A Study on different Modes of Business Entry with respect to Indian Markets

Abstract

India had the distinction of being the world's largest economy in the beginning of the Christian era, as it accounted for about 32.9% share of world GDP and about 17% of the world population.

The wake of globalization was first felt in the 1990s in India when the then finance minister, Dr. Manmohan Singh initiated the economic liberalization plan. Since then, India has gradually become one of the economic giants in the world. Today, it has become one of the fastest growing economies in the world with an average growth rate of around 6-7 %. There has also been a significant rise in the per capita income and the standard of living. Poverty has also reduced by around 10 %.

Modes of entry into an international market are the channels which your organization employs to gain entry to a new international market. India is one of the fastest growing markets in the world, making it one of the more attractive investment opportunities for companies across the world. However, the business opportunity comes with its own challenges – specifically, finding your way around the complex corporate, legal and tax systems.

The choice of entry mode represents a key strategic decision facing firms seeking expansion into international markets. The objective of this article is to present a framework of modes of entry of international businesses into Indian Market. The methodology adopted for this research is through secondary sources.

Keywords: International business, strategic modes of entry, globalization, foreign direct investments.

Introduction

International business consists of trades and transactions at a global level. It involves cross-border transactions of goods and services between two or more countries. Transactions of economic resources include capital, skills, and people for the international production of physical goods and services such as finance, banking, insurance, and construction. International business is also known as globalization.

Modes of entry into an international market is the channel which organization that wants to operate in international markets employ in order to gain entry to a new international market. The choice for entry mode is a critical determinant in the successful running of a foreign operation. Therefore, decisions of how to enter a foreign market can have a significant impact on the results. Expansion into foreign markets can be achieved via the following mechanisms - exporting, licensing, franchising, turnkey projects, mergers and acquisitions, joint ventures, wholly owned subsidiary, strategic alliance, management by contract.

India has emerged as a potential and a diversified market for the Western firms and other foreign investors. Earlier establishing a business in India was a challenging assignment, but economic reforms, brought in by different Indian governments over a period have smoothened the course of entry for multinationals companies into Indian markets. The timing of entry into a nation is a very important factor, if a firm enters the market ahead of other firms, it may quickly develop a strong customer base for its products. There are many foreign companies eyeing opportunities in India. For entry into the Indian market, it is essential to identify the target market and find good partners who know the local market well and are completely acquainted with procedural issues.

India is also an attractive destination for Foreign Direct Investment (FDI) due to its first-class outsources destinations, which offers cheap, skilled labor pools. Moreover, the Indian government focuses on implementing investor-friendly policies, which enhances the attractiveness of the Indian market.

Review of Literature

- Three different rules of entry mode selection statement by Hollensen; Naïve rule: The decision maker uses the same entry mode for all foreign markets. Pragmatic rule: The decision maker uses a workable entry mode for each foreign market, which means that the manager uses different entry modes depend on the time stage or the business stage. Strategy rules: This approach means that the company systematically compared all of the entry modes and evaluated the value before any choice is made. This approach is common in large firms, because the research requires resources, capital and time.

- In the meantime, both the number of middle class consumers and their spending per capita continues to rise, driving rapid growth of domestic Indian consumer companies from Amul (foods, dairy), to Dabur (personal care) to Godrej (home care and hair care) to Patanjali (foods, beverages, personal care) to Ghari (laundry detergent). To enter the Indian market with more profitability, multinational companies would benefit by creative use of the country’s supply chain and the explosive growth of its online channel. Two ways to achieve this are by sourcing locally and selling via e-commerce. - Study by Harvard Business School.

- You Don’t Need an “India Strategy” — You Need a Strategy for Each State in India - India is a large, fragmented, and heterogeneous market. Within the country, there are large — and often underestimated — regional differences in language, culture, talent, infrastructure, and wealth, all of which lead to wide variations in business landscapes. Pratima Singh - Frontier Strategy Group

- Stopford and Wells (1972) observed that entry is contingent upon firm's experience in global markets and its ability to diversify product lines Kogut and Singh (1988) found that industry, firm, and country-specific factors influence the selection between joint venture, acquisition and new venture.

Statement of the Problem

As a result of further liberalization of the Indian market, it has become easier for investors to enter. However, due to country-specific complexities of doing business in India, it remains a challenging business environment. Multinationals are learning that many different India’s exist within the subcontinent. The big differences—the haves and have-nots, languages, literacy, and geography (including the urban–rural divide)—make it difficult for a global brand to satisfy all the country’s consumers. Multinationals also face the challenge of low-cost local competitors.

Research Methodology

The data samples collected to base this study are from secondary sources through various articles, journals and blogs.

Companies that want to expand their activities in global markets need to do some market research and analysis. One of the fundamental steps that need to be taken prior to beginning international marketing is the environmental analysis.

