

CHAPTER II

LITERATURE REVIEW AND RELATED RESEARCH

2.1 Definition

This part of study will provide the definitions of internationalization, international market entry mode, and international market entry strategy.

There are various concepts of internationalization. According to Beamish (1990,77), internationalization is the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries. Johanson &Vahlne (1990, 38) definite internationalization in simple way: It is the process in which enterprises could increase their international involvement. Other definition of internationalization is presented by Calof and Beamish (1995, 116) as the process of applying the activities of the firms on the aspects of strategy, resources, structure into international environment.

International market entry mode is also definite by Root (1994, 15) as the way in which enterprise could bring their products, technology, management, human skill or other resources to entry a foreign country. According to Root (1994, 8), international market entry mode is classified into export entry modes, contractual entry modes and investment entry modes.

International market entry strategy is a strategy, in which enterprises could raise their market share in the foreign market. According to Costa R. (1999, 35), there are three main factors affecting entry mode of internationalization strategy as market entry, the competitors and the capacity of the enterprise. With the purpose of expanding in foreign market successfully, each enterprise must investigate the way to choose their foreign market, bring their products to the foreign target market, maintain in this market.

After accession of WTO, the Vietnamese telecommunication market has been rapidly developed. From a market with only one network operator, the current market has 7 suppliers operating in domestic market with the market share as following:

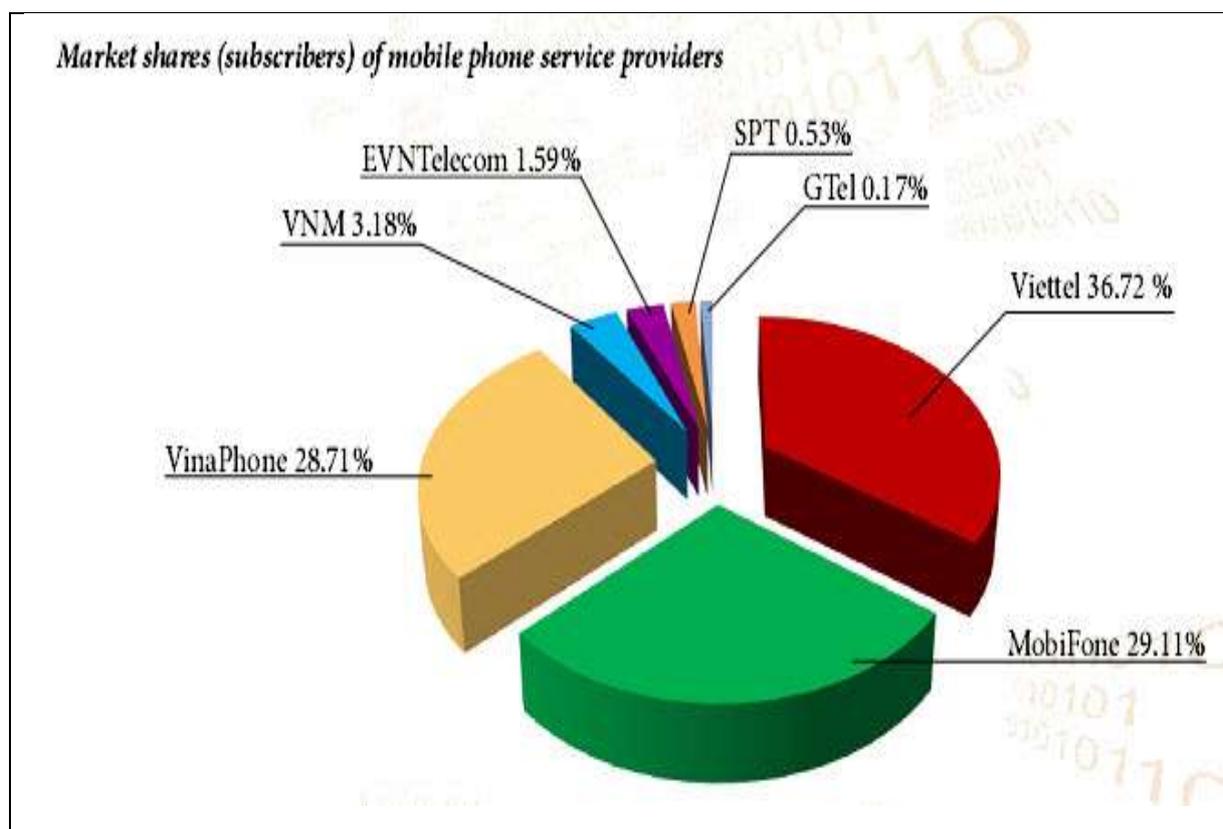


FIGURE 1. Market shares of mobile phone service providers in Vietnam (2012)

