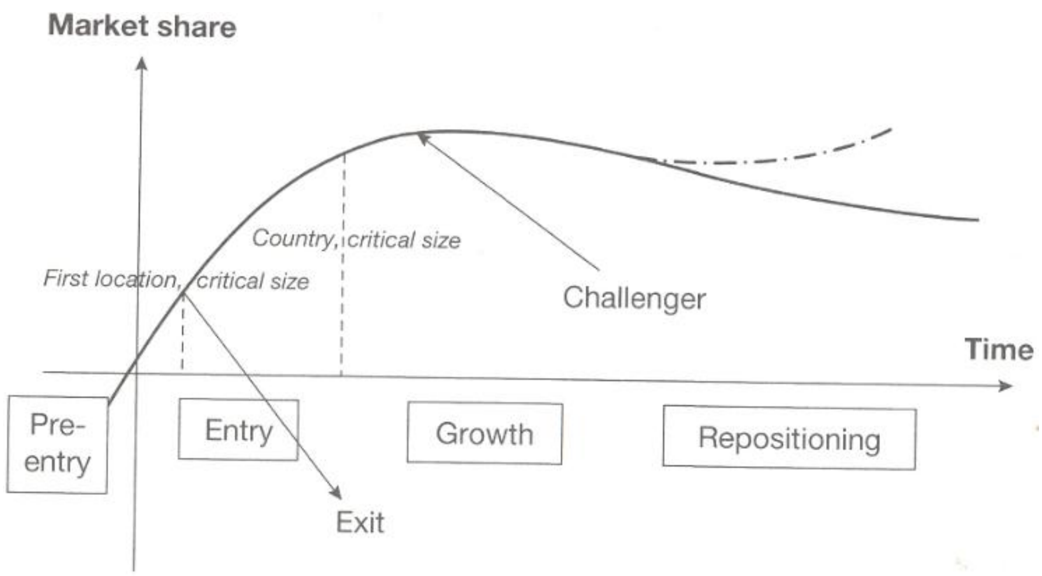
2.0 Literature Review

The Literature Review chapter will start with a short synopsis of relevant theories and concepts, followed by a detailed review of the relevant literature.

2.1 Literature Synopsis

With growing globalization, free trade agreements, and increased co-operation companies are more than ever turning the focus towards internationalization. However, internationalization, although bringing several opportunities, is a challenging process. Perhaps the main challenge for companies is to overcome the liability of foreignness (Peng, 2006). Porter (1985) and Dawson et al. (2006) divide the internationalization process (entry of new markets) into four phases (figure 1).

Figure 1: Internationalization phases



Source: Dawson et al. (2006)

In the pre entry phase the competitor is undertaking a study the potential markets, the industry, and needs to make several key decisions (Porter, 1985). According to Lasserre (2007) Peng (2006), Hollensen (2004) and Dawson et al. (2006), three main questions need to be answered.

- Where to go;
- When to enter that specific market;
- How to enter that specific market.

In particular, the last question, which requires a study of entry modes, is of key importance. Lasserre (2007), Peng (2006) and Hollensen (2004) cover this topic from a general perspective; hence their research is suitable to give a general overview. Pelle (2007), Zang and Wang (2006) and Cavusgil et al. (2002) on the other hand look upon entry modes in Emerging Markets while Alexander and Doherty (2009) and Dawson et al (2006) cover entry modes from a retailer perspective. Although the literature covering entry modes has several advantages, most entry mode theories however explain entry mode choices in a statistical way, meaning that the respective authors only explain how to enter the market, but are not focusing on the dynamic process after the pre entry strategy. Furthermore, a linkage between choices of entry modes regarding emerging markets could have been more clearly defined. Compared with developed markets, emerging markets differ in the external environment as well as in firm characteristics; therefore an understanding of entry mode choices for emerging markets needs to be clarified. Cavusgil et al. (2002) explains the importance of external environment analysis when entering emerging markets but unfortunately fails to link the characteristics of emerging markets to the choice of entry modes. Zang and Wang (2006) on the other hand look at entry mode options from an emerging market perspective, and although the respective authors often tend to speak about entry modes in general, a linkage to emerging markets is given. The mechanics of entry modes are more or less a "fact"; therefore every author covering this topic is mentioning similar modes of entry. However, the interesting part is what lies behind the decision of specific entry modes and whether some of the entry modes are more preferred than others in specific industries and markets.

In the second phase (entry phase), the competitor is becoming established in the new market. This is a critical phase where an evaluation of the entry needs to be undertaken. Based on the market reaction, implementation of the entry mode and other issues being important for the company, a decision whether to withdraw or continue on a large scale is to be made (Dawson et al, 2006). In the growth phase (also referred to as sequencing phase by Porter (1985)), the company is establishing its position on the market and is most likely to experience growth. Finally, in the last phase the company is fully established and has to defend the position (Porter, 1985). At a certain point the company will experience a maturity where market share will be lost and it needs to evaluate how to reposition itself successfully (Dawson et al, 2006).

