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A conceptual model for predicting overseas market entry order decisions

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Abstract
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Keywords
Conceptual, Model, for, Predicting, Overseas, Market, Entry, Order, Decisions

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A conceptual model for predicting overseas market entry order decisions

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ABSTRACT

A conceptual model for predicting overseas market entry order decisions

I investigate the factors that influence firms’ order of entry into overseas markets. The existing literature identifies a range of firm and industry characteristics that influence the timing entry decision. I extend this research by developing a holistic conceptual model that explains how these factors interact to create conditions leading to first, second and late mover strategies. The paper argues that the factors combine to create strategic scenarios for each entry order. I undertake a four-step process to explain how managers may use this conceptual model to plan appropriate entry order decisions for each scenario. A key to the process is the ‘operationalisation’ of these factors through a measurement framework. By applying the measurement framework to a two-dimensional decision matrix, managers may be able to quantify the timing decision leading to more informed and confident overseas entry decisions.

Keywords: market pioneering, first mover strategy
A CONCEPTUAL MODEL FOR PREDICTING OVERSEAS MARKET ENTRY ORDER DECISIONS

Is it possible to develop a model that will help managers make appropriate overseas entry order decisions? Under what conditions is a first, second and late mover strategy most appropriate? What factors influence these strategic conditions and how do they interact? Can we measure these factors and, if so, how can we quantify them to create a decision model that managers may use with confidence?

In this paper, I examine these and other related questions. The majority of previous research in this area has focused on the relationship between entry timing and firm performance (see Robinson and Fornell, 1985; Lambkin, 1988; Mascarenhas, 1992; Brown and Lattin, 1994; and Huff and Robinson, 1994). This literature has limited application for managers because the findings are quite generic and do not take into account industry or firm-specific contexts. Of more interest to managers are a few studies that examine the factors that determine when a firm enters a new market or takes other pre-emptive market action (e.g. see Thomas, 1996; Schoenecker and Cooper, 1998).

Two recent organisational developments have led me to question the need for an extension of this literature. First, today’s international business environment is characterized by the increasing speed of competition. Within this context, the advantages gained through speed to market, e.g. first mover advantages, are significant. Lorange (2000) argues that the increasing emphasis on finding new business opportunities is changing the nature of strategy, largely because traditional product life-cycles will be increasingly shorter, requiring a more accelerated recovery of investment. Strategic advantage is short-lived, meaning timing decisions become even more critical. Second, the increasing importance of effective corporate governance means that managers require rigorous information and analytical models to justify strategic decisions, such as overseas entry order. Such decisions can no longer be justified on instinct or intuition but must be supported by appropriate decision models. The difficulty is in measuring the factors and explaining their underlying relationships. This paper addresses this important gap in our understanding of the market entry order decision.
The three-fold purpose of this article is to (1) review the current literature on factors influencing the overseas market entry order decision, (2) provide a conceptual framework identifying the factors that combine to create appropriate order decisions, (3) provide a measurement framework to ‘operationalise’ the conceptual framework and bridge the gap between theory and practice.

DEFINING OVERSEAS MARKET ENTRY ORDER

The timing of entry to a market is a competitive action. This is designed to give the firm a competitive advantage in the marketplace. A first mover is a firm that takes an initial competitive action. The idea was first introduced by Schumpeter (1961). He believed that firms achieve competitive advantage through entrepreneurial and innovative actions. The idea of first mover advantage is that the initial occupant of a strategic position or niche gains access to resources and capabilities that a follower cannot match. The simplest form of first mover advantage is patent or copyright. We tend to think of first movers being first to enter a new market but it also involves actions such as being the first to allocate funds for product innovation and development, aggressive advertising, and advanced research and development. The outcomes may be either (1) the first firm to enter a new market, (2) produce a new product, or (3) use a new process (see Lieberman and Montgomery, 1990).

