

THE ENTRY MODE SELECTION IN OVERSEAS MARKET OF SALT INDUSTRY ENTERPRISES

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Abstract: in the background of economic globalization, the entry mode selection of salt industry enterprises exerts important influence on overseas market. In this paper, based on the current situation of the international operation of salt industry enterprises, three main entry modes were summarized: Direct Export, Contract-Based Allies and Foreign Direct Investment.

Key words: Salt industry enterprises, motivation of international operation, ways of internationalization

1. SUMMARIZATION ON THE MODES OF INTERNATIONAL OPERATION OF ENTERPRISES

International operation of enterprises means the activity of enterprise operation changed from domestic market to international markets and from national management to international management in a single or multiple economic fields, by means of establishment of various forms of organization to optimize configuration of domestic and overseas production elements synthetically. The entry mode selection of international market is the frontier problems in the fields of multinational corporation theory and international economics. Theoretically, it can be classified into three principal types, including trade mode, contract mode and investment mode. Each entry mode also covers varied different subclasses, as shown in Table.

Generally speaking, trade mode is the basic choice of international operation, which can be mainly classified into indirect export and direct export. Contract mode is the intermediate choice covering license agreement, concessionary management, contract management and turnkey contract, among which the new mode is outsourcing. There are two kinds of common types of Outsourcing, OEM (Original Equipment Manufacturing) and ODM (Own Designing Manufacturing). Investment mode is the ultimate choice, mainly referring to Foreign Direct Investment (hereinafter called FDI), which including wholly-owned Subsidiary, joint venture or transnational merger, and international equity participation. Except for the above mentioned modes, internationally strategic alliance is usually used by large-scale enterprises which has high creative ability to open up international market. It focuses to "strategy" and is consistent with long-term

planning of enterprises.

Table 1 Classes of Entry Mode Selection in international market

Classes of Mode	Subclasses
Trade mode	Indirect Export Direct Export
Contract mode	Licensing or Franchising Contracted Manufacture Management Contract Technical Agreement Service Contract CounterTrade Arrangement
Investment mode	Joint Venture Wholly-owned Subsidiary Purchase
Other ways	Multinational Alliance

Note: The above data is according to related information compilation.

Entry mode we chose to enter the international market concerns not only about whether the enterprises can enter the international market successfully, but also about the further development, and further, about the competitive position in the global market and the steps of the international operation. As for the salt industry enterprises, which priliiminarily set steps in the international market and the international level is inferior, it is very important strategic significance to discuss the problems of entry mode selection prospectively.

2. MOTIVATION OF INTERNATIONAL OPERATION OF SALT INDUSTRY ENTERPRISES

Salt industry, as a resource-based industry, has distinct nature of resource dependence. superadding the systematic reasons, essentially the competition among salt industry enterprises is a closed-end domestic competition. In the background of economic globalization and the juncture of China's economic system transition, it is an inevitable tendency that salt industry enterprises will step into the opening ways from domestic market to the international market.

2.1 The requirement for participating in the global economy

It is of strategic significance to enter the global market for the salt industry enterprises with the development of China taking part in globalization. After entering into WTO, international competition shifted to domestic market obviously. The living circumstance of Chinese enterprises is becoming increasingly serious. Accompanying with the decline of the effect of the monopoly policy which Chinese salt industry enterprises rely on, policy space dwindled and systematic problems appeared gradually and sustainable development turns to the biggest challenge for salt industry. In the face of increasingly incandescent competition, salt industry enterprises should "go out", which is not only the way to make full use of international and domestic markets and increase economic benefits, but also has important significance in raising level of table salt monopolization and building comparative advantage of competition.

2.2 The requirement for adjustment of salt industry structure

With the rapid development of science and technology, world-wide economic structure upgrades continuously. Speeding up the steps of international operation expands the space of Chinese salt industry structure adjustment. Firstly, it provides the possibility for domestic salt industry enterprises to introduce and make use of foreign capital and economic elements acceleratorily; secondly, it can relieve the acute problem of productive excess and utilize multinational transfer of technology and equipment, so as to grasp the transfer rules of the world industrial construction and accelerate industrial structure upgrading; thirdly, it offers the opportunity for the capture of international market information and consumption tendency, hence guiding the adjustment of product structure. Furthermore, it can boost institutional innovation, nurture large-sized transnational corporations and enhance the overall competitiveness of salt enterprises.