2. 2 Motives behind Internationalization

Typical reasons for going abroad are according to Peng (2006):

- To reach large economies of scale by selling to more customers in other countries;
- To reduce the risk of overdependence on one country by spreading sales in multiple countries;
- To replicate the success at home in new settings.

Other authors connect the home market saturation with the decision to go abroad. In fact two schools of thought have emerged in this regard. The first assumes that saturation is the primary goal behind internationalization, while the other explains internationalization as fundamentally a response to the opportunities in a global market (Alexander and Doherty, 2009). The latter is related to the three points mentioned by Peng (2006). Market power theory is another explanation behind the internationalization. According to this theory companies can strengthen their competitive position by internationalizing. Moreover, by looking at the issue from an economic perspective, reasons for internationalizations can be explained by transaction costs theory, resource based theory, and increasing returns theory (Child et al., 2005).

2.3 Choosing the Right Market (Where)

Choosing in what country or group of countries to invest/enter and which entry mode to choose is another challenging process facing companies. According to Hollensen (2004), factors affecting this decision are:

- Internal factors;
- External factors;
- Desired mode characteristics;
- Transaction specific behavior.

Similar factors are shown in Peng’s (2006) comprehensive model of foreign entries. However, the main focus in this model is on the internal factors in terms of resource based considerations on firm specific assets and external factors in terms of Industry-based considerations on the degree of competiveness and institution based considerations on country risk. Both Peng (2006) and Hollensen (2004) are speaking about entering markets in general; hence their models needs to be combined with scholars who have investigated the topic when it comes to emerging markets and retailing industry. In particular, external factors, when entering emerging markets, are considered by scholars as being of key importance. Cavusgil et al. (2002) mentions among others factors the history of country risk, the GDP growth rate, and the attraction of gaining a competitive advantage from a developed country company perspective. Alexander and Doherty (2009) have studied the issue from a retailer perspective. They suggest dividing the evaluation process into two stages: market scanning and market research. Market scanning is mainly based on secondary data and should give a quick picture of pros and cons of several potential markets. Market research on the other hands is a more complex and in depth process that requires a large amount of resources. This stage is mainly based on primary research, which means that only a limited number of markets can be investigated. Furthermore, Alexander and Doherty (2009; 235) give an overview of assessment criteria that can be used for this evaluation. These criteria are similar to criteria given by Dawson et al. (2006) which include (1) geographic distance, (2) cultural proximity, (3) maturity of the distribution system, and (4) economical and political stability.

2.4 Deciding on When to Enter the Potential Market(s)

Another important decision in the internationalization process is to decide the timing of the market entry. Companies often prefer to be the first to enter the markets and enjoy the first mover advantages. However, first movers might also encounter disadvantages, which become late mover advantages for their competitors, as illustrated in table 1. (Peng, 2006).

Table 1: First vs. Late mover advantages

First mover advantages	Late mover advantages (or first mover disadvantages
Technological leadership	Opportunity for free ride on first mover investment
Pre-emption of scarce resources	Resolution of technological and market uncertainty
Establishment of entry barriers for late entrants	First mover's difficulty to adapt to market changes
Strong brand recognition	

Source: Adapted from Peng (2006; 228)

