MARKET ENTRY FRAMEWORK

Market Entry Framework involves understanding the rationale behind entering a new market (with a new product/existing product) or an existing market with a new product, with the goal of increasing profits. Two types of market entry cases generally asked in case interviews are as follows:

Type 1: Geographic Market Entry Cases

Geographic market entry cases ask candidates to assess whether the business should expand to a new geographical market, for example, if Amazon Go should enter the UK or if Mercy Meats should enter South America.

Type 2: Product Portfolio Diversification Cases

Product expansion cases ask candidates to assess whether the business should launch new business lines into their existing market, for example, if Disney should launch their own streaming service, or if Walmart should start selling meal kits from its service partners.

In any market entry case, one has to answer two key questions
1) Is it a good idea to enter the market?
2) How should one enter the market?

STEPS INVOLVED IN SOLVING A MARKET ENTRY CASE

1. Reiterate the problem statement

Once the problem statement is told, reiterate the problem in a comprehensive manner as to know if the understanding of the problem by you is appropriate. If there would be any discrepancy, the interviewer would let you know then and there itself.

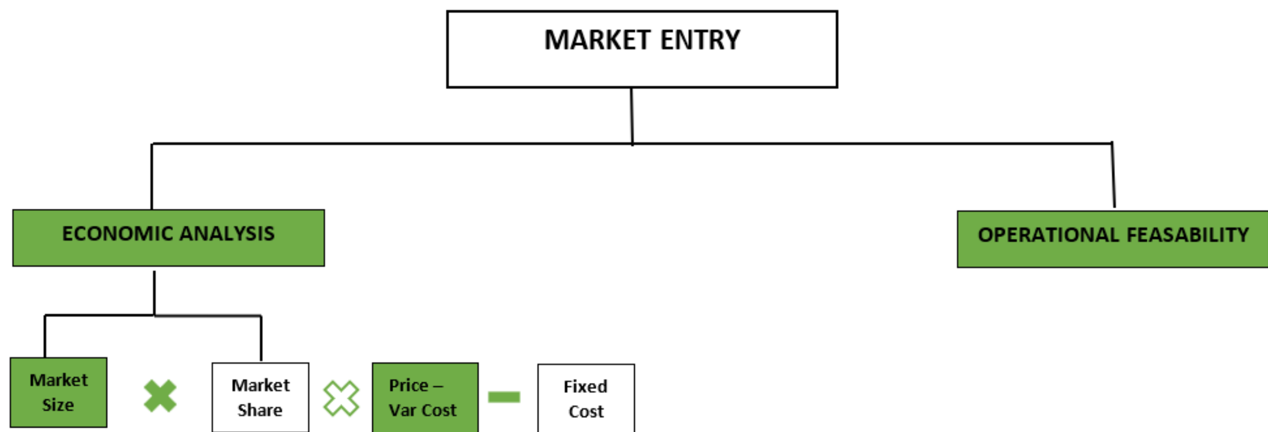
2. Ask preliminary questions

Start with some questions in order to know more about the company and its objective.

Some clarifying questions that can be asked are as follows:
1) What does the client do? What are the current geographies they operate in?
2) Have they entered similar markets in the past?
3) Why are they looking to enter this market? What are the company's expectations from this?
4) What parameters will the market entry decision be based on?
5) When are they looking to enter the market?

