



Aalto University
School of Business

International Business and Strategy

*Session 7: Foreign market entry, global production
and supply chains*

Agenda for today

- Foreign operation modes
- Global production and supply chains
- Readings
 - Hill & Hult, Chapters 13 and 15
 - Myers, M. B., & Cheung, M. (2008). Sharing global supply chain knowledge. MIT Sloan Management Review, 49(4), 67-73.

Terminological issues

- Foreign market entry modes

VS

- Foreign operation modes and methods
 - “a company’s way of operating in foreign markets, or the “how” part of foreign operations” in a particular market at a given time (Welch and Luostarinen, 1988)
- > Are mode issues relevant beyond the moment of market entry?
- > Are they one-off decisions or reoccurring decisions?

KONE's mode packaging in Japan



Source: Benito, Petersen and Welch (2009) Towards more realistic conceptualisations of foreign operation modes, *Journal of International Business Studies*, 40, 1455–1470

- Dynamism of mode packages (mode additions and deletions over time)
- Collaboration between competitors, followed by licencing agreement, new product development, global alliance with cross-equity arrangements, reciprocal board appointments and a JV in China
- Influence of external factors: government regulations, market pressures, availability of suitable partners
- Influence of internal factors: control, resource availability, previous international experience, including mode experience

Mode combination rationale	Operation modes				
	<i>Primary mode</i>		<i>Associate operation modes</i>		
	Licensing	Exporting	JV	Marketing subsidiary	Production subsidiary
A. Different customer segments	X	X			
B. Commitment and control	X		X		
C. Different value activities	X			X	
D. Different value chains	X				X
E. Benchmarking local operators	X	X		X	

Source: Welch, Benito and Petersen (2018) Foreign Operation Methods, Edward Elgar, p. 428

Options between foreign operation modes

Contractual Modes

- Franchising
- Licensing
- Management contracts
- Subcontracting
- Project operations
- Alliances

Exporting

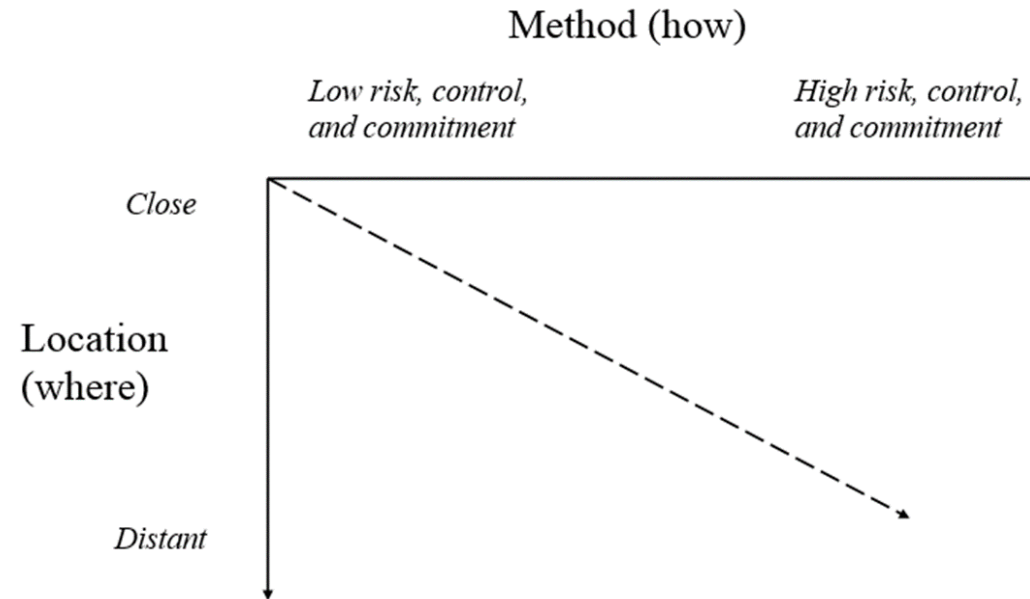
- Indirect
- Direct:
agent/distributor
- Own sales office/
subsidiary

Investment Modes

- Minority share
(alliance)
- 50/50
- Majority share
- 100% owned

Source: Welch, Benito and Petersen (2018) Foreign Operation Methods, Edward Elgar, p. 4

Key decisions in internationalization



Source: Welch, Benito and Petersen (2007) Foreign Operation Methods, Edward Elgar, p. 35

