

Go-to-market strategy

What is a market entry strategy?

A market entry strategy decides where, how and when a firm enters. In 2001, most of the largest firms sold mainly in their home region.

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Management summary In this guide, a market entry strategy is the set of decisions by which a firm takes its offer into a foreign market: where to enter, how to enter, and when and in what order. This concept guide separates the strategy from market selection, entry mode and localization; shows the mode decision as Brouthers and Hennart frame it; reports how far the world's largest firms reached in 2001, using Rugman and Verbeke's sales data; states what the evidence on mode fit and performance does and does not show; and gives a one-page record for writing an entry strategy down so it can be reviewed when conditions change.

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What is a market entry strategy?

§ 1 of 7

In this guide, a market entry strategy is the set of decisions by which a firm takes its offer into a foreign market. Three decisions make it up: where to enter, how to enter, and when and in what order. Each needs the conditions behind it written next to it, and each needs a stated reason to revisit it, because the second decision in particular is hard to undo.

The “how” has a working definition in the research. Brouthers and Hennart (2007)² describe the entry mode question as “the form of operation firms use to enter foreign markets”: whether a firm enters “through contracts (with distributors, resource suppliers, licensees and franchisees) or by extending the firm abroad, setting up sales or manufacturing subsidiaries”, and if it extends itself, whether it shares ownership in an equity joint venture or keeps full ownership in a wholly owned subsidiary.

² Brouthers, K. D., & Hennart, J.-F. (2007). Boundaries of the firm: Insights from international entry mode research. *Journal of Management*, 33(3), 395-425.

types in earlier studies, export and licensing among them, and set the choice between greenfield entry and acquisition aside as a separate decision.

The same review, citing earlier research, gives the reason to write the decision down carefully: “entry modes, once established, are difficult to change or correct”. A list price can be revised at the next review; a partner contract or a subsidiary, on the review’s account, cannot easily be.

How is an entry strategy different from market selection, entry mode and localization?

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Each of these is a part of the strategy or a consequence of it, and each has its own page here. Market selection answers where, and argues for judging market and mode together. Entry mode answers how, and what that choice trades between control, learning and reversibility. Localization is what entry asks of the offer itself. A strategy that names a country but no mode, or a mode but no reason, is a plan with a gap in it rather than a strategy.

Brouthers and Hennart (2007)² also warn against treating entry as a decision made at the level of the firm alone: “foreign entry is a multilevel phenomenon”. It is shaped at once by the parent firm, the operation and the transaction between them, the industry, and both the

home and the host country. A strategy copied from another firm, or from another country, carries that firm's conditions with it.

Where did the largest firms sell in 2001?

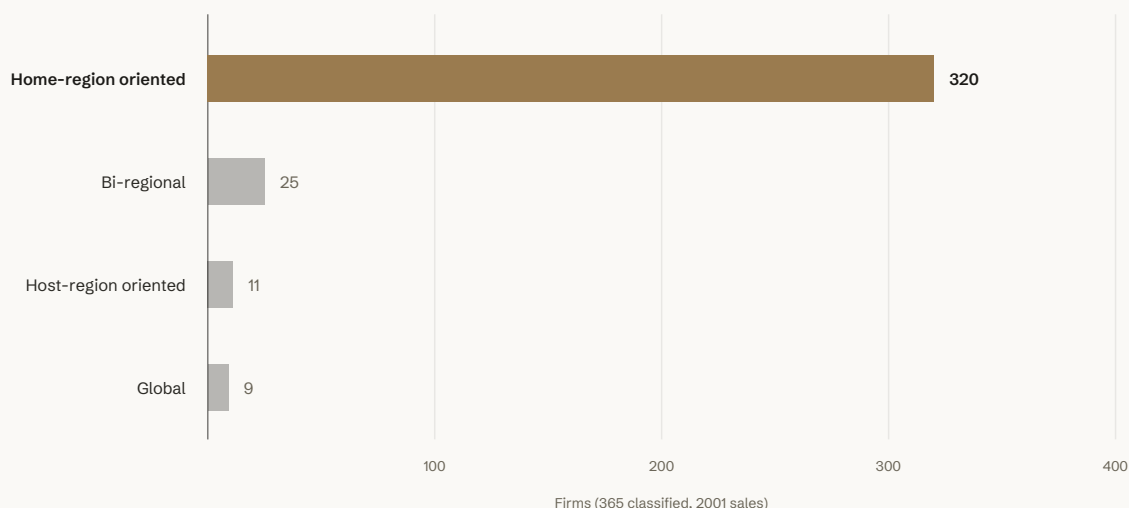
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In 2001, most of the world's largest firms sold mainly in their home region. Rugman and Verbeke⁴ (2004) took the 500 largest firms by 2001 revenue: 380 reported geographic sales, and 365 reported enough to be classified across the three regions of the triad, North America, Europe and Asia. The authors note that many of the 135 left out sold only in their home region. "For 320 of the 380 firms for which geographic sales data are available, an average of 80.3% of total sales are in their home region of the triad." The 80.3% is the weighted average within those 320 firms; across all 380, the home-region share was 71.9%.