EXISTING RESEARCH ON FACTORS INFLUENCING OVERSEAS ORDER ENTRY

The question of which factors influence the overseas entry order decision has received surprisingly limited attention in the literature. I have found only five studies that have examined the factors that affect entry timing. Mitchell (1989) proposed that specialized assets are the major determinants of whether and when industry incumbents would enter an emerging sub-field of the industry. These assets have idiosyncratic value in the new product/market. The findings indicated that only one of the three specialized assets examined – possession of a direct sales force – was significantly related to
entry timing. Robinson, Fornell, and Sullivan (1992) found support for the ‘comparative advantage’
hypotheses. They found that possession of particular resources and capabilities should lead a firm to select
an entry timing strategy. There were two factors related to pioneering: strong finance skills and internal
mode of entry. Shama (1995) identifies a number of macro and domestic market factors that appear to
influence entry order decisions. Thomas (1996) found that brand capital has an effect on entry timing. He
found that firms with large stocks of brand capital, measured in his study by total number of cereal brands
sold by a firm, were more likely to enter a new market segment early with a new brand. Finally, Schonecker and Cooper (1998) provide the most comprehensive empirical study of the factors influencing
the entry timing decision. Their study differs from previous work in that it includes both firm and industry
characteristics. My study extends this work by developing an integrated decision model based on the
‘stage-gate’ concept developed by Cooper (1996).

THEORETICAL DEVELOPMENT

In line with my objective of developing a decision model, I suggest that the overseas entry timing
decision involves several inter-related steps. First, the market opportunity must be identified. This occurs
through a combination of market scanning proficiency and luck. Second, the firm must decide whether to
pursue the opportunity. This is driven by the firm’s entrepreneurial behaviour and the urgency of the
opportunity. Third, the firm must be capable of capturing the opportunity. This is determined by a
combination of firm-specific and generic attributes. Fourth, the firm must be able to convert the first
mover mechanisms. This involves a range of factors that combine to create conditions favourable for first,
second, and late mover strategies. The most appropriate strategy is determined by the firm’s ability to
convert these mechanisms to create conditions more conducive to each timing sequence, better than rivals.
Fifth, the firm’s strategic objectives, in terms of the rewards expected, will provide a final checkpoint.
Rewards may be measured in terms of profitability, market share, sustainability, and survivability.

In addition to conceptualising that a firm’s overseas market entry decision as a five stage process I
also consider it to include a series of go/no go gates. That is, each stage in the process culminates in the
hard managerial decision of whether the project looks promising enough to ‘go’ forward to the next stage or whether the appropriate strategic decision is a ‘no go’ with the project not proceeding any further. These types of ‘stage-gate’ models have received considerable attention in the new product development area and have proved to be a beneficial aid in the managerial decision process (Cooper 2001). Firms adopting a stage-gate approach to the new product development process have reported greater success rates, up to 30 per cent shorter cycle times, improvements in product teamwork and earlier identification of failures (Cooper 1996). The result is a complex taxonomy of factors influencing the market timing decision which I aim to distil into a series of stage-gate decision steps.

**Stage 1: The market opportunity**

The decision to enter an overseas market is initiated by a market opportunity. Lieberman and Montgomery (1988, 1990) explained that the market environment creates the opportunity. They argue that the firm cannot simply choose whether or not to pioneer, rather that pioneering opportunities arise endogenously, through some combination of firm proficiency (capability) and luck. They suggest this proficiency includes technological foresight, perceptive market research, or skillful product or process development. Capability in these areas means the firm is better able to spot the “strategic windows” (see Abell, 1978) that may emerge for a short period of time in any market. This provides our first ‘strategic scenario’ explaining the conditions that combine to suggest the most appropriate timing sequence decision. Those firms who meet the conditions appropriate for a first mover strategy must then decide whether to pursue the opportunity.

**Stage 2: The decision to pursue**

The decision whether to pursue the opportunity is influenced by the firm’s entrepreneurial behavior and the urgency of the opportunity. The entrepreneurship literature suggests that market innovation is a result of a trade off between risk and reward. In this way, the firm’s attitude towards risk taking will play a role in the entry timing decision. In international business, the firm’s entrepreneurial behavior is influenced by its strategic approach. There are a number of definitions of strategic behavior
that help explain firm entrepreneurship in international business. Miles and Snow’s (1978) typology of strategic types – prospectors, analysers, and defenders – is an illustration of the different approaches to innovation, risk and entry order. Bartlett, Ghoshal and Birkinshaw’s (2004) typology of ‘strategic postures’ is often used to differentiate strategic behavior in international business strategy. Global strategy firms are less likely to innovate because they focus on cost reduction and economies of scale and are probably less likely to take risks. On the other hand, multi-domestic strategy firms are more likely to innovate and take risks due to their need to ensure local market responsiveness. The middle ground adopted by transnational strategy firms is likely to include some aspects of risk and caution.