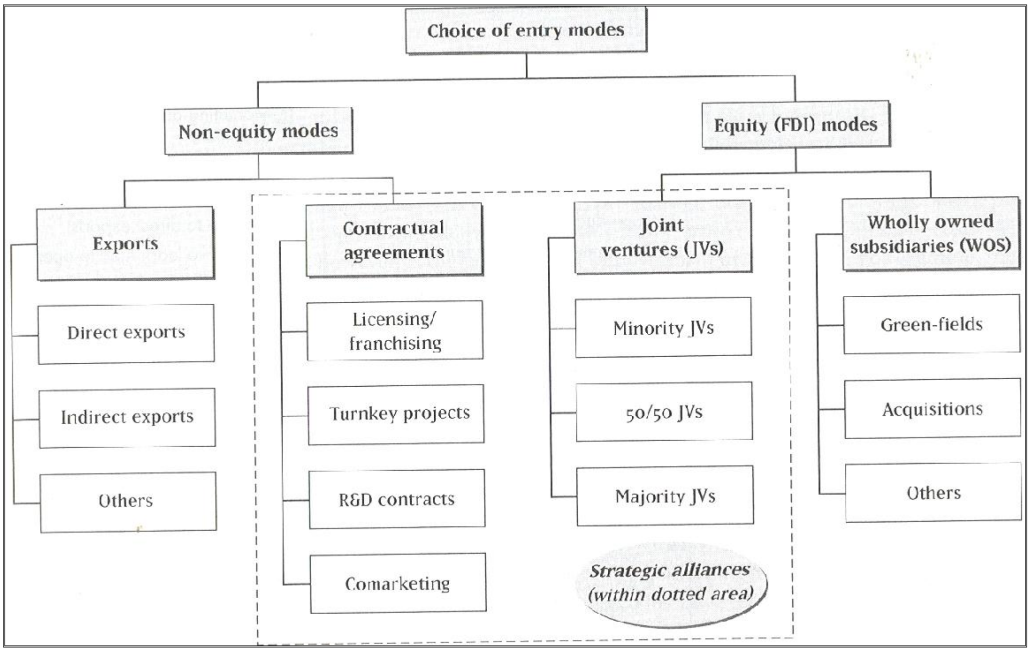
Whether it is more optimal to be the first to enter the market or wait and enter the market after the competitors, is being discussed among scholars. In particular, when dealing with emerging markets, characterized by potential opportunities on one hand and tremendous uncertainties and difficulties on the other hand, it is not clear whether early or later mover strategy will result in better performance (Yadong and Peng, 1998). One school of thought strongly recommends companies to seek to obtain first mover advantages when considering an entry into emrging markets. This is because (besides the advantages shown in table 2) competition in those markets over time is likely to be more intense; therefore, in order to have a strong position in the market, an early entry is required. It might also be the case, especially in protected emerging markets (e.g. China in the 1980s), that only a limited number of FDI projects are allowed in some indusrties at a given time, making the timing an essential factor for the companies who wants to enter that specific market (Yadong and Peng, 1998). Another school of thoughts reccomends, in particular when dealing with emerging markets, to wait and see, and they refer to studies that have shown that early movers are less profitable than late entrants (Boulding and Christen, 2001). Significant costs are encountered in emerging markets due to the significant differences such as institutional structure, organizational structure and differences in the external environment (compared to Western markets) which increase the uncertainty, costs and the risk of failure. They recommend companies to wait and learn from their competitors' mistakes. After some time, due to first movers effort and lobbying, the local government will learn how to deal with foreign companies and develop a better framework for FDI, which will enable a smoother entry for late movers (Yadong and Peng, 1998; Rahman and Bhattacharyya, 2003; Peng 2006).

2.5 Entry Modes (How)

Entry modes available for companies to choose are in theory the same for each market. However, there might be some regulations regarding the choice of entry modes. For instance, emerging markets, such as China and India have focused on regulation regarding entry modes in order to assure local involvement and protection of domestic companies (Pelle, 2007).

Assuming that there is no regulation regarding entry modes, companies can choose between non equity and equity entry modes (figure 2) when going abroad:

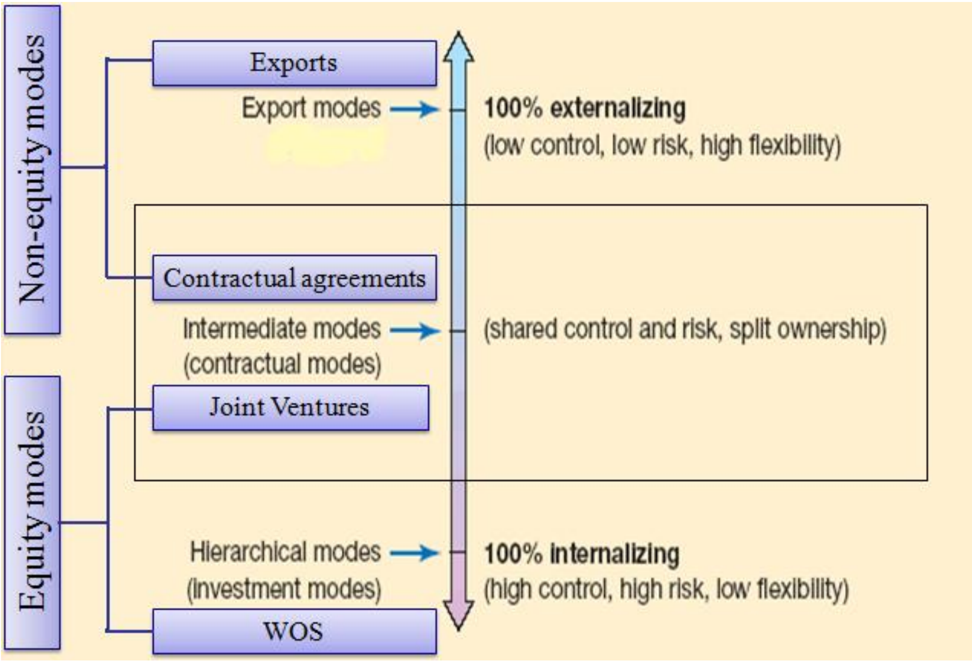
Figure 2: The choice of entry modes: A hierarchical model



