Drivers of Success for Market Entry Into India and China

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Motivation

India and China

- Have emerged as economic powers: huge markets, rapid growth, and large foreign direct investment
- Firms rushing in to exploit
- No systematic studies on drivers of success
- Firms divulge minimal information
Research Question

What are drivers of success for market entry into China and India?
Modes affect control though direction not clear (Davidson 1982): e.g., licensing vs joint venture vs wholly owned

- Advantages of low control:
  - Gain knowledge and expertise of local partners
- Advantage of high control:
  - Employ corporate expertise, experience, insight

**Q1:** How does entry mode affect success?
Entry Timing and Success

Entry timing critical but direction of effect not clear

- Advantages of early entry
  - Shape consumer preferences
  - Lock-up key distributors
  - Exploit government concessions

- Advantages of late entry
  - Avoid pitfalls of early entrants
  - Learn from success of early entrants
  - Employ superior technology

**Q2: How does timing of entry affect success?**
Firm Size and Success

Size important though direction not clear

- **Advantage of size:**
  - Large firms are able to accept greater risk & invest more (Anderson & Gatignon 1988)

- **Disadvantage of size:**
  - Lack of flexibility, maneuverability
  - Greater tendency to transfer strategies from home country without adaptation

**Q3: How does size affect success?**
Economic Distance & Success

Greater distance may increase barriers due to dissimilarities in
- Socio-economic segments
- Nature of demand
- Infrastructure

Q4: Does success decrease with greater economic distance?
Cultural Knowledge & Success

- Culture usually defined as norms, values, & practices shared by members of society
- Affects both consumer behavior and implementation of strategies
- Cultural distance may hurt success because of:
  - Poorer understanding of consumers
  - Poorer understanding of distributors
  - Miss-communication

Q5: Does success decrease with cultural distance?
Country Risk and Success

- Country risk defined as uncertainty about political, financial, and economic environment
- Country risk may reduce success because:
  - Can negatively affect firm’s finances (e.g., Russian financial crisis of 1998 shrank P&G’s revenue below its ability to service debts)
  - Can lead firms to underinvest or delay investments, (e.g., Unilever delayed entry into China because of experiences in Russia)

Q6: Does success decrease with country risk?

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Economic Openness & Success

Openness refers to lowering of regulatory barriers (e.g. Indian auto market went from 2 to 20 models). Direction of effect not clear

- Openness could increase success
  - Lowering costs of entry
  - Lower prices and increasing demand

- Openness could decrease success by
  - Increasing entry
  - Increasing competition

Q7: How does openness affect success?
Measures: Dependent Variable

5 point scale of Success and Failure

- **Successful**: “becomes market leader”,
  “exceeds entry goals”
- **Good**: “meets investment goals”
- **Moderate**: “continues operations,”
  “awaits results”
- **Poor**: “struggles to make headway,”
  “underperforms”
- **Failure**: “withdraws from market”,
  “does not meet entry goals”

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Measures: Independent Variables

**Entry Mode: 5 point scale**
- exports (1)
- alliances (2)
- franchise (3)
- joint ventures (4)
- equity joint ventures (4.5)
- wholly owned subsidiaries (5)
Measures: Independent Variables

- **Timing**
  - Years since deregulation and firm’s entry
  - China 1978 and India 1991

- **Firm Size**
  - Sales of firm in year of entry
Measures – Independent Variables

- **Economic Distance (Mitra and Golder 2002)**
  - Composite measure of difference between home and host nation in:
    - GNP
    - Per capita GNP
    - Kilometers of road per square kilometer of country
    - Population density
Measures – Independent Variables

*Culture Distance*

– Euclidean distance between home and host country on Hofstede’s cultural dimensions:
  - Power distance
  - Individualism-Collectivism
  - Masculinity-femininity
  - Uncertainty avoidance

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Measures: Independent Variables

- **Country Risk**
  - Composite measure of political, regulatory and economic sources of risk
  - Available from International Country Risk Guide

- **Openness**
  - Fraction of foreign direct investment as a function of host country’s GDP
Method

- Search archives for key phrases for both entry and historical performance
  - *Wall Street Journal*
  - *Economic Times*
  - *Asian Wall Street Journal*
  - Lexis-Nexis
  - Time period
    - India 1991 – 2001
    - China 1978 – 2001

Two independent raters evaluated articles to rate success from 1 to 5

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Total of 192 entries
- India – 64 entries
- China – 128 entries
Model

\[ \text{Success}_{ismt} = b_1 \text{Entry Mode}_{ism} + b_2 \text{Timing}_{ismt} + b_3 \text{Size}_{it} + b_4 \text{Cultural distance}_{smt} + b_5 \text{Economic distance}_{smt} + b_6 \text{Country Risk}_{st} + b_7 \text{Openness}_{st} + b_8 \text{India} + b_9 \text{Entry Mode}_{ism} \text{India} + b_{10} \text{Timing}_{ismt} \text{India} + b_{11} \text{Size}_{it} \text{India} + b_{12} \text{Economic distance}_{smt} \text{India} + b_{13} \text{Cultural distance}_{smt} \text{India} + b_{14} \text{Country Risk}_{st} \text{India} + b_{15} \text{Openness}_{st} \text{India} + e_{ismt} \]

Where, \(i\) is a subscript for firm, \(s\) for host country, \(m\) for home country, and \(t\) for time. \(b_1\) to \(b_{15}\) are coefficients to be estimated and \(e_{ismt}\) is the IID normal error term.
## Key Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coeff.</th>
<th>T-Stat</th>
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<tbody>
<tr>
<td>Entry Mode</td>
<td>0.29</td>
<td>3.5</td>
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<tr>
<td>Size</td>
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<td>Economic Dist</td>
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<td>Country Risk</td>
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<td>Openness</td>
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<tr>
<td>India</td>
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<tr>
<td>Late x India</td>
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<td>-2.2</td>
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<tr>
<td>Cultural Dist x India</td>
<td>-0.08</td>
<td>-2.7</td>
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</tbody>
</table>

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Effect

India
Economic Distance
Cultural Dist x India
Large Size
Openness
Late x India
Country Risk
Entry Mode

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Examples

- P&G failed in India with joint venture but succeeded in China with wholly-owned
- Thailand's Charoen is more successful in China than the US Seagram (e. distance)
- Kellogg’s failed to market cold breakfast in India (c. distance)
- GM and Toyota are struggling in India while Hyundai is quite successful
- Pepsi successful in India where it entered several years before Coke
Conclusions

Success is higher for

- Entry in China more successful than in India
- Wholly owned subsidiary better than joint venture
- Smaller firms better than larger firms
- Lower country openness helps
- Lower country risk helps
- Lower economic distance helps
- Lower cultural distance helps esp India
- Late entry hurts esp in India
Implications

- Progressive opening of the economies of China and India does not mean success will get easier
- Small size itself should not deter firms
- Choose entry mode that affords highest control
- Consider targets close to home first
Thank you!