(Source: [Dmobile-vietnam-2012-overview-of-vietnam-ict-](#))

About market share (subscribers) of mobile phone service providers, year 2012 will be consider a year that large enterprises will acquire the smaller players, Telecom consolidation to lead to more focus on customer service, that is also a great opportunity for big enterprises in the world to enter Vietnam market to provide VAS for mobile – on big potential of Vietnam mobile market. With such great opportunities, all operators, suppliers in the ICT industry need to access, promote, and develop their products and services in Vietnam market. Mobile Vietnam 2012 can help such as:

- ✓ Vietnamese Mobile Operators
- ✓ International Mobile Operators.
- ✓ Manufacturers, traders, distributors of mobile handsets, mobile products and equipment for mobile networks.
- ✓ Content and value-added services providers.
- ✓ Developers and suppliers of software and applications for mobile devices

- ✓ Mobile marketing, financial, health companies and banks that are applying mobile services in their work.
- ✓ State agencies in telecommunications and IT technology; professional associations and media organizations...to achieve their goals.

Mobile Vietnam 2012 is a place for enterprises promote their products and services, to establish policy dialogues and consultations between enterprises, between government agencies and between enterprises and government agencies in mobile sectors. They can also provide customers with reliable access to promotion programs and high-quality mobile products and services.

With the internationalization process, a number of foreign operators have entered in this market. Increasing competition makes domestic operators to investigate a suitable strategy in order to maintain and develop their business operations. In this context, Viettel has chosen to expand into a new market in order to make more revenue from the foreign target market.

2.2 Steps to build international market entry strategy

According to Forsgen (1997, 124), there are three main steps to build the marketing mix in order to entry a new foreign market:

- Determine the long term and short term goals when entering a new foreign market. This determination could help enterprises to make appropriate strategies in order to penetrate the target foreign market.
- Determine the target country and target market: Determining target country and target market is an important step in building international market entry strategy. In this step, enterprises must analyze all factors which affects to the international market entry mode of each enterprises.
- Select the entry mode choice: After choosing the target country and target market, enterprises will identify and choose the suitable entry mode choice into a foreign market. This step is so important because it could affect to the success of enterprises' penetration and gain the expected benefit from the target market.

Based on this theory from Forsgren, this study will expand with analysis on the target market, enterprise resources, international market entry mode, marketing mix, international strategy.

2.2.1 Market analysis

The first important step for enterprises when expanding to foreign market is market analysis. The selection of the right market, in which enterprises want to enter, could lead to the business's future success, especially for small and medium enterprises (Rahman, 2003, 128) According to Cavusgil (1994, 27), market analysis is also important to both foreign market and home market; it is a vital tool that can reduce uncertainty and determine solutions. In order to do that, enterprises should have knowledge on the world economy and have some foreign market that they interest. When analyzing the attractive foreign market, enterprises should evaluate the sales potential in each candidate market for the enterprises' products and how it could be distributed. There are a number of factors affecting to selection of target country. Terpstra and Sarathy (2000, 356) stated that there are a number of issues which enterprises must evaluate for selection of target country and market such as the geographical distance of foreign market, the difference in cultural, politic, legal, economic. Rahman(2006, 84) suggested four main indicators that enterprises should evaluate before entering a new foreign market such as business structure, distribution system, legal system and business culture compatibility.