2.3 The requirement to open up the foreign market

The motivations to enter the global market for transnational corporations were classified into four groups by John Dun-ning, the famous British expert in the multinational corporation theory: resources seeking, market seeking, efficiency seeking and global strategy. The current table salt monopolization system, together with the relatively invariableness of salt product volume in sales and production, makes competition among the sea-salt, well and rock salt, and lake salt corporations more fierce. Salt industry enterprises carry out the marketing operation to form the intra-industry market and competition pattern. In view of this situation, Chinese salt enterprises accelerate the international operation and expand export for the purpose of searching and developing the overseas market to release compressive stress of surplus production. Meanwhile, it can make full use of the nature, technology, talent and fund resources to optimize world wide product elements and

open up the global market and control the resources by means of the FDI.

2.4 The requirement to acquire advanced technology and enhance competitive power

Based on the works of Solow, Roemer, Lucas, Arrow and other authors, which discuss and demonstrate the decisive function of technology to economic growth, high-tech industrialization, technology and knowledge innovation become core factors in current international economic competition. In the recent years, Chinese salt industry enterprises obtain some achievement in technology and management importing. But due to the restriction of international technology transfer policies and non-imitativeness of management experience, which is the important part of the core competitive power, what we can introduce are all the standardized mature techniques and manage rules. Only by overseas direct investment, especially the co-operations with foreign corporations, we can break the blockade on techniques and economy to acquire high-tech and thought-core advanced management, and enhance the international competitive power of domestic salt enterprises.

3. THE PRESENT SITUATION OF INTERNATIONAL OPERATION OF SALT INDUSTRY

Professor Cavusgil, University of Michigan, divided the international operation of enterprises into five stages: (1) stage of domestic sales, the main business concentrates on the domestic market; (2) stage of pre-export, being interested in the global market, collecting information consciously, investigating the global market and starting fitful international sales operation; (3) stage of immixture experimentally, the main business concentrates on the indirect export and start small-scale international sales operation; (4) stage of active participations, exporting to other countries by the ways of direct export; (5) stage of international strategy, making global

strategic plan as the main objective of the global market. According to the theory above, our salt industry enterprises are still in the preliminary stage, mainly shown in three aspects as follows.

3.1 Relatively backward ways of international operation

Our salt industry enterprises are still at the preliminary stage and international operation ways are backward, mainly behaving in the scarcity of technology equipment importation and salt products export. Our salt-making industry enterprises realized industrialization production basically while most of the equipments are all domestic productions. Only a few imported equipments were used in succession through technical transformation in recent years in some salt-making enterprises. Owing to absence of risk, indirect export is the main way to enter the global market for salt industry enterprises. because of cost saving, it is the effective way to accumulate the experience during the initial stage whereas for our enterprises, we cannot acquire the direct experience of transnational operation and get feedback timely.

3.2 Exporting products on a small scale

According to the statistics, global consumption markets of salt products concentrate on the Europe, America and Asia with total trading volume beyond 20 million tons. The salt trades in North America and Europe mainly depend on self-support while the salt requirement from the most important importers such as Japan, Korea, Philippines and Indonesia in the Asian market accounts for more than 50% of quantum of world salt trade with yearly import reaching 10 million tons. With the development of international trade, the requirement from Asia market is increasing gradually. The import products mainly are made from Australia and Mexico, however, the market share of national companies is so tiny although China is close to Japan and Korea. the total amount of import

and export is basically small but steady. The export of salt products from our country was only 768.9 thousand tons in 2007, accounting for 1.24% of the whole annual output while the import is only 1595.6 thousand tons, so as that 10% of the whole productivity cannot be utilized effectively.

3.3 The lack of long-term stably strategic partners

Between Chinese salt industry enterprises and the foreign clients ,only the simple mercenary relationship exists. They only focus on the short-term purchasing behavior rather than the long-term strategic partnership relationship. Consequently, they seldom set up alliances. As salt product exporters, most of them are middlemen and some of them are intermediaries. They are lack of professional talents in salt product operation and devote little in international salt marketing, and merely satisfied with simple sale.

4. THE MODE SELECTION OF INTERNATIONAL OPERATION FOR SALT INDUSTRY ENTERPRISES

4.1 Giving priority to direct export and taking indirect export as a subsidiary

Direct export means enterprises set up sales network by themselves in the global market and manage business directly. Because they must establish export department and overseas marketing channel, and send sales delegate, the risk and investment is too high in the short term. But in the long run, it is beneficial to grasp the market quotation, establish closed contact with foreign clients, seize the initiative in circulation field, shorten currency links in the foreign market, save cost and acquire international experience to enter the foreign market directly.