Strategic planning, due diligence, consistent follow-up, and perhaps most importantly, patience and commitment are all prerequisites to successful business in India. This market necessitates multiple marketing efforts that address differing regional opportunities, standards, languages, cultural differences, and levels of economic development. Gaining access to India's markets requires careful analysis of consumer preferences, existing sales channels, and changes in distribution and marketing practices, all of which are continually evolving.

It is very important that an organization considers its environment before beginning the marketing process. In fact, environmental analysis should be continuous and feed all aspects of planning.

The macro-environment is very important and determining while analyzing the environment: Political and Legal forces, Economic forces, Socio-cultural forces and Technological forces. These are known as PEST factors.

Many of the international companies entering India in the late 1980s and 1990s chose licensing as the entry route to India to gain a quick access to the Indian market at a minimal investment.
Some of the important points for market entry in India are: the ability to understand the diverse market and strategies towards specific regions and income groups (target segment); crafting offerings according to the target group in order to gain early acceptance; integration of the informal sector into the core business model by gaining access to relevant networks; consistency in approaching the market; obtaining mandatory licenses and approvals; understanding the import procedures is one of the key issues for first time export to India.

India has opened itself up to foreign companies in recent years and the GDP growth projections now stand at 7% in 2017-18 and 7.7% in 2018 as per the data released by International Monetary Fund (IMF)-19. These figures make India an attractive destination for international investment – especially now that economic reforms such as GST (Goods and Service Tax) & demonetization have shown the serious commitment of the country to tackle corruption and bureaucracy.

Objectives of Modes of Entry

- To analyze globalization of India through various business entering India
- To study the impact of international business in Indian domestic market
- To assess Indian markets whether they are suitable to sustain international business
- To identify various strategic modes available to conduct international business

References of Successful International Business

Coca Cola: Coca-Cola came to India in the year 1956. Since India had not any foreign exchange act, Coca-Cola made huge money operating under 100% foreign equity. Indian foreign exchange act was implemented in the year 1974 during Indra Gandhi time. The foreign exchange act stated that foreign companies selling consumer goods must invest 40% of its equity stake in India in its Indian associates. Coca-Cola agreed with investing 40% foreign equity but stated that they would still hold full power in technical and administrative units with no local participation allowed. This demand was against the foreign exchange act. The government instructed Coca-Cola to either write up a new plan or to leave the country. Coke India left that year. After the departure of Coke company from India, George Fernandez said: - Coke had 100% equity in India. Their investment was not much. They came into the country with RS. 6,00,000, which at the present rate of exchange is less than $20,000. On this Rs.6,00,000 investment, they had taken out of the country, by a modest estimate, 250 million rupees (about $ 8 million) as profit in the twenty years they had been in the country. In 1993 Coca-Cola re-entered after government approval, due to the new liberalization policies that were coming to India. The foreign exchange act which had once prevented companies from keeping too much equity had now been completely modified.

Microsoft: Microsoft India Private Limited is a subsidiary of American software company Microsoft Corporation, headquartered in Hyderabad, India. The company first entered the Indian market in 1990 and has since worked closely with the Indian government, the IT industry, academia and the local developer community to usher in some of the early successes in the IT market. Increasingly, the company has become a key IT partner of the Indian government and industry, supporting and fueling the growth of the local IT industry through its partner enablement programs. Since its entry into India, Microsoft has focused on three key objectives:

- To become a key IT partner of the Indian government and the local IT industry
- To support and fuel growth of the local IT industry through its partner enablement programs
- To use the Microsoft Unlimited Potential program to enhance education, jobs and opportunities and foster innovation through relevant, affordable access to computing.

A few companies such as Levi Strauss set up wholly owned subsidiaries while others such as Adidas and Reebok entered into majority-owned joint ventures. This helped them to gain a greater control over their Indian operations, sourcing and supply chain, and brand. According to the Indian policy on foreign direct investment (FDI), Zara teamed up with the Tata Group, India, to form a joint enterprise in February 2009. These are just some of the great success stories that are unfolding in India.

Analysis

According to International Monetary Fund World Economic Outlook (October-2016), GDP (nominal) of India in 2016 at current prices is $2,251 billion. India contributes 2.99% of total world's GDP in exchange rate basis. India shares 17.5 percent of the total world population and 2.4% of the world surface area.

It is a safe assumption that, with India's impressive economic growth being matched by a greater number of middle to high income consumers, international brands and products will continue to grow in popularity. The opportunities are many in India and is the second-most populous market in the world, but also among the most complex to enter as a company without any previous experience in the region.

According to the observation based on the study we can state that due to various international businesses entering India we saw growth in the various markets and an increase in information and technology, innovation and creativity of products better lifestyles, employment opportunities in India.

Conclusions

Due to India owing to a vast geographical diversity across the country being divided into various zones like North India, South India, Eastern India and Western India, which are considered to be mini country's within a country who have their own cultures, languages, lifestyles etc., and this has attributed India towards attracting various global companies to India due to low cost in labor forces, increasing of infrastructure daily, low investment costs and not so rigid laws and regulations which have made India as one of the global leading retailers markets followed by US and other countries.

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