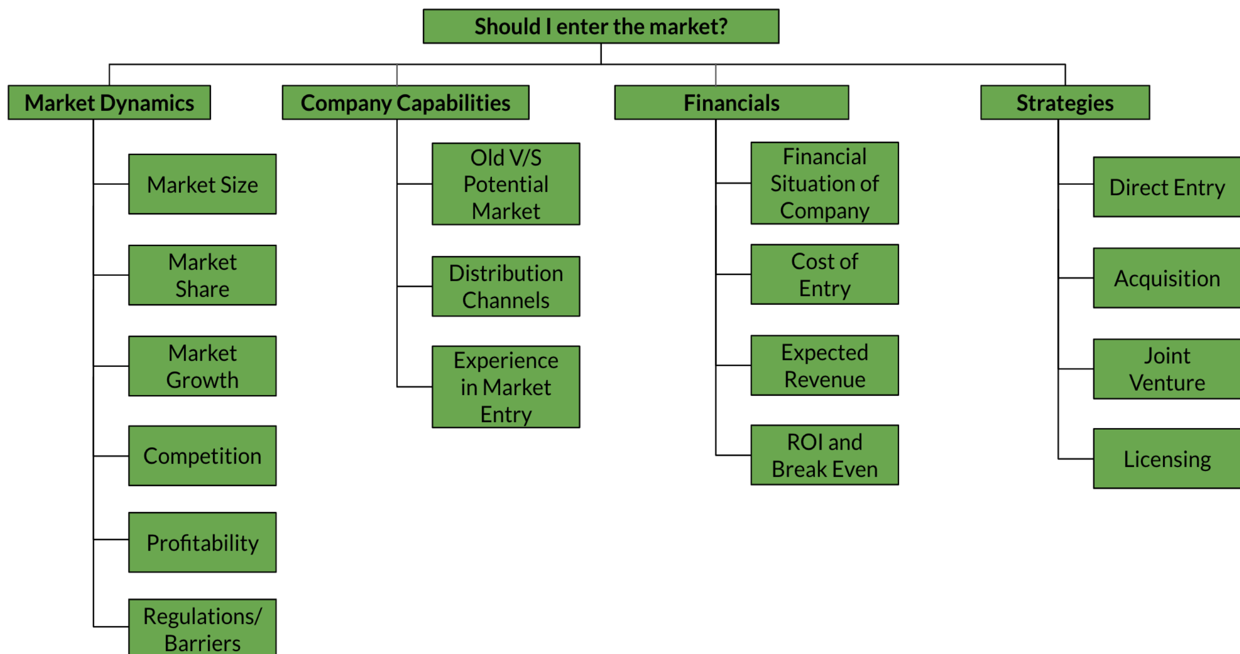
3. Framework/Approach

Once you are familiar with the problem statement and are aware of the basic facts about the client, you can begin formulating an approach.



Source: Casebook, Consult Club IIM A, 2020

OR



Source: Consulting & Analytics Club, IIT Guwahati

Break down and analyze each component of the framework to ensure you cover each

aspect of the market entry problem thoroughly.

Economic Analysis

1) Market size
Market size is the total number of potential buyers of a product or service within a given market, and the total revenue that these sales may generate. One must ask/calculate this to assess the financial viability of a product or service in a market.
Formula:
Market Size = Core Target Market x Potential Penetration in the Target Market

2) Market Share
Market share is the percentage of an industry's sales that a particular company owns. It is the share of total industry revenue that your business has generated from selling your products and services. Market share is a way to compare your performance to industry leaders. A larger potential market share provides a more attractive opportunity for the client.
Formula:
Market Share = (Total Sales of the Company/Total Sales of the Market) x 100

3) Price
Price is the value a producer will get in the exchange of goods and services. A client must be able to charge sufficient amount from its customers to reach the break even point within the targeted time frame. A high expected revenue can be another incentive to enter a particular market.

4) Fixed Cost
Fixed cost is a cost that remains fixed regardless of the quantity produced, i.e whether the company increases or decreases the production of the product, the cost of the product will remain the same. Total fixed costs are the sum total of the producer's expenditures on the purchase of constant factors of production. The factors of production include capital, land, labor, and enterprise. When entering a market, a client will have to incur an entry cost and make large investments in procurement of capital assets. However, if fixed costs for a market/product are very high and this is accompanied by a long gestation period, i.e. the time taken to get the business to reach a stage where it can start showcasing results, then the market becomes unattractive.

Operational Feasibility

To assess the feasibility of a potential market, one must establish a value chain to analyze each step.

Value Chain for McDonald's

1) Inbound Logistics: Receiving & storing raw material and using them to produce its burgers and other items in the menu.
2) Operations: Beverage Machine, counters, dressing station
3) Outbound Logistics: The variety of ways customers can obtain their food, sit down restaurants, drive thru, counter service outlets.
4) Marketing & Sales: 'Think Globally, Act Locally'.
5) Service: Free wifi, Playplace for children
6) Support Activities: Firm, HRM, Technology Development.