Source: Peng (2006: 231)

As illustrated in the hierarchical model, non equity modes include exports and contractual agreements, while equity modes include Joint Ventures and wholly owned subsidiaries (WOS). Hollensen (2004) on the other hand divides the entry modes into export modes, intermediate modes and hierarchical modes. The difference compared to Peng's classification is that intermediate modes include contractual agreement and Joint Ventures (in Peng's model they are separated), while hierarchical modes only include WOSs. Unifying the two models (Figure 3) and creating a single model can clarify the possible choices companies can make and show the differences between the models.

Figure 3: Entry modes – Two models in one



Source: Peng (2006: 231) and Hollensen (2004: 274)

The respective authors are speaking about similar themes, but have decided to present it in different ways. Peng (2006) looks upon the topic from an equity or non equity perspective, while Hollensen (2004) divides it according to the extent of externalization and internalization. The pros of choosing non equity modes (mainly exports but also contractual agreements) is that a company is less committed to a certain market which reduces the risk while making the company more flexible. The con on the other hand is that the company has a low control of the activities. Choosing equity modes (WOS and JV) on the other hand indicates a large commitment. If the company decided to focus solely on WOS the control of the activities will be mainly done by the company, but risk will be increased and the company will be less flexible to changes in the external environment. In order to reduce the risk JV can be chosen, but the disadvantage is that the control and profit will have to be shared (Lasserre, 2007; Peng, 2006; Hollensen, 2004; and Cavusgil, 2002). Furthermore, to join two different organizations with different organizational cultures, can be a challenging process (Child et al., 2005). A further comparison of the different entry modes is shown in table 1.

Table 2: Comparison of the different entry modes

	WOS	Acquisition	JV	Licensing/ franchising	Agent/ Distributor
Upfront investment (financial and managerial)	HIGH	HIGH	MEDIUM	LOW	LOW
Speed of entry	SLOW	QUICK	QUICK	MEDIUM	QUICK
Market penetration	MEDIUM	HIGH	MED/HIGH	MED/LOW	MED/LOW
Control of market (Customer knowledge)	HIGH	HIGH	MEDIUM	NIL (Nothing)	LOW/NIL
Political risk exposure	HIGH	HIGH	MEDIUM	LOW	LOW
Technological leakage	LOW	LOW	HIGH/MED	HIGH	LOW
Managerial complexity	HIGH	HIGH	HIGH	LOW	LOW
Return on Investment (ROI)	HIGH/ MEDIUM	HIGH/ MEDIUM	HIGH/ MEDIUM	HIGH	RETURN?

Source: Lasserre (2007: 209)

It is important to bear in mind that this is the theoretical picture of the situation. By looking at specific examples, the scores given will in many cases be different. For instance, in some situations a JV might require a higher upfront investment than a WOS. Furthermore, the ROI when speaking about Licensing/Franchising is higher than for WOS, JV and Acquisition. This is because of a minimal upfront investment, but the absolute value is small. The different entry modes have both merits and defects and there is no single rule for which one to choose. In fact companies can operate with different entry modes in different markets, or begin with one entry mode and later move to another. Sometimes, as it is the case with retailing, the industry may affect the decision of entry modes. When speaking about internationalization of the retail industry it is not necessary to go through all the different entry modes available, but to emphasize the main entry modes being applied.

Dawson et al. (2006) mentions four main entry modes retail companies should consider:

- Own subsidiary (green field investment);
- Acquisition;
- JV;
- Franchise.

Alexander and Doherty (2009) add further modes of entry such as merger, flagship stores, concessions, exporting/wholesaling, and internet sales as relevant entry modes options for retail industry. Clearly, the preferred mode of entry within the retail industry is the equity modes; hence the equity modes will be investigated further.