2.2.2 Evaluation on the enterprise resources

In order to enter a new foreign market, enterprises should analyze their resources with a purpose to understand their own capacity and make a decision to have an appropriate market entry strategy. In several entry strategy models, the researchers have three main factors of firm resources such as firm level resource, management characteristics, firm characteristic. In these factors, they focus on market orientation, entrepreneurial orientation, service innovation capability, global mindset, international experience, size, service type and year in business, Ekeledo and Sivakumar (2004, 88) have evaluated this issue namely firm specific resource such as proprietary technology, tacit knowledge, business experience, specialized assets, firm size, organizational culture and reputation. The theory presented based on the ownership advantage in three main factors: firm size, multinational experience and ability to develop differentiated products. According to Forsgren M. (2002), there are a several internal variables such as financial situation, technology, equipment, product quality, level of human resources, organizational capacity, firm management, corporate culture, and

marketing activities. These factors could give the references for a choice of foreign market entry strategies.

2.2.3 Market segmentation

Market segmentation is a marketing strategy which involves dividing a broad target market into subsets of consumers, businesses, or countries who have, or are perceived to have, common needs, interests, and priorities, and then designing and implementing strategies to target them. Market segmentation strategies are generally used to identify and further define the target customers, and provide supporting data for marketing plan elements such as positioning to achieve certain marketing plan objectives. Businesses may develop product differentiation strategies, or an undifferentiated approach, involving specific products or product lines depending on the specific demand and attributes of the target segment.

The next step in international market entry strategy is market segmentation. It is the process in which enterprise could divide their market into smaller group of buyers. According to Shiffman and Kanuk (2000) there are five major variables in market segmentation: demographic, geographic, psychological, cultural and behavioral variables. In this study's framework, the researcher would analyze the market segmentation all the five major: geographic segmentation, demographic segmentation and psychographic segmentation, cultural segmentation, behavioral and occasional segmentation as following:

Demographic segmentation

Segmentation according to demography is based on variables such as age, gender, occupation and education level or according to perceive benefits which a product or service may provide. Benefits may be perceived differently depending on a consumer's stage in the life cycle. Demographic segmentation divides markets into different life stage groups and allows for messages to be tailored accordingly.

A variant of this approach known as firm graphic or feature based segmentation is commonly used in business-to-business markets (it's estimated that 81% of B2B marketers use this technique). Under this approach the target market is segmented based on features

such as company size (either in terms of revenue or number of employees), industry sector or location (country and/or region).

According to Armstrong and Kotler (2005, 187), by demographic segmentation, the customers are divided into segments based on the variable such as age, gender, education, religion, income, family size, occupation, race, generation, social class and nationality. Demographic segmentation is often to be used because it is easy to measure the variable affecting to operation of enterprises in foreign market. Gunter and Furnham (1992, 9) stated variables of demographic segmentation as following:

- Age and life-cycle segmentation: Analyzing this variable could help firm to understand their customer's needs. Each age have the different needs and wants. For example, young people like value added service but the older only want listen and receive calls. It will affect to the decision of the operators to provide the package of services. But Armstrong and Kotler (2005, 188) also gave a warning to the marketers using the age and life-cycle segmentation that they must be careful to protect against stereotypes.
- Income segmentation: Income segmentation divides the market into different income group. Through income segmentation, firm could clearly identify their target customer and have an appropriate entry strategy. However, income is not always the reliable value for enterprise because the customer could have other priority on spending their money (Kotler and Keller, 2009, 257)
- Gender segmentation: By analyzing gender variable, enterprises could understand their customer wants and needs and the difference between their man and woman customer. This factor is so important in a number of fields such as magazine, clothing, cosmetic.
- Generation segmentation: The time when each generation grew always affects to the characteristic of this customer group. Therefore, in order to direct to this customer group, the marketer could use the icons and images relating to the generation in the marketing strategies (Kotler and Keller, 2009, 259)
- Social class segmentation: The customer could classify in their preference groups such as home furnishings, clothing, and retailers. At present, a number of enterprises design/manufacture the special products for social class (Kotler and Keller, 2009, 260)

Geographic segmentation

Marketers can segment according to geographic criteria-nations, states, regions, countries, cities, neighborhoods, or postal codes. The geo-cluster approach combines demographic data with geographic data to create a more accurate or specific profile. With respect to region, in rainy regions merchants can sell things like raincoats, umbrellas and gumboots. In hot regions, one can sell summer clothing. A small business commodity store may target only customers from the local neighborhood, while a larger department store can target its marketing towards several neighborhoods in a larger city or area, while ignoring customers in other continents. Geographic segmentation is important and may be considered the first step to international marketing, followed by demographic and psychographic segmentation.

