

Literature Review: Challenges and Opportunities of Entering International Markets

Sohel Rana

Abstract

The trend of internationalization has increased the overall cost of production and manufacturing for businesses urging them to globalize and hire labor internationally in countries where cost of labor is low. However, this is possible only for companies which have a presence in international markets and are conducting business in several countries. This has created challenges for companies wishing to enter into international markets and maintain an equitable balance between costs and profits.

While entering into international markets, new startup businesses have come across several challenges along with several opportunities. Some of the major challenges faced by organizations include but are not limited to differences in organizational cultures and the behavior of employees in international countries. Companies have to invest time and effort in training new employees hired internationally. They may not be certain about an employee's loyalty and, consequently, may have to take difficult decisions about their wages and salaries. Furthermore, the changing economic conditions in countries is also a challenge for international companies because companies operating internationally are strongly affected by fluctuating economic conditions.

Along with multiple challenges come several opportunities for multinational corporations to expand into international markets. They may have better opportunities to invest and enter into multiple domains by adopting different marketing approaches. Some multinational companies have experienced positive growth in business due to fluctuating exchange rates which have proven to be beneficial for them. By having the collective skills of individuals and departments in different countries, companies can enhance the knowledge of their employees and build up the level of international expertise deemed requisite for business growth and success.

Key Words: International Markets; Emerging Economies; Business; Entrepreneurship; Multi-National Corporations.

Background of International Business

Globalization and internationalization have become imperative to businesses who have been operating in a single location. Technological advancements have enabled almost every business to expand beyond the boundaries of local regions. There are several reasons that companies are expanding abroad: for example, more sales opportunities exist across borders, compared to their local location. According to Paunescu (2018), companies that fail to leave their homeland may fail to expand the business significantly over time. A primary incentive for internationalizing rests in opportunities for cutting costs. As the companies aim to minimize their manufacturing cost, they shift their manufacturing operations to countries where cost of labor is quite low, in anticipation of high growth and profitability rates (Gamage *et al.*, 2020). In the process of conducting business abroad, companies come across different approaches to solve business problems and generate new business ideas. The manager has the capacity to build upon his/her own skills, and, at the same time, increase the company's effectiveness and implement broader horizons. Every business has

to reach a point where senior managers realize that they cannot continue to operate solely in the domestic market because of the limits placed upon growth and expansion. Local business may expand, but prospects for stability and growth decline, as more and more foreign companies and competitors enter the home market. (Carpenter and Dunung, 2012).

Emerging market countries are those countries which were considered to be less developed a few years ago but, due to substantial economic growth, they have assumed a competitive position in relation to highly developed countries. It has been predicted that in next ten years, emerging markets will have the highest contribution in the growth of world's economy, and these countries will be undergoing rapid economic transformation.

Companies which aim to do business in international markets will have proper strategic approaches to entering and engaging in international markets. It is not possible for companies to have a 'one size fits all' strategy for attracting new customers in different countries. As the markets grow and internationalize, it becomes important for companies to rapidly

adapt to changing conditions in the market (Abou-Moghli, 2018).

The experience companies have gained in respect of transacting business in western markets can add considerable value to the strategies adopted by managers planning to conduct business in emerging markets. Sending individuals to the West to study and develop their skill sets provides opportunities for emerging countries to catch up with western economies. Consequently, barriers to investment have decreased as consequence of the growing interests of many companies to outsource components of the business to emerging countries. For example, multinational corporations have expanded their bases of operation in India, USA and UK by outsourcing production, distribution and other units of the business in emerging markets. As a consequence, some of those countries now occupy a competitive position in the global economy (Kefalas and Kefalas, 2018).

When going abroad, companies have to face several opportunities and challenges. According to research undertaken in 2019, almost half of the world's population live in emerging markets, and

the rate of business growth in these markets is twice as much as in Western markets. The reason for rapid growth is rapid modernization and industrialization. Therefore, businesses seeking to enter emerging markets must have a clear understanding of the way business is conducted in different countries. (Kefalas and Kefalas, 2018).

Opportunities

According to Obi and Sykes (2020), companies operating in international markets have significant advantages: in particular, a diverse talent base equipped with intellectual and practical skills, low production costs, and the ability to bring in new technology and expertise that will ensure a competitive advantage in new markets. Better living standards within some countries creates opportunities for businesses seeking to enter new markets. As the purchasing power increases, new companies are able to sell their products and services at higher prices than has been the case in their country of origin. Furthermore, over time, the size of middle to low class populations in respect of earning power is increasing in many countries in the world, minimizing the entry barriers for businesses to

operate effectively and continue operations in these regions (Paunescu, 2018).

Some companies, which have entered the new markets internationally have been able to take advantage of low costs and higher productivity due to availability of resources and facilities in these regions. However, difficulties may be encountered by companies wishing to introduce a new product or service in the domestic market, as people may not have a compatible mindset and one product design may not suit the taste of people in a particular country. Thus, it is essential that companies understand the habits and preferences of people of country that they want to enter, prior to entry (Zekiri, 2016).