2.5.1 Establishing Wholly Owned Subsidiaries (WOS)

Green field investment is one of the entry strategies that is used in order to establish a WOS –the other being acquisition. The former means to start from the scratch with investments in the construction of the necessary buildings, offices and other type of facilities. The second strategy to establish a WOS is by acquiring the full control of other companies. Control of assets, operations and management is transferred from one firm (target) to another (acquirer) (Peng, 2006). The main merits and defects of Green field investment and acquisition are:

Table 3: Merits and defects of WOS

Entry mode	Merits	Defects
Green field investment	• Full equity and management control • Better protection of property and know how	• Expensive and risky mode • Slow entry of new markets • Longer payback period
Acquisition	• Rapid entry into new markets • Quick access to distribution channels, market knowledge and labor force. • Shorter payback period	• Expensive and risky option • Challenges faced in the process of integrating the acquired company

Source: Lasserre (2007), Peng (2006), Zang and Wang (2006), and Hollensen (2004)

Green field investments give a company full control over all activities and operations, thereby avoiding the challenges often experienced in JV and mergers. This enables the company to make quicker decision since it does not have to be discussed with a different partner. Furthermore, the company is protected against other companies copying the knowhow (Peng, 2006). In several JV for instance the partner, after gaining the necessary know how has left the JV (Child et al., 2005). On the other hand, this type of entry mode is expensive (low sales compared to overhead costs in the early stages), risky and makes the company less flexible in case of a situation where it needs to pull out from the market due to, for instance, political changes in the society (Peng, 2006). In particular when dealing with emerging markets, issues like political and economic instability need to be considered carefully, and might be the reason for not choosing WOS as an entry mode (Pelle, 2007). Furthermore, it is a slow entry mode, since it can take several years before the facilities are ready for operation. Thereby, some of the potential opportunities might be lost and first mover advantages might be gone (Peng, 2006; Hollensen, 2004). To deal with this issue of slow entry, acquisition should be considered. By acquiring other companies, a fast market entry will be possible. Furthermore, acquisition gives quick access to the acquired companies' distribution channels, market knowledge and labor force. However, this entry mode is even more costly and risky compared to a Greenfield investment (Lasserre, 2007; Peng, 2006; Hollensen; 2004, Dawson et al., 2006; and Alexander and Doherty, 2009). Furthermore, it can be a challenging process to integrate the acquired company, and often acquisition can lead to a low performance and failure (Child et al., 2005). Finally, companies who are willing to be acquired might suffer economically, but due to the lack of transparency (especially in emerging markets) the acquirer might not be aware of these issues before signing an acquisition contract (Peng, 2006). Zang and Wang (2006) who looks at entry modes from an emerging market perspective, mention "Brownfield" entry mode as an important entry strategy for emerging markets. It is a special case of acquisition, as after acquiring the company the acquirer replaces the plant equipment, labor and production line. This is according to Zang and Wang (2006) done because companies in emerging markets do not match international standards in terms of technology and management. Perhaps a Greenfield investment would be more appropriate since such extreme changes and improvements are done, but "Brownfield" entry strategy gives a quicker market entry, market share of the acquired company and local market knowledge, which is why this strategy is being used. The main disadvantage is high integration costs due to restructuring and resource transfer.

In the case of retailers, Dawson et al. (2006: 62) recommend the use of Green Field Investment *"in cases where the retail formula in question is very different from that operating locally and where firms already enjoy a highly developed acquired skill set."* In fact many retailers use green field investment when internationalizing, but often, according to Alexander and Doherty (2009), are committing the same mistake; they replicate the domestic operation abroad. Therefore, the recommendation given is to investigate and understand the market, in order to avoid failure and withdrawal. Replication of domestic operation has however proved to be successful, but only in geographically close markets with similar culture, regulations and distribution systems (Alexander and Doherty, 2009; Hollensen, 2004). Acquisition is another type of entry and expansion mode used commonly in the retail sector. Dawson et al. (2006) recommends acquisition (buying a chain, if possible a market leader) mainly when a retailer wants to enter a mature market. The challenging part with acquisition is the integration of the two different cultures, and different formula. Furthermore, acquisition in the retail industry requires a large investment to standardize and update systems. (Dawson et al., 2006). Alexander and Doherty (2009) mention several examples of failed retailer acquisitions with reasons including;

- Fundamental problems in the management of the target company which the acquirer is not able to deal with;
- Difficulties with integrating the two company cultures;
- An underestimation of the cultural difference in the target market(s) compared to those which the acquiring company is operating in.

Although Alexander and Doherty (2009) are looking at the issue from retailer perspective, the three examples given are more or less same for other industries. Basically, according to the literature being studied, the main drawback and advantages of both strategies are similar regardless of which industry is being dealt with. The merits and defects given by Alexander and Doherty (2009) and Dawson et al. (2006) do not differ from the defect and merits given by Peng (2006) and Hollensen (2004) for instance. A more specific explanation, when it comes to retail sector, would have been appropriate. How do the choices of entry modes differ in this sector compared to manufacturing industry for instance could have been illustrated. Dawson et al. (2006), however gives advice on when to use which entry mode, but it is considered not to be sufficient. Another critique is the static covering of entry modes by basically every single author. In many cases retailers tend to enter the market through acquisition and later combine the growth with green field investments and further acquisitions, but none of the authors (except Peng (2006) emphasizes this.