Managing the risk of internationalization

A firm may seek to reduce the risk associated with internationalization either

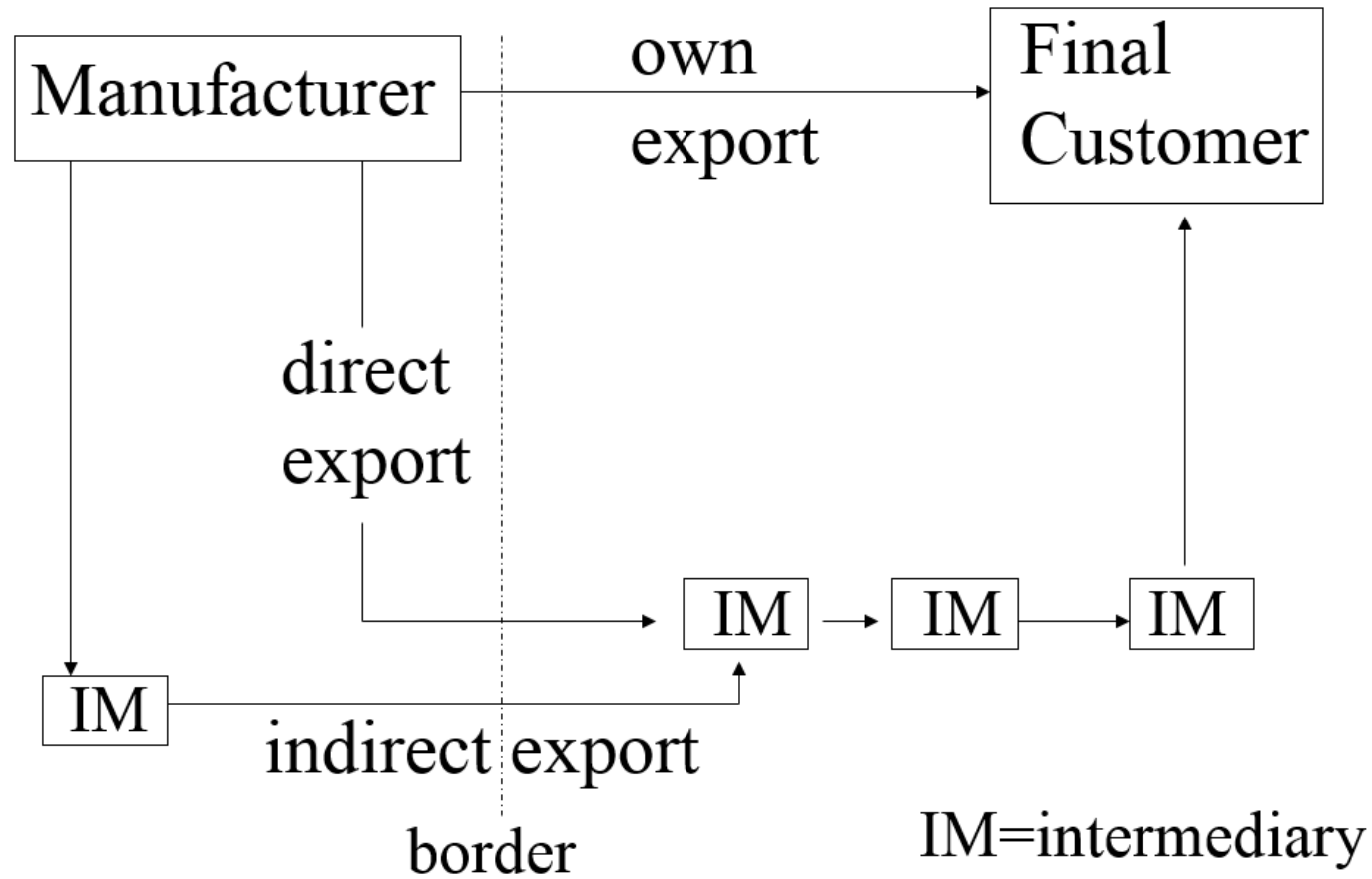
- 1) By selecting psychically closer markets,
 - psychic distance has been defined as “factors preventing or disturbing flows of information between firm and market” (Johanson & Wiedersheim-Paul, 1975: 308)
 - Immigrant entrepreneurs expand to foreign markets with which they have matching language skills and cultural knowledge (Sui, Morgan and Baum, 2015)

or

- 2) By using a lower commitment mode, e.g., licensing or exporting rather than investing in the establishment of a foreign subsidiary
-

Exporting

Export operations



Why foreign intermediaries?