Research conducted by Yener, Doğruoğlu and Ergun (2014) has highlighted several opportunities available for companies intending to enter into UK market to achieve first mover advantage. By having the first mover advantage in any country, companies have been able to gain access to the best technical and professional skills, obtain government support and build strong relation with the top suppliers within the country. Additional opportunities identified by Heshmati and Lovic (2018) include launching 'arm's length

sourcing' relationships with local producers to reduce production and transportation costs. Some companies have secured persuasive advantage by combining their research and development divisions with the research and development division of a particular country. Katavić (2020), for example, has identified some success factors for foreign companies intending to enter the United Kingdom (UK). He claims that the UK government of UK has supported newly entering companies through the provision of long-term investment that has enabled new entrants to make a strong commitment to local markets, rather than encouraging the implementation of foreign business models in the UK. In his view, for any business to be successful in UK, three components must be demonstrated: a strong product proposition, access to robust supply chains and smart local manufacturing procedures. Newly entered companies also have opportunities to measure success using the benchmark model, in relation to other companies in UK: thereby making the UK market quite attractive for new companies due to global competitive advantage, size, demonstrated capability and growing market potential (Katavic, 2020).

Challenges

Katavic (2020) also considers the challenges facing companies intending to enter international markets. In his study focused on the organizational behavior of companies operating in UK, some hurdles new companies may have to face which plan to enter the UK market are identified. In his view, greatest challenge is market segmentation. as companies have to re-segment their market according to new country laws and customer behaviors when they enter any new country. As the purchasing and spending power of people in each country is different, this sometimes create barriers for companies, and senior managers have to modify their marketing strategies to cope up with new industry standards. According to Heshmati and Lovic (2018), the most common challenge faced by the companies entering international markets is related to the trade-off between the price and quality which is quite different in emerging markets, as compared to Western markets. Also, the judicial system, political system, educational system and cultural difference can make it difficult for international firms to adjust to new markets.

Almotairi, Alam and Gaadar (2013) has identified some additional challenges facing companies intending to enter the UK market: in particular, the lack of a sufficiently developed industrial infrastructure, high trade tariffs, and very little protection for intellectual property provided by the government. Zekiri (2016) points out that extensive bureaucracy, hard and fast rules and regulations, monopoly control and variations in distribution systems are some of the key challenges facing new companies intending to enter the UK market. Companies also have to face issues in respect of currency conversion and dealing with inconsistent and time-consuming legal requirements.

Transportation of goods, building relations with suppliers, price sensitivity, changes in local needs of consumers are also some of the major challenges highlighted by author for new companies working in UK. The people in UK have low disposable incomes which makes it harder for them to use elite class brands and to operate within a weak structure for telecommunications. Many authors have analysed these challenges using the SLEPT analysis model which is simply the extension of PEST analysis model. According

to this model, as applied by the Kefalas and Kefalas (2018), foreign markets are multi-dimensional and complex which makes up the major point of difference between how a company operates in the home market and how it operates in a foreign market. When making a decision to enter new markets, it is important for companies to have sound knowledge about internal and external factors affecting the country and the impact these factors can have on the company's operations. Thus, political, economic, social, technological, legal and environmental factors of the country can directly influence the operations of companies working in the country (Heshmati and Lovic, 2018).

Summary of literature review

By comparing and contrasting the views of several authors in this Literature Review, it has become very clear that companies planning to expand their business operations across borders or on a global scale, have to face challenges as well as opportunities. From internationalization to B2B marketing, international marketing, and formulation of marketing strategies, companies must be able to understand the existing and future market trends as well as have a complete

understanding of consumer behavior in a particular market, in order to modify their product and service strategies accordingly (Abou-Moghli, 2018). The first point to consider is the cost of production, as companies always prefer to move to the country where cost of manufacturing and production is low compared to countries where cost of production is high. In the UK, for example, the cost of production and manufacturing is relatively low, when compared to many other developed countries, making it a best fit for new companies to expand their operations. The business environment of the country which defines new partnership opportunities for companies is another important factor that companies must consider in deciding whether or not to expand the business across borders. Some companies prefer to enter a new country by forming joint venture with one of the industry giants, while others prefer to enter new markets locally by registering the business according to legal requirements (Obi and Sykes, 2020).

In addition to opportunities, companies will have to deal with many challenges: for example, legal registration of the new business which may be quite lengthy process. In addition, it may be

difficult for companies to understand the market trends and consumer behavior in new markets which can result in adopting and implementing the wrong entry strategy. Moreover, rapid developments in technological and economic growth in some countries can create entry barriers for companies, because senior managers may be forced to make quick economic decisions which can adversely affect the company's operations. To maintain the quality of products and keep the costs low, it may become increasingly difficult for companies to retain their profit margins and generate positive growth. To further complicate matters, many countries are divided into different states or regions, where officials frequently change laws and regulations creating a challenge for foreign companies to adjust to local and regional practices operating within the country. (Abou-Moghli, 2018).

This Literature Review clearly indicates that each country has its own rules and regulations pertaining to political, economic and legal conditions that can hinder the entrance of foreign companies. At the same time, new opportunities can be created for companies wishing to take advantage of expanding the business across

borders. As the result of foreign expansion, however, companies may be forced to change their vision and mission statements (Paunescu, 2018). In addition, the workforce in companies must be trained in such a way that they are ready to adapt to the changing culture in the new environment and, if necessary, to compromise with or modify existing policies and procedures. Moreover, it is important that employees in companies develop a diverse skills set that will enable them to adjust to the new environment (Gamage *et al.*, 2020).

Moving to a new country is not a simple operation. Companies have to consider challenges, as well opportunities. The ability to develop and implement appropriate mechanisms for dealing with customers in their local language with respect for cultural differences presents a major challenge. In this respect, however, many companies have expanded internationally, overcome the cultural barriers and set positive examples for other companies to follow in expanding the business and entering international markets (Katavić, 2020).

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