Value Chain for Tim Hortons

1) Necessary support of suppliers to receive, store and distribute the product.
2) Machining, packing, assembling and testing.
3) Material handling, warehousing, order processing, transporting and delivering.
4) Sales force, advertising, promotional activities, pricing, channel selection, quoting and building relations with channel members.
5) The pre-sale and post-sale services offered by Tim Hortons.
6) Technology Development, Procurement, HRM.

OR

Market dynamics

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3) Market growth

Market growth is defined as an increase in the sales volume of products, services, and economic activity over time.

The market growth rate is a key factor to be considered when deciding whether to enter a particular market with a specific product/service.

Formula:

Market Growth % = (Projected Market Size - Original Market Size at the beginning of the defined time period) / Original Market Size x 100

4) Profitability

Profitability is a measure of an organization's revenue relative to its expenses. Without profitability, the business will not be able to survive in the long run. Hence, projecting the future profitability of a new market is essential.

Formula:

Projected Profit = Estimated Market size x Market Share x {(Price-Cost)/Unit} - Fixed costs

5) Competition

Competition refers to a situation in a market in which firms or sellers independently strive for the patronage of buyers in order to achieve a particular business objective. It helps you identify whether the competing firms target the same audience as yours. Entering markets which are highly competitive often poses a threat to the entrant firm.

6) Regulations/Barriers

Barriers to entry are the obstacles or hindrances that make it difficult for new companies to enter a given market. These may include technology challenges, government regulations, patents, start-up costs, or education and licensing requirements. To thoroughly figure out the barriers, one can use the PESTEL Analysis.

Company Capabilities

1) Differences between the potential and old market
The client must identify the differences between the potential and the old market and assess if they have the research, resources and knowledge needed for the potential market.

2) Distribution Channels
Distribution channels are the paths that products and services take on their way from the manufacturer or service provider to the end consumer. It is crucial to identify these so as to allow smooth delivery of goods and services to the consumer and

3) Experience in market entry
Having experience in product/market expansion can give an edge to the client in terms of market research, strategizing, competition study and molding the product or marketing strategies as per the diverse cultures.

Financials

1) Financial situation of the company
A company's financial situation is defined by its assets and liabilities. Preparing a net worth statement will help you assess your overall financial situation and make wise decisions.

2) Cost of entry
The cost of beginning to trade in a particular market for the first time. It is a fixed cost.

3) Expected Revenue
Revenue expected is an educated prediction or estimation for the upcoming year about how much money your company is likely to bring in. This allows you to determine how much you can spend, what your margins will be overall and if the revenues will be sustainable.

4) ROI and Break Even
The return on investment is the profit made as a result of the investments. ROI is generally defined as the ratio of net profit over the total cost of investment. It is used as a part of analytics and serves as a benchmark for shaping marketing strategies for the

future.
Formula:
Net income/Cost of Investment x 100

A break-even analysis is a financial calculation that weighs the cost of a new business, service or product against the unit sell price to determine the point at which revenue will exceed costs.

Strategies

After analyzing each of the above, it is also imperative to strategize how to enter a particular market. The following are some of the ways through which a company can enter a geography/market segment -

1) Direct entry
Direct entry means a company can directly set up an entity to cater to a market. However, a company must have sufficient information about the geography (such as suppliers, network of wholesalers and retailers, marketing strategies that work best etc.) directly entering the market.

2) Acquisition
An acquisition is a transaction whereby companies, organizations and/or their assets are acquired for some consideration by another company.

3) Joint venture
A commercial enterprise undertaken jointly by two or more parties which otherwise retain their distinct entities.

4) Licensing
A business arrangement in which one company gives another company permission to manufacture its product for a specified payment. It is a legal contract by which one party that owns certain IP allows another party to use that IP.

Note: Take into consideration the objective and financials of the company in order to decide the best mode of entry.

4. Giving the final recommendation

After examining each of the above stated, the final step is to give a recommendation. This should cover three points -

1) Whether the company should enter the market ?
2) How should the company enter the market ?
3) Brownie points for evaluating potential risks/threats to the company if you plan to enter the market such as intensive competition, strict government regulations and acceptance of the product, etc.