Customers are classified into group based on the geographical unit such as nations, cities, provinces, regions. However, in geographic segmentation, enterprises always face to the change of data because of population shift (Pickort and Broderick, 2005, 376). Gunter and Furnham (1992, 5) stated that the consumer behavior is always affected on their living area, working area. It leads to the fact that a number of enterprises have an appropriate marketing strategy (product, promotion, sale, and advertising) to meet the needs of geographical variables (Armstrong and Kotler, 2005, 186). Geographic segmentation is one of the most efficient tools for enterprise to predict their consumer behavior (Gunter and Furnham, 1999, 7)

Psychographic segmentation

Psychographic segmentation, which is sometimes called lifestyle, is measured by studying the activities, interests, and opinions of customers. It considers how people spend their leisure and which external influences they are most responsive to and influenced by. Psychographics are very important to segmentation, because psychographics identify the personal activities and targeted lifestyle the target subject endures, or the image they are attempting to project. Mass media has a predominant influence and effect on psychographic segmentation. Lifestyle products may pertain to high involvement products and purchase decisions, to specialty or luxury products and purchase decisions.

With psychographic segmentation, customers are divided into two major variables: personal and lifestyle profiles. Psychographic only supplies the supplementation to the evaluation because it cannot provide the overview of consumer behavior. Psychographic divided the customer according to their attitude, lifestyle, interest and opinion (Pickton and Broderick, 2005, 377). While the geographical and demographical factors provide the customer segmentation, intensify the knowledge on the current consumer behavior and on the target market (Gunter and Furnham, 1992, 26).

Cultural segmentation

Cultural segmentation is used to classify markets according to cultural origin. Culture is a strong dimension of consumer behavior and is used to enhance customer insight and as a component of predictive models. Cultural segmentation enables appropriate communications to be crafted to particular cultural communities, which is important for message engagement in a wide range of organizations, including businesses, government and community groups. Cultural segmentation can be applied to existing customer data to measure market penetration in key cultural segments by product, brand, channel as well as traditional measures of recency, frequency and monetary value. These benchmarks form an important evidence-base to guide strategic direction and tactical campaign activity, allowing engagement trends to be monitored over time.

Cultural segmentation can also be mapped according to state, region, suburb and neighborhood. This provides a geographical market view of population proportions and may be of benefit in selecting appropriately located premises, determining territory boundaries and local marketing activities.

Census data is a valuable source of cultural data but cannot meaningfully be applied to individuals. Name analysis (onomastics) is the most reliable and efficient means of describing the cultural origin of individuals. The accuracy of using name analysis as a surrogate for cultural background in Australia is 80-85%, after allowing for female name changes due to marriage, social or political reasons or colonial influence. The extent of name data coverage¹ means a user will code a minimum of 99 percent of individuals with their most likely ancestral origin.

Behavior and occasional segmentation

Behavioral segmentation divides consumers into groups according to their knowledge of, attitude towards, usage rate, response, loyalty status, and readiness stage to a product. There is an extra connectivity with all other market related sources. Behavioral segmentation divides buyers into segments based on their knowledge, attitudes, uses, or responses concerning a product. Many marketers believe that behavior variables are the best starting point for building market segments.

Occasion segmentation focuses on analyzing occasions, independent of the customers, such as considering Coke for occasions of being thirsty, having dinner or going out, without taking into consideration the differences an affluent and middle-class customer would have during these occasions.

Occasional customer segmentation merges customer-level and occasion-level segmentation models and provides an understanding of the individual customers' needs, behavior and value under different occasions of usage and time. Unlike traditional segmentation models, this approach assigns more than one segment to each unique customer, depending on the current circumstances they are under.

2.2.4 International market entry mode selection

The choice of a suitable international market entry mode is a vital factor affecting to the successful business operation of enterprises in foreign market. According to Root (1994), there are three main groups of entry mode: the independent, co-operative and integrated. There are a number of market entry modes. The electric paradigm of Dunning (1977, 1988) is one of the earliest models of market entry mode. Dunning (1977, 198) stated that there are three types of factors affecting to market entry mode: ownership advantages, location advantages and internationalization advantages. In each type, the researcher presented the other factor such as firm size, multinational experience, ability to develop differentiated products, market potential, investment risk, contractual risk.