2.5.2 JV as an Entry Mode

JV is another type of equity mode involving some FDI. A JV is basically a third newly created company jointly owned by two or more parent companies (Child et al., 2005). A JV can be divided into three principal forms (Peng, 2006):

- Minority JV (less than 50 % of equity);
- 50/50 % JV
- Majority JV (more than 50 % of equity).

The advantages of using a JV as an entry mode is that the costs and risk are being shared leading to a certain degree of control while limiting the risk exposure. The second advantage is that the entrant gains quick access to knowledge about the host country environment and the third main advantage is that JV may be more politically acceptable compared to WOS, which will enable a smoother entrance process (Alexander and Doherty, 2009; Dawson et al., 2006; Peng, 2006; Hollensen, 2004; Cavusgil, 2002) Regarding disadvantages, JV often involve culturally diverse partners with divergent aims and objectives and incompatible backgrounds which can create several challenges. According to Child et al. (2005) one of the most challenging processes within the JV is to make the “marriage” between different partners function. Child et al. (2005) has studied this issue in depth, and concludes that it often is due to cultural difference within the organization cultures that JV becomes challenging. Furthermore, the efficiency of the alliance in terms of effective equity and operational control might be difficult because two or more partners need to agree on every decision (Lasserre, 2007; Peng, 2006; Child, 2005; Hollensen, 2004). However, in some cases JV (sometimes only minority JV) may be the only feasible entry mode, either due to regulations or because solo investments are discouraged (Cavusgil, 2002). In India for instance, single brand foreign retailers can only own 51% of a JV while multiple brand retailers are only allowed to set up wholesale or franchise operations (Alexander and Doherty, 2009). Besides being used as a mode of entering a foreign market, JVs are also used in order to reduce manufacturing costs and to develop new technology (Hollensen, 2004).

When it comes to international retailing activity, JVs has become an important factor. In this industry, JV mainly involves one local partner and one incoming partner. Only recently have studies been conducted regarding the use of JV in retail industries. According to these studies, retailers establish JVs in order to gain following advantages (Alexander and Doherty, 2009):

- New international markets;
- Entrepreneur skills and site location;
- Recruiting new executives;
- Establishing a store image and retail brand in new market;
- Establish relationship with family controlled business and to secure political and business influence.

However, it is a challenging process to find a sufficiently capable local partner with whom to create a JV. But even when that is done it is not any guarantee for success. (Dawson et al, 2006; Peng, 2006; Child, 2005; Hollensen, 2004). According to Peng (2006), companies often consider mergers and acquisitions as being a better strategy compared to strategic alliances such as JV, and therefore often decide to go directly into acquisitions. However, JV compared to acquisition cost less and allow firms to learn before doing everything by themselves. Regarding emerging markets, Zang and Wang (2006) suggest JV as the preferred entry mode since it gives the opportunity to establish a business operation in a foreign country where WOS is too expensive, risky or not feasible due to other reasons. This is because emerging markets have high political and economic uncertainty, poorly developed legal and institutional frameworks and there is a lack of market information and communication systems. By choosing a JV, companies can better overcome these challenges and reduce transaction costs (Zang and Wang, 2006). According to Peng (2006) it is inconclusive whether acquisitions or JVs are the preferred options. The recommendation given to companies is to compare and contrast acquisition options with JV before making the final decision (Peng, 2006).

2.5.3 Franchising as an Entry Mode

Franchising is the only non equity entry mode being investigated further in this chapter. It is defined as *"an organizational agreement form based on a legal agreement between a parent organization (the franchisor) and a local partner (the franchisee) to sell a product or service using a brand name and process that have been developed and are owned by the franchisor."* (Alexander and Doherty, 2009; 260) By making this agreement the franchisor is sharing the costs and the risk associated with entering the market. On the other hand the franchisor does not have much control, and also the potential income will have to be divided with the respective partners (Alexander and Doherty, 2009; Peng, 2006; Hollensen, 2004). The fast food industry and retail industry in many cases is an example of franchising. By using this entry mode companies from the respective industries are able to expand rapidly in the entered market(s) with a reduced risk, whilst retaining the control of key business functions. Of the 94 UK based retailers with international activities, 34 used franchising as an entry mode (Alexander and Doherty, 2009).