⁴ Rugman, A. M., & Verbeke, A. (2004). A perspective on regional and global strategies of multinational enterprises. *Journal of International Business Studies*, 35, 3-18.

Figure 1 Where the largest firms sold in 2001

Of 365 of the largest firms classified by their 2001 sales, 320 sold mainly in their home region and nine met the authors' test for global.



Even among the largest firms in the world, selling evenly across regions was the rare case in 2001, not the norm.

Source Rugman and Verbeke (2004), Table 1, p. 7: classification of the 500 largest firms by the regional distribution of their 2001 sales across North America, Europe and Asia; 365 firms classified. Home-region oriented: at least 50% of sales in the home region. Bi-regional: at least 20% in each of two regions, under 50% in any one. Host-region oriented: over 50% in a region other than home. Global: at least 20% in each of the three regions, under 50% in any one.

The thresholds matter for reading the chart. The authors call a firm global only with “sales of 20% or more in each of the three parts of the triad, but less than 50% in any one region of the triad”, and of the 365 firms they classified, “only nine MNEs are unambiguously” global by that test. A further 25 were bi-regional and 11 sold mainly in a region other than their home.

The data have limits. “Data are for 2001”, and the measure is where sales fell across the triad, which the authors present as a starting point. The first of five limits they attach to the data “for purposes of strategy prescription” is that “the geographical sales distribution may vary for each SBU, even within a single MNE.” The data show where sales landed; they do not test which where decisions paid off, and the authors call a balanced spread of sales “likely beneficial” to sustained performance, though not critical for every firm. Our reading, which

they did not test: treat the home region as the base case to argue from, and give every step beyond it its own written reason. That is where the argument starts, not a verdict on it.

Which entry modes can a firm choose?

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A firm can enter through contracts with firms abroad, through an equity joint venture, or through a wholly owned subsidiary: the three main modes in the review by Brouthers and Hennart (2007)². Figure 2 sets them out as that review describes them. Several authors present the modes as a ladder of rising control, commitment and risk, and the review is careful here: “there appears to be a lack of consensus as to whether these contracts, JVs, and WOSs are distinctive categories of entry modes that can be arrayed on a single dimension of increasing control, commitment, and risk.” Treat the order in Figure 2 as a list, not a scale.

Figure 2 The entry mode decision

The first choice is whether to contract with others or extend the firm abroad. If the firm extends itself, the second is whether to share ownership.

Choice	What the firm does	Partners named in the review
Contract	Enters through contracts with firms abroad	Distributors, resource suppliers, licensees, franchisees
Equity joint venture	Sets up a sales or manufacturing affiliate and shares its ownership with other firms	Co-owners of the affiliate
Wholly owned subsidiary	Sets up a sales or manufacturing affiliate and keeps full ownership	None in ownership

The three main forms of operation, as Brouthers and Hennart frame them. Read them as options, not as rungs of one ladder.

Source Brouthers and Hennart (2007), pp. 395-396, describing the form of operation firms use to enter foreign markets. The authors note no consensus that these modes sit on one dimension of control, commitment and risk (p. 419), and count 16 mode types in earlier studies (p. 397).

Does choosing the right entry mode improve performance?

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In the one primary study cited here, firms whose mode matched a model's prediction rated their entries higher, and Brouthers and Hennart's²¹ review reports one study that corrected for self-selection and found the same; none of these studies measures how large the effect is on profit.

¹ Brouthers, K. D. (2002). Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 33(2), 203-221.

Brouthers (2002)¹ surveyed, in early 1995, the 1,000 largest firms of the twelve pre-1995 EU member states, chosen by 1993 sales, about the market each had entered most recently (213 questionnaires returned, 21%, yielding 178 entries). The fit test covered only the choice between a joint venture and a wholly owned subsidiary: licensing and export entries were too few and were dropped, and the 27 target countries were mostly developing and transitional economies. Firms whose choice matched the prediction of a transaction cost model, extended with institutional and cultural conditions, "reported significantly better mode performance, in terms of both financial and non-financial mode performance". Performance here is each respondent's rating, from 1 to 10, of how far the entry met expectations (83 and 73 firms in the two models). In the same models, wholly owned entries were also rated higher than joint ventures, a relation the author reports as significant (at the 10% level for the financial ratings and the 5% level for the non-financial ones).