Javalgi and Martin (2007) provide a model for the internationalization process of services firms.

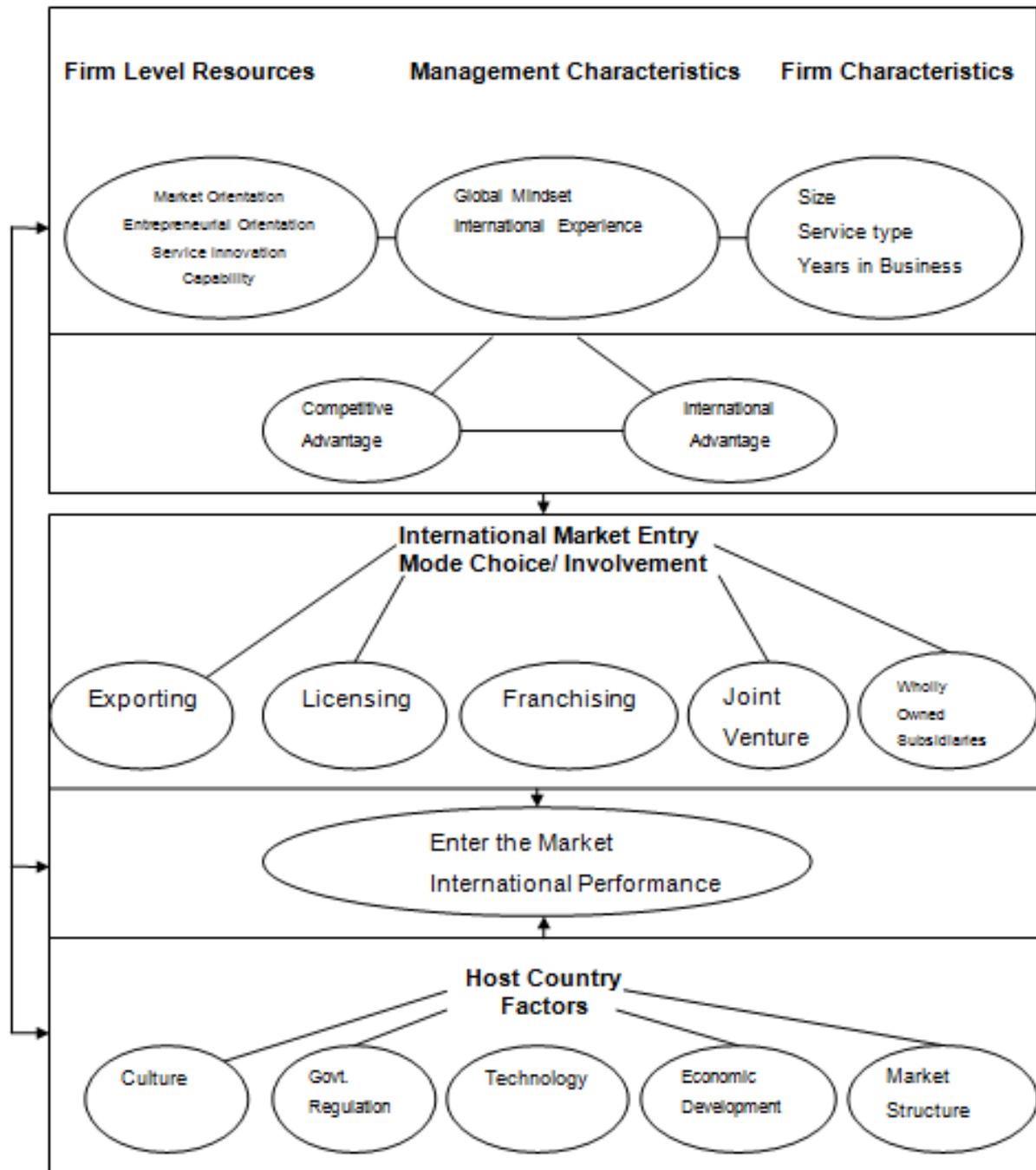


FIGURE 2. Internationalization of service (Javalgi and Martin, 2007)

In this model, the author focus on analyzing factors such as firm level resources, management characteristics, firm characteristics, competitive advantage, international advantage, the factors of host country such as culture, government regulation technology, economic development and market structure.