- Low sales volume in the foreign market
- High start-up costs of sales subsidiaries
- Lack of experience and knowledge of the foreign market environment
- Possibility to tap into intermediary's local knowledge and networks
- Low cost method of expanding a range of foreign markets

Clarification of terms: Agent vs distributor

- **Agent**: does not take title to goods; acts as representative; is NOT a customer
- **Distributor**: takes ownership and possession of goods; effectively customer of the exporter

Shoes of Prey: The marriage of online and offline operations

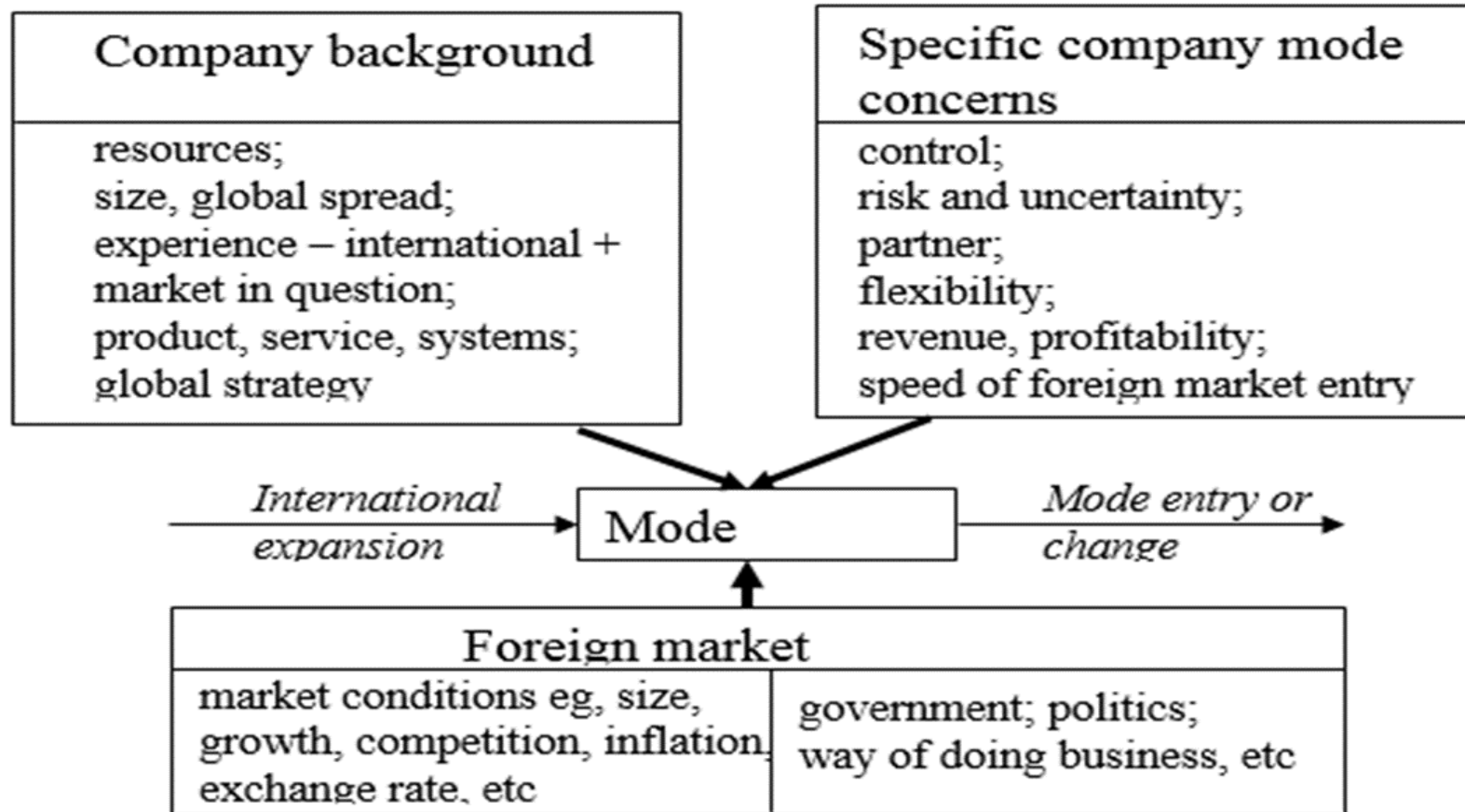
Offline operations

- A local manager hired to handle difficulties with supplier
- Kiosks opened in two department stores to offer customers touch & feel experiences; in-store booth
- Exclusive partnership with the department store chain Nordstrom in the US to set up interactive design centers
- Stepping back from physical presence due to high costs
- Move of headquarters from Sydney to the US