Three limits come from the paper itself. The sample was "only very large EU firms", so the findings "may not be applicable to small and medium sized firms or to firms outside the EU". Key informants at headquarters supplied both the decision criteria and the performance evaluation, so the performance is reported by the people who made the choice, not measured independently. And the author warns that the results "may not represent mode performance implications in the developed, larger markets of the world."

Brouthers and Hennart (2007)² name the design problem every study in this area faces: "mode choice is endogenous, that is, it is a choice made by managers", so firms that pick one mode may differ from firms that pick another in ways that also drive results. They add that, as far as they found, only one study had corrected for this, and that it found the same pattern: firms using the modes transaction cost theory

predicts performed better. Hence, they write, “it appears that mode choice is important”. Across the evidence they reviewed, and noting that not all theories had been tested, they add that it appears “no particular mode type provides superior performance compared to other mode types”. The corrected study also used managers’ ratings of subsidiary performance, and it is not held here, so this guide reports it only as the review describes it. And Canabal and White (2008)³, reviewing 126 empirical studies from 1980 to 2006, found that most studies had examined which mode firms choose, and called for research on “what happens once entry mode choice has been made”.

³ Canabal, A., & White, G. O., III. (2008). Entry mode research: Past and future. *International Business Review*, 17(3), 267-284.

So the fair reading is this: fitting the choice between a joint venture and a wholly owned subsidiary to the transaction, institutional and cultural conditions went with better self-rated outcomes in one sample, and the one corrected study the review names points the same way. No study cited here tested fit for the contract option, and none measures how large the effect is on profit. That is enough reason to write the conditions down. It is not a promise of a return.

How do you write a market entry strategy down?

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Use the record in Figure 3, one row per market. It keeps the three decisions in separate fields and asks for the conditions behind each, so a reviewer can see which one has changed when results disappoint.

Figure 3 A market entry record

Write where, how and when in separate fields, with the conditions behind each and the change that reopens the decision.

Where	How	When and in what order	Conditions behind the choice	Reopen when
Which market, inside the home region or beyond it, and why this one next?	Which mode, and what does it commit: capital, people, partners, exit cost?	Timing, order against other markets, and what must be learned first.	Which parent, transaction, industry, home and host conditions back this mode?	Which change in those conditions sends the decision back for review?

An entry mode is hard to reverse once established. Record the conditions before the contract or the subsidiary exists, while changing course is still cheap.

One row per market. A row with a country but no conditions is a wish, not a strategy.

Source Author's decision worksheet. The mode field follows the entry mode decision described in Brouthers and Hennart (2007); the where field starts from the home-region evidence in Rugman and Verbeke (2004). The fields are reader inputs; no company data is supplied.

Three rules make the record useful in review:

- 1 Name the market and the mode together.** Fixing the mode first risks choosing the mode the team already knows. Fixing the market first and the mode later can hide a mismatch, which is the argument of the market-selection page linked above. Record both, and the conditions that tie them.
- 2 Write the conditions, not the preference.** A liking for full ownership is a preference. The fact that local partners would control a channel the firm needs is a condition someone can check.
- 3 Name the reopening trigger before signing.** Once a partner contract or a subsidiary exists, changing it is difficult, so the moment to say what would change the decision is before it is made.

Where does the evidence on market entry strategy stop?

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None of the studies cited here measures profit as an effect of the choice: the one primary study on performance asked managers to rate sales level, profitability and sales growth, among other outcomes, against their own expectations. Rugman and Verbeke (2004)⁴ describe where the largest firms sold in 2001; Brouthers (2002)¹ links mode fit to performance reported by very large EU firms in 1995; Canabal and White (2008), covering work to 2006, call post-entry decisions and performance “the relatively under-explored area”; Brouthers and Hennart (2007)² find a small set of fit studies and judge that mode choice appears to matter.

Brouthers and Hennart (2007)² judge that many of the theories that explain large firms’ mode choices appear to apply to small and medium-sized firms too; the underlying studies are not held here. Nothing here is specific to software, and there is no reliable base rate for international expansion success in this evidence. The record in Figure 3 does not need one. It needs the conditions written down, so the next review can see which of them moved.

 End of essay

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