This is the other famous model that show about developed and improved by Ekeledo and Sivakumar (1998, 2004)

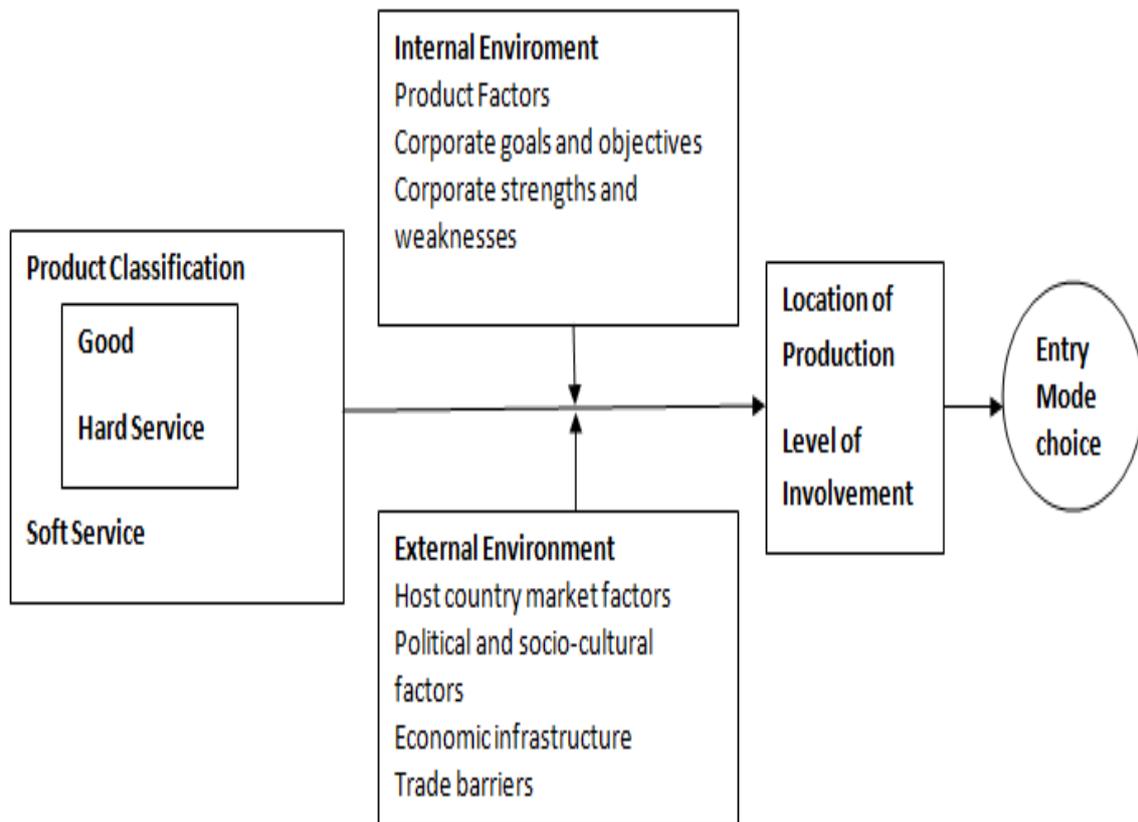


FIGURE 3. A model of foreign market entry (Ekeledo and Sivajamar, 1998)

