Drivers of Success for Market Entry Into India and China

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Conference on Innovation in India and China

Cambridge May 18-20 2009

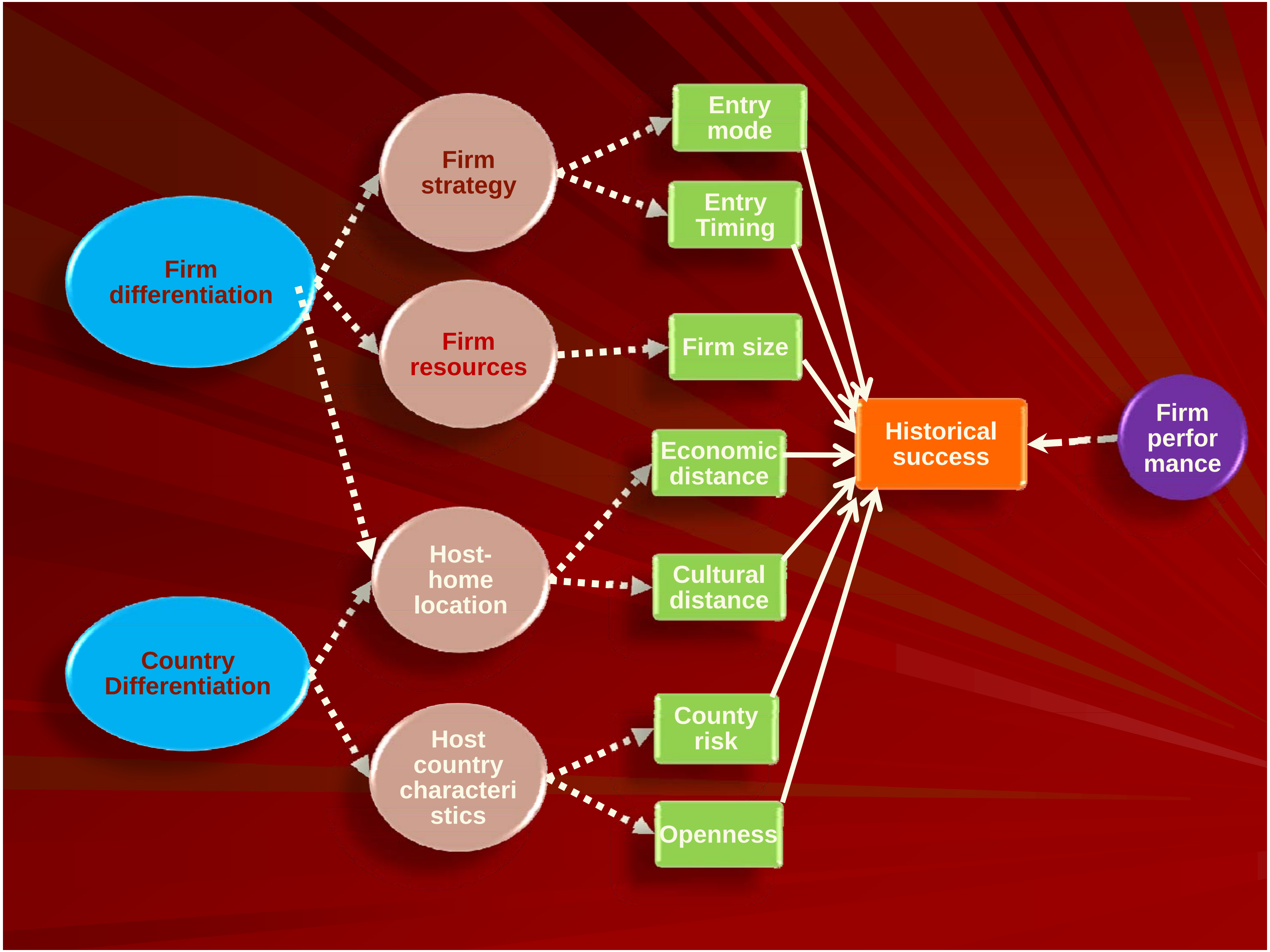
Motivation

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?


Firm differentiation
Country Differentiation
Firm strategy
Firm resources
Host-home location
Host country characteristics
Entry mode
Entry Timing
Firm size
Economic distance
Cultural distance
County risk
Openness
Historical success
Firm performance

Entry Modes & Success

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 affects 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?*

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”

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

- ***Cultural Distance***
  - Euclidean distance between home and host country on Hofstede's cultural dimensions:
    - Power distance
    - Individualism-Collectivism
    - Masculinity-femininity
    - Uncertainty avoidance

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
    - India1991 – 2001
    - China 1978 – 2001
- Two independent raters evaluated articles to rate success from 1 to 5