2.5.4 High Control vs. Low Control

The control of activities abroad depends on the choice of entry modes. Equity modes, especially WOS gives a full control over the activities, while non equity modes give less control. A debate has emerged regarding the control issues, where two schools of thought have clashed with contradictory opinions (Peng, 2006). The "high control" school argues that since companies face several uncertainties overseas, a high level of control, mainly in WOS, will be the "winning" strategy. They recommend that companies avoid or "get rid of" low control operations such as JVs for instance and replace them with WOS. The low control school on the other hand makes four arguments against the high control schools theory. Firstly, they disagree with the point of view that WOSs outperform JVs, since there is no conclusive evidence that could indicate this. They argue that successful JVs with mutually satisfactory partners, such as SonyEriccson, exist. Secondly, they argue that low control minority JVs may give a company more opportunities for future growth while high control majority JVs and WOS may have exhausted such opportunities. Thirdly, there are differences regarding high control between manufactures and service industries. Manufacturers, when dealing with environmental uncertainty, may prefer JVs, whereas service providers may be more interested in WOS, since they are interested in having full control over their operations. Therefore, according to low control school of thought, the industry needs to be considered before recommending an entry strategy. Finally, cultural background might influence the preference of entry modes and the preference of level of control. Some studies suggest that companies coming from high power distance and high uncertainty avoidance cultures prefer high control. Japanese companies for instance investing in US often prefer the full control entry mode (WOS) while US firms (Low power distance and low uncertainty avoidance) mainly prefer JV when entering the Japanese market. This shows according to the low control school, that high control is not a preferred mode for every firm; therefore it can be “wrong” to advise every firm to aim at gaining highest control possible. (Peng, 2006) However, JV is often chosen in Japan due to a complex distribution system, regardless of the cultural background of the entrants. The respective authors referred to in this Literature Review do not really express whether they belong to the high level or low level of control school, but give an objective overview of the options.

2.6 Expansion within the Market

This section focuses on literature dealing with how companies can increase the growth and market share after entering the market(s).

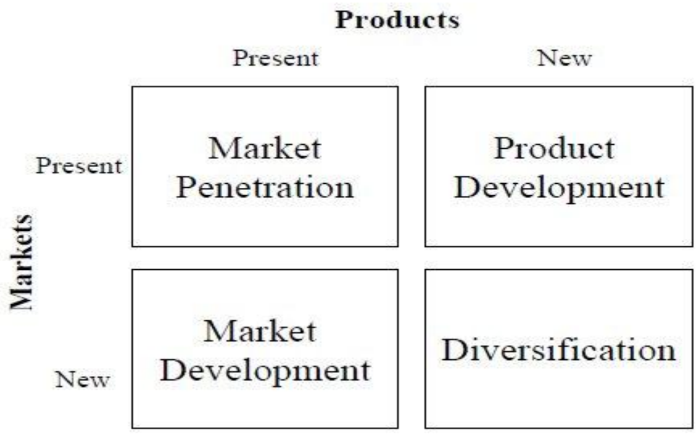
2.6.1 Growth Strategies - Corporate Level Strategy

Although the choice of entry modes is important, it is not a guarantee for success. Post entry strategies or growth strategies are according to Peng (2006) of similar or even greater importance. Most literature covering growth strategies looks at the topic from a broad perspective, meaning that internationalization is one of the options for growth. In that case, the growth strategies should have been covered before entry modes, but since this research aims at investigating how companies increase their growth and market share after entering the market(s), it has been decided to cover the growth strategic aspects/expansion strategies in the end.

Ansoff Growth Matrix

The growth matrix (figure 4), developed by Ansoff (1987), suggests that companies can grow the business via existing and/or new products, in existing and/or new markets.

Figure 4: Ansoff's Growth Matrix



Source: Ansoff (1987, 109)

Market penetration strategy means that companies are selling more of their existing products in existing markets. This can be achieved by taking a share from the competitors or by attracting non users. The company can also develop new products for the existing markets (product development) or enter new markets (segments) with present products (market development). The latter does not necessarily have to be done through internationalization. Finally, diversification means to enter new markets (segments) with new products. Other authors such as Kourdi (2009), Peng (2006), and Dess (2005) also focus on growth strategies.

Kourdi (2009) suggests five routes companies can take in order to expand on their activities after entering the market(s).

- Organic growth (expanding through green field investment);
- Mergers and acquisitions;
- Integration (strategic alliances and JVs);
- Diversification;
- Specialization.

The growth strategies are not mutually exclusive and can overlap. Peng (2006) and Dess (2005), who also looks at the growth strategies, focuses solely on diversification and describes organic growth, mergers and acquisition and integration as means to achieve diversification.