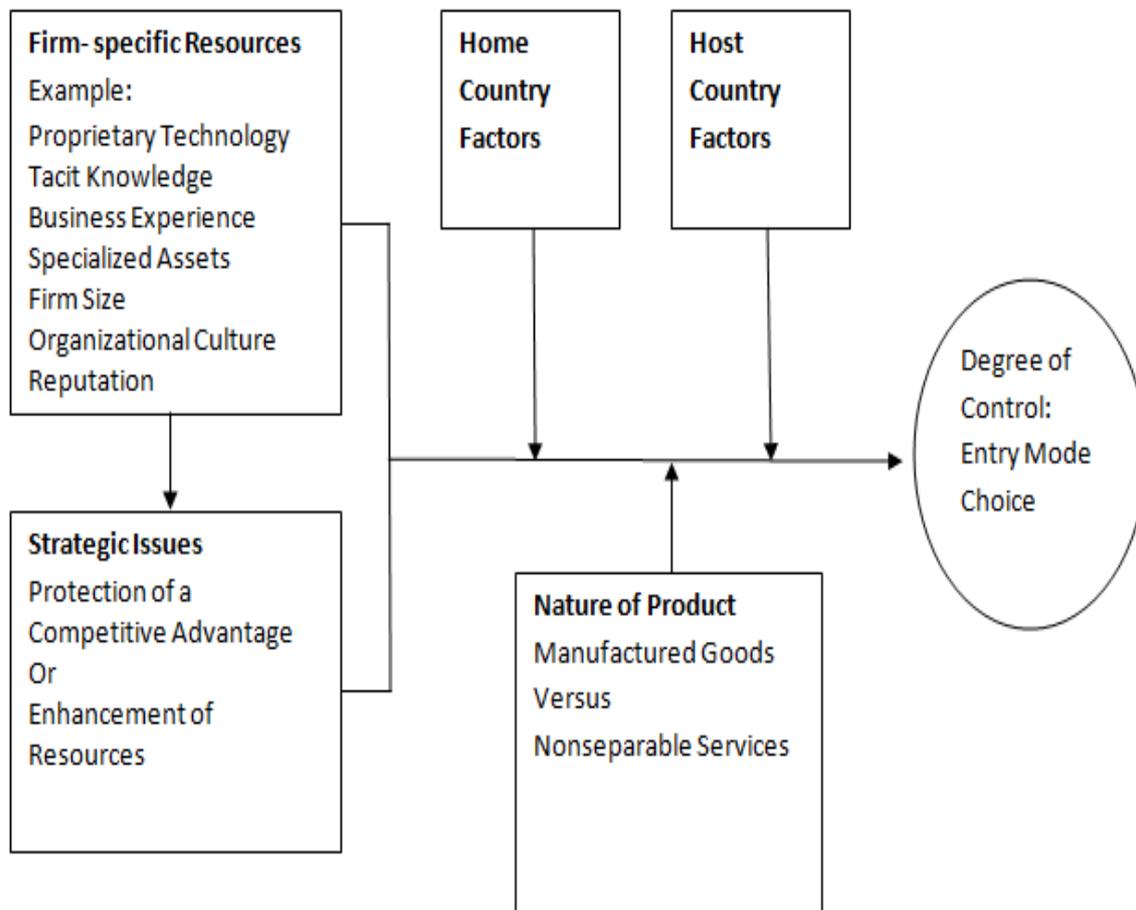


FIGURE 4. A model of entry strategy (Ekeledo and Sivajumar, 2004)

This model of Skeledo and Sivajumar provided special variables such as firm specific resources, strategic issues, home country factors, host country factors and nature of products. These factors provide the general view of the market, the enterprise resources and help enterprises to have an appropriate entry strategy.

2.2.5 Marketing mix for market entry

The concept of marketing mix is existed several years ago. A great number of researchers investigated and improved the theory of marketing mix such as Culliton (1948), Borden (1965), Lauterborn (1990), Kotler (1994, 2003), Kent and Brown (2006), Fakeidear (2008). Marketing mix is “the set of marketing tool that the firms use to pursue its marketing objectives in the target market” (Kotler, 1994, 89). According to Palmer (2004, 165) stated marketing mix as the tool to grow both long-term and short-term strategy. Bennett (1997, 152) presented marketing mix is the way in which the marketing makers could translate the

marketing planning into practice. It affects to the development of marketing practice and theory (Moller, 2006, 440). According to Gronroos (1994, 13), the combination of factors in marketing mix could change the competition of the enterprises. The terminology “marketing mix” is stated the first time has 12 different factors such as product plan, price, brand, channels of distribution, advertising, promotion, display, service, personal, selling, fact finding, analysis, packing. Lazer and Kelly (1962, 213) stated three main factors of marketing mix such as the communication mix, distribution mix and the service and good mix. After investigating the work of Borden (1956), McCarthy (1964, 56) presented the four main elements of marketing mix 4Ps. The 4Ps of marketing mix is also known as the framework used to help companies make marketing decisions. The 4 P's refer specifically to those components over which a company has control, in contrast to market conditions, which are beyond the control of the company. The 4 P's are designed to increase demand for a particular product or service. The 4 P's represent: product, price, promotion and place.