The first problem we should consider is cost control to develop direct export. At the beginning of 21st century, the average price of our salt products is 5\$ which is higher than that of Australian products. Only 80 persons

were needed to produce 3 million tons while 30000 persons in China. Although industry concentration was somewhat increased recently and cost decreased, there are huge gap between China salt industry and the foreign corporations. Therefore, we should strengthen technological innovation, increase the momentum of advanced technology application, establish professional and efficient scale modern production system to enhance production efficiency and reduce production cost. And then, we should enhance the marketing capabilities, push forward reform of modern cargo movement system, raise the level of marketing planning, strengthen the market sorting and train the international market team to form rational sales network and enhance the efficient and quick capacity of clients service. Finally, we should strengthen the ability of brand service and protect and manage the intangible assets concerned with brands. Except that, because of the objective existence of international trade barriers, we should adapt to the international convention, try our best to meet the requirement of market admittance in the matter of quality management and standardization construction, specially pay attention to acquire the trust from foreign clients by accepting third-party certificate authority (for example: ISO series and OHS series international certification), and bring the fields of accounting, auditing and corporation management in line with international conventions fully.

4.2 Giving priority to contract-based Alliance and taking equity-based alliance as a subsidiary

owing to the limited economic strength and element difference and without the proper conditions to direct invest in the foreign market on a large scale, it is the relatively practical selections for our salt enterprises to establish tactical alliance. The most common type of contract tactic alliance is through joint market development and joint market action. Without concerning about the problems of

capital contribution and new braches, contract tactic alliance is relatively simple to manage corporation, and it can keep its flexibility to seek tactic cooperators and enlarge scope of cooperation while equity-based Alliance might be restricted for corporations and confronted more business risk.

The key to establish a contract tactic alliance is how to choose tactic cooperators. The process of establishing a contract tactic alliance is a process of resource integration to seek synergistic effect essentially. Thus, the main problem is the existence and nonexistence of the cooperative elements and how much they are? The strategic resources of salt enterprises mainly include funds, marketing, management, decision-making, corporation culture, technology, raw material supply, policy environment, etc. We should analyze the conditions of both sides and estimate the complementarities to choose collaborative partners, modes and degree of cooperation. In addition, the problem that needs to be noticed is that enterprise resources are not static conditions and the competitive position and strategic advantages of both sides will change along with time dynamically. Hence, on the one hand, we should construct and promote competitive advantages, on the other hand, it is necessary to trace and monitor the condition of resources and ability of cooperators and potential cooperators.

4.3 Developing FDI in proper time

FDI, which participate in international market directly, is the advanced stage and core content of enterprises internationalization. Although our salt enterprises are at preliminary stage of internationalization, it is an inevitable tendency to upgrade to the advanced stage gradually. As for some salt enterprises which are relatively strong and have some experience of international operation, FDI would be considered and it can really expand their development space. For example: Hainan salt import and export trade company, which is the first salt products export company to pass ISO9001, 2000

quality standard system and HACCP (Hazard Analysis Critical Control Point), the export amount reached 12 thousand tons, including 5 thousand tons pickle salt that was exported to Korea. In the recent years, the export amount and profits increased year by year.

At present, the modes of FDI can mainly be classified into several types below: (1) Building up proprietorships. Proprietorship, with high control degree, should be chosen to solve the problems about information asymmetry, market failure and opportunistic behaviors. (2) Setting up sales network. The establishment of our own global sales network might be convenient for sales in overseas market, reducing intermediate linking and brand internationalization. (3) Cross-border mergers and acquisitions. As the most important ways of transnational capital flow, mergers and acquisitions mainly reflect capital operation ability of transnational corporations. More than half of the gross FDI per year flowed by means of transnational mergers and acquisitions. (4) Overseas Listing. As a extremely important link of international operation for enterprises, Overseas Listing can be used to relieve the bottleneck of fund shortage in the process of enterprise development.

Based on the current conditions of Chinese salt industry, the precondition of FDI is to expand business scale of parent company and strengthen controlling force and supporting capacity. Accordingly, salt

enterprises, which can meet the requirements of international operation, should seize the opportunity of salt industry adjustment and national industrial policy. On the one hand, we should make great efforts to enlarge our own business scale, strengthen the core business and increase economic effects of enterprises. On the other hand, we should grasp the opportunity to speed merger reorganization steps, eliminate excessive competition, promote the process of oligopoly market, enhance the capital operation to enlarge the scale of enterprises rapidly, increase the market power of companies and set up a stable "Base Camp", which has powerful radiating ability and develop steadily, to push forward the international operation.

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