Sample

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

Model

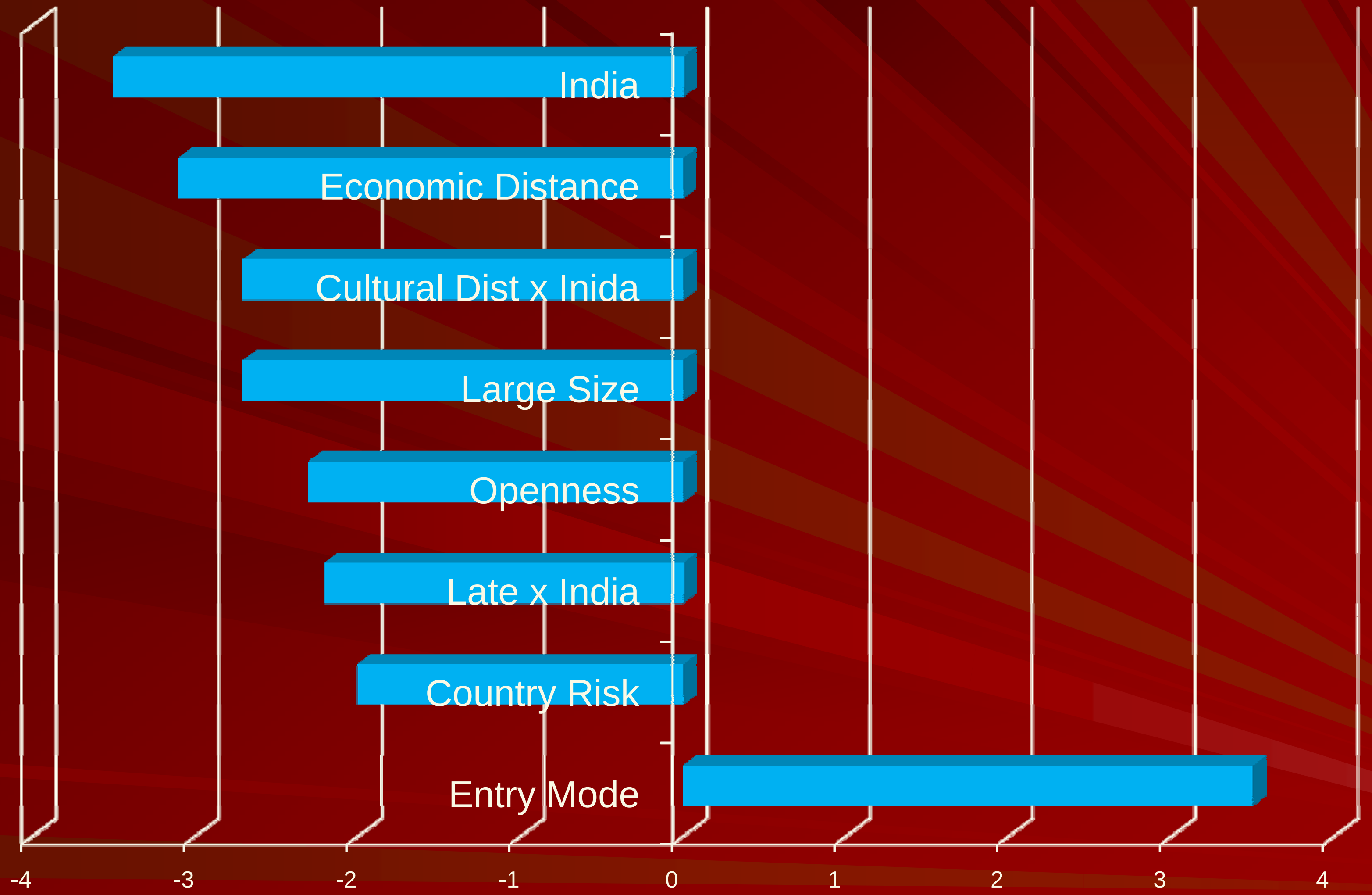
$$Success_{ismt} = b_1{*}Entry\ Mode_{ism} + b_2{*}\ Timing_{ismt} + b_3{*}\ Size_{it} +$$
$$b_4{*}\ Cultural\ distance_{smt} + b_5{*}\ Economic\ distance_{smt} +$$
$$b_6{*}\ Country\ Risk_{st} + b_7{*}Openness_{st} + b_8{*}India +$$
$$b_9{*}\ Entry\ Mode_{ism}{*}India + b_{10}{*}\ Timing_{ismt}{*}India +$$
$$b_{11}{*}\ Size_{it}{*}India + b_{12}{*}\ Economic\ distance_{smt}{*}India +$$
$$b_{13}{*}\ Cultural\ distance_{smt}{*}India + b_{14}{*}\ Country\ Risk_{st}{*}India +$$
$$b_{15}{*}\ Openness_{st}{*}India + e_{ismt}$$

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

Variable	Coeff.	T-Stat
Entry Mode	.29	3.5
Size	-.15	-2.7
Economic Dist	-.01	-3.1
Country Risk	-.05	2.0
Openness	-.01	-2.3
India	-32.0	-3.5
Late x India	-.33	-2.2
Cultural Dist x India	-.08	-2.7

Effect


India
Economic Distance
Cultural Dist x Inida
Large Size
Openness
Late x India
Country Risk
Entry Mode
-4
-3
-2
-1
0
1
2
3
4

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!