Product: This refers to obvious elements such as the design, quality, features and functionality of a product. In the context of the 4 P's, however, product includes many other components as well. Product name, packaging, accessories, documentation, support services, warranty and repair all fall under this umbrella. If the final 3 P's are primarily concerned with what happens before the purchase, product relates to everything that a customer experiences after the purchase. However, according to Hollensen (2004) is the most important thing for enterprises in global marketing mix in order to get success in foreign market. Thomke S. von Hippel E. (2002) stated that there are three main strategies to appropriate with the basic products in foreign. It is consisting of common product maintenance, change to adapt the product and innovation of new product.

Price: Price includes the manufacturer's suggested retail price and estimated street price. This can also include promotional pricing, volume discounts, wholesale pricing and other special pricing offers. If the product is part of a bundle or other promotional offer that can also be a price consideration. Kotler (2005) defined price as the sum of all the values that consumers transfer in order to gain the benefit for the product or services. This variable is so important for the international market entry strategy in especially in poverties area or countries. There are four main factors of international pricing strategy namely firm level factor, product factors, environmental factor, and market factors.

Promotion: Promotion is what most marketers are concerned with: advertising, press releases, printed and online marketing assets, as well as the efforts of sales teams and individuals. Radio, TV, billboards and direct mail all fall under this category. Promotion is concerned with telling the target market about the right product. Promotion includes personal selling, mass selling and sales promotion. According to Kotler (1994, 596), there are five major tools of promotion mix as following:

- **Personal selling:** Basically personal selling is one-to-one communication between seller and prospective purchaser. It generates direct contact with prospects and customers. It is one of the most expensive forms of promotion. Examples: personal meetings, telemarketing, e-mails, and correspondence.
- **Advertising:** is a form of non-personal promotion. It is when companies pay to promote ideas, goods, or services in a variety of media outlets. It can be found everywhere. With advertising, a company engages in a one-way communication to the prospect or customer. Examples: magazines, newspapers, television, websites, city buses, etc.
- **Direct marketing:** is a type of advertising directed to a targeted group of prospects and customers rather than to a mass audience. Two forms of direct marketing are printed by mail, or direct by e-mail. The goals of direct marketing are to generate sales or leads for sales representatives to pursue. Direct marketing allows a business to engage in one-way communication with its customers about product announcements, special promotions, bulletins, customer inquiries, and order confirmations. Examples: direct mail, e-mail, telephone.
- **Sales promotion:** basically represents all marketing activities other than personal selling, advertising, and public relations. Sales promotions are used to stimulate purchasing and sales and the objectives are to increase sales, inform potential customers about new products, and create a positive business or corporate image. Examples: coupons, product samples, point-of-purchase displays.
- **Public relations and publicity:** The activities enable an organization to influence a target audience. Most of the time, public relation campaigns try to create a favorable

image for a company, its products, or its policies. Companies give news releases to announce newsworthy developments about a company's products or services, distribution channels, facilities, operations, partners, revenues and earnings, employees, and events. Publicity is one tactic that public relations professionals use. This means bringing newsworthy information to the public. Examples: a campaign to encourage businesses to donate computers to schools, donating to hospitals, donating to a cause.

Place: Place refers to how customers will find a product. Is the product only available through retail, online stores, catalogs or direct from the manufacturer? For retail and online sales, a company must determine which types of retail outlets and websites will carry the product. This is where a company's distribution channel comes into play. Products may be sold entirely through distributors and resellers, directly from the company, or through a variety of other means. Place is also concerned with getting the right product to the target market. In the place area, we will see where, when and by whom the goods and services can be offer for sale. The place of purchase also communicates, e.g. an item purchased in Harrods has a different perceived value to an item purchased from a street stall. (Smith, 1999, 6)