Some researchers argue that the increasing speed of international business is changing the dynamics underlying the overseas timing decision (Zahra and Ellor, 1993; Makadok, 1998; and Lorange, 2000). In some circumstances, market conditions, such as unmet demand, and shortened product life cycles, combine to create a sense of urgency that pushes firms towards first or early mover strategies rather than later entry. Lorange (2000) argues that firms must continually innovate to produce new product ideas that differentiate in the market. Further, the testing of new ideas must proceed quickly to determine which are commercially viable. He concludes by stating that ‘rapid-expansion’ efforts must take place ‘ultra-fast’, so as to quickly establish a strong and exclusive global monopoly position, to recover the investment and make profit. Lorange extends existing notions of first mover advantage by suggesting that strategy is no longer about establishing and defending an industry position to maintain competitive advantage, rather it is about using strategic human resources to develop new strategies to establish exclusive new positions as quickly as possible. Zahra and Ellor (1993) identify a range of innovation processes necessary for ‘speedy new product development’. Makadok (1998) reminds us that first mover advantage may not be sustainable in new ‘hyper-competition’ markets, characterized by constant, dynamic market changes and the need for ultra-fast competitive responses.

Therefore, the firm’s decision to pursue the market opportunity is determined by its degree of entrepreneurship and sense of urgency created by the market conditions and the firm’s innovation processes. Entrepreneurial firms are more likely to accept the risks associated with pioneering. But even
entrepreneurial firms must be supported by adequate innovation processes in order to capture the opportunity. This provides our second ‘strategic scenario’. Firms who still meet the conditions appropriate for a first mover strategy must then decide whether they are capable of capturing the opportunity.

**Stage 3: Capturing the opportunity**

The firm’s ability to capture the opportunity is determined by a combination of firm-specific and generic industry attributes. Schoenecker and Cooper (1998) argue that while the firm’s ability to identify, pursue and capture first mover opportunities will differ, the type of capability, and their relative importance, will vary across industries. For example, Schoenecker and Cooper (1998) suggest that superior technological resources will drive first mover behavior in some industries, while access to a direct sales force may be more important in other industries. The basis for this research lies in the resource-based view (RBV) of the firm (see Wernerfelt, 1984; Barney, 1991).

Given that firms will have differential ability to capture first mover opportunities, what abilities and resources are required? Previous research has identified a range of firm-specific resources including: technological, marketing, and financial resources (see Schonecker & Cooper, 1998; Kerin et al, 1992). I add two further organizational attributes to this list based on preliminary discussions with senior industry managers on the conceptual model developed by this paper; management attributes: market experience and attitudes towards risk etc; and organisational culture: attitudes towards innovation and learning. At the industry level, Schoenecker & Cooper (1998) identify factors common to many firms in the industry which are not inherently advantageous (as resources are) including: commitment to a threatened market, size, and firm diversity. This provides our third ‘strategic scenario’. Firms who still meet the conditions appropriate for a first mover strategy must then decide whether they are capable of enabling the
mechanisms underlying this strategy (i.e. implementing the strategy). Table 1 provides an illustration of the way to ‘operationalise’ each of these strategic scenarios.

Table 1

Please insert table 1 about here

Stage 4: Converting the first mover mechanisms

If the firm is capable of capturing the first mover opportunity, it must still be able to ensure it can reap the benefits of the strategy, and implement it successfully so that there is a reasonable lead time before others follow (see Kerin et al., 1992). Given that firms will have differential ability to convert first mover mechanisms, what is required for successful strategy implementation and what benefits are likely to accrue? Previous research has identified a range of factors underlying the cost and differentiation advantages likely to accrue to or be endowed by the marketplace on a first mover, including: economic factors (Kerin, et al., 1992); pre-emption factors (Sarkar, Cavusgil and Aulakh 1999; Calantone and Schatzel, 2000); technological factors (Michael, 2003); behavioral factors (Kerin, et al., 1992); and strategic factors (Kerin, et al., 1992); economic indicators (Nakata and Sivakumar, 1997); cultural factors; industry key success factors (KSFs); government factors (Rahman and Bhattacharyya, 2003); product type; product life cycle; relationship between cost advantage and positioning. I add to this list by including a new category called ‘strategic factors’. The list provides two insights. First, it identifies areas where first movers may achieve a competitive advantage over rivals. Managers may use this list as a further checkpoint for the overseas market entry timing decision by determining whether the firm has an advantage in these areas, and if so, the relative strategic importance of this advantage. Second, it provides a list of what the firm must do to sustain first mover advantage. Once again, managers may use this to check whether the firm can perform well in these activities, therefore, successfully implementing a first mover strategy. This provides our fourth ‘strategic scenario’. Firms who still meet the conditions

1 The Conference’s page length restrictions precluded inclusion of tables for each strategic scenario.
appropriate for a first mover strategy must then evaluate the rewards associated with being a first mover against the firm’s performance objectives.