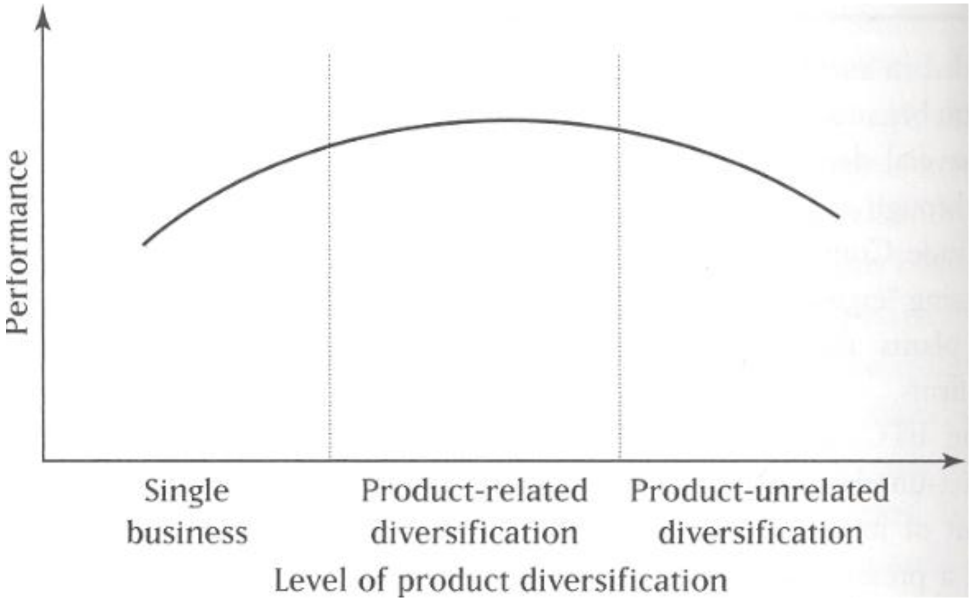
Diversification

Companies have the opportunity to diversify their products or diversify geographically (Peng, 2006).

Product Diversification

Companies can expand their business through product related or/and product unrelated diversification. The former means entering into new product markets and/or business activities that are related to existing markets and/or activities. The latter means entering into new industries that are not related to the firms existing business lines. The best strategy to follow is being discussed among academics. The majority of studies, mainly conducted in West, conclude that an increase in performance is experienced as firms shift from single business strategies to product related strategies while the opposite happens when a firm shifts from product related to product unrelated diversification. This is illustrated in the following figure:

Figure 5: Product diversification and performance



Source: Peng (2006: 364)

Single business strategies can be risky; therefore product diversification can be used. Although product unrelated diversification can reduce risk, the majority of companies lack the necessary capabilities in order to succeed with this strategy. Product related diversification on the other hand has proven to be able to reduce the risk and to leverage synergy. There are, however, several examples of companies, especially conglomerates in emerging markets, who are successful in pursuing the product unrelated strategy (Peng, 2006).

Geographic Diversification

Geographic diversification can occur in a country where a company is expanding to other cities or states, but it can also occur internationally. Geographic diversification (internationally) can be divided into two categories: limited international scope and extensive international scope (Peng, 2006). The former approach is developed by the Uppsala School, who among other things suggests entrance of physically and culturally close markets (Hollensen, 2004). US firms focusing on NAFTA markets or Spanish firms focusing on the South American markets are examples of limited international scope. The latter is when firms are diversifying into geographically and culturally distant markets. However, both close related and distance markets can be difficult to enter (Peng, 2006).

The Means to Achieve Diversification and Growth

Product and geographical diversification are often being achieved through acquisition and mergers. However, more than 97 % of M&A is Acquisition. Acquisition is often used as a post entry strategy in order to increase the market power and market share. This can be archived through horizontal (acquisition of a competing company in the same industry), vertical (upstream acquisition of supplier or downstream acquisition of buyers), and conglomerate acquisition (acquisition of companies in product non related industries) (Peng, 2006). Another way to diversify is through strategic alliances and JVs. These can be used in order to enter new markets or expand within to existing market (geographical diversification), in order to reduce manufacturing costs in the value chain, and in order to develop and diffuse new technologies (product related and product unrelated diversification) (Dess, 2005). Finally, organic growth is mentioned as an expansion strategy within the market, with similar pros and cons as a green field investment.

2.7 Research Contribution

Having covered and reviewed the merits and limitations of the available literature, this section aims at identifying how this research will build on the existing literature. The main limits identified are that the existing literature does not cover the dynamics of entry modes and lacks depth in relating the choice of entry modes to the entry of emerging markets. It is estimated that this research will add new knowledge and value in both of these two areas. This will be done by investigating the entry strategies of a developed country retailer into emerging markets and by identifying the considerations behind the decisions. Furthermore, the research will continue by focusing on the dynamics of entry modes, which can be used as a strategy in order to expand on the target market(s) after entering the market. A more contextual and detailed picture of the internationalization process (entry modes and dynamics of entry modes) will be given since the focus is on a certain type of market (an emerging market) and on a specific industry (a retailer industry).