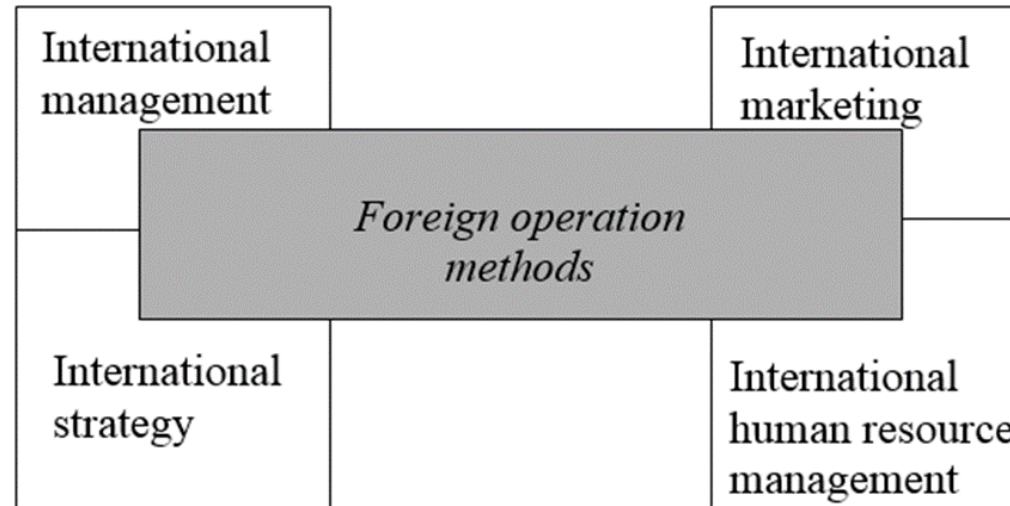
Online operations

- Challenges with different currencies
- Website in multiple languages
- Fast growth into a global operation
- A young blogger paid to feature shoes on social media
- A proven online platform and supply chain
- Mass customization model and commitment to US market

Influences on the choice of foreign operation mode



Broad implications of foreign operation methods



Source: Welch, Benito and Petersen (2018) Foreign Operation Methods, Edward Elgar, p. 5

About the case presentation

Practicalities about the case study presentation

Group presentations on Ruskovilla Switzerland take place on February 5th and on Freska on February 12th:

- Length of presentation: max. 15 minutes plus Q & A and feedback from company representatives, faculty, and fellow students
- Style: A presentation to the client, focus on the delivery of the key message
- All group members are expected to present
- Collective responsibility and accountability for group work
- To be graded 0-5, 50% of the total grade; by attending the session in which group presentations of the other company will be held, you can earn 1 – 4 extra points (1 = attendance, 4 = meaningful contribution to the session)

Case study groups: Feedback session *(also found on MyCourses)*

Group	Case	Feedback session: time	Names
1	Freska	13:00 – 13:15	Teemu Juutinen Taika Nummi Fanny Klucin Anthony Aka-Anghui
2	Ruskovilla Switzerland	14:40 – 14:55	Liisa Salo Annie Zhou Lotta Eräkangas
3	Freska	13:20 – 13:35	Charlotte Delbet Lauri Mattila Annika Hartzell Edward Juvonen

Case study groups: Feedback session *(also found on MyCourses)*

Group	Case	Feedback session: time	Names
4	Ruskovilla Switzerland	15:00 – 15:15	Johannes Korhonen Heidi-Henrietta Saarikko Lauri Lindfords Matias Kauhanen
5	Ruskovilla Switzerland	15:20 – 15:35	Jonas Heurtaud Meri Ikäheimo Verner Mäntymaa
6	Ruskovilla Switzerland	15:40 – 15:55	Annika Vasa Juulia Turkkila Randy Lai Susanna Haapalainen

Case study groups: Feedback session *(also found on MyCourses)*

Group	Case	Feedback session: time	Names
7	Freska	13:40 – 13:55	Lauri Puranen Sara Ettanen Markus Uusimäki Ella Pohjolainen
8	Ruskovilla Switzerland	16:00 – 16:15	Joel Rinne Sinikka Nussbaumer Shaun Teo
9	Freska	14:00 – 14:15	Oliver Malpass Ronja Kouvo Marja Karvinen
10	Freska	14:20 – 14:35	Jutta Virtanen Aleksi Luukkonen Raghav Sharma Ville Hynninen