**Stage 5: Measuring the rewards**

If the firm is still considering a first mover strategy at this stage in the decision process, a final checkpoint is the rewards likely to occur. Previous research on overseas entry timing and firm performance asks whether being a first mover is worthwhile. Rewards for positional advantages arising from first mover status are usually measured in terms of market share and profitability (Kerin et al., 1998). I add two further dimensions to Kerin at al.’s work – sustainability and survivability.

If we accept the view that is worth it due to market share and profitability, the next question is - how long can it last? First mover advantages are temporary and vary based on the ease with which competitors can imitate the action. Ghemawat (1986) argues that not all industries offer equal opportunity to sustain an advantage. First mover advantages tend to be most potent in industries characterised by: durable, irreversible, market-specific assets, either tangible or intangible. Industries that evolve gradually offer more room to sustain advantages than those that are regularly rocked by drastic changes in technology or demand. To create sustainable competitive advantage, you must have competitors with restricted options or be able to pre-empt them. Ghemawat (1986) concludes by arguing that pre-emptive moves seem best suited when there are big changes with technology, demand patterns, or input availability. Given the importance of imitation in sustainability, I suggest another important factor is to measure the ability of the firm to either create barriers to imitation or to imitate. Lee et al (2000) argue that the sustainability or durability of first mover advantage will depend upon the speed of rivals’ imitation.

Recent research seems to confirm that the probability of survival increases if an international business enters a national market after several other foreign firms have already done so. The late entrant may benefit by observing and learning from the mistakes made by early entrants. Robinson and Min (2002) look at survival rates for first and early movers. It is conventional wisdom that while early movers
potentially reap the highest returns, they also bear the highest risk. Research predicts a relatively high market pioneer attrition rate. Golder and Tellis (1993) report a lifetime market pioneer survival rate of only 53%. They suggest that the failures occur early on due to market and technological uncertainty. The pioneer’s best chance for survival is to have a reasonable lead time before the second mover arrives to benefit from the monopoly advantages. Therefore, the pioneer lead time is a key factor in survival rates – the longer the lead time, the better. Lead time, in turn, is influenced by creating barriers to entry. This provides our fifth and final ‘strategic scenario’. Firms who still meet the conditions appropriate for a first mover strategy should then pursue a first mover strategy. Managers who meet these conditions, but are still uncertain, might reflect on the advantages of being a late mover.

**Later entry advantages**

If the manager is still unsure of the most appropriate strategy at this point, it may be useful to consider the advantages of being a late mover. These include lower imitation costs, free-rider effects, scope economies, and learning from the pioneer’s mistakes (see Lieberman and Montgomery, 1988).

From this literature review, I have developed a conceptual model that may be used to guide decisions on overseas entry timing. The model is presented in Figure 1.

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Please insert figure 1 about here

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**MEASURING THE FACTORS**

The challenge is to ‘operationalise’ this model so that managers may use it to make decisions. I suggest this may be done using a four step process. First, managers may use the strategic scenarios present in this article to provide an overall guide for making the overseas market entry timing decision. Each scenario (see Table 1 for example) explains conditions that the firm must meet in order to choose an appropriate entry timing strategy. Second, managers require a method to identify the information necessary to assess each factor in the conceptual model and a process for evaluating this information. For
example, Strategic Behaviour (Scenario 2) is relatively easy to define and measure by using Bartlett & Ghoshal’s (1991) typology. On the other hand, the Difficulty in Imitating Technology (Scenario 4) requires a subjective assessment. Third, managers should ‘quantify’ the analysis emerging from step two to provide consistency and ease of use in the models application. I suggest this may be done by coding each factor input on a scale of 1 to 5, where 1 is poor and 5 is excellent. In this way, managers may be able to derive ‘scores’ in each factor, leading to decision model that is traceable and able to be validated. Finally, I suggest it may be possible to develop an on-line database that will make the model easy to use. The objective would be to input a fixed rating for ‘generic’ factors and to enable variable factors to be manipulated by local managers, where appropriate.

**CONCLUSION**

This article presents a method for making effective decisions about overseas market entry timing. Several researchers argue that market pioneering, in itself, does not guarantee long-term success (Tellis and Golder, 1996; Rahman and Bhattacharyya, 2003). Rather, first movers who have the added advantages of vision, persistence, commitment, innovation, and asset leverage tend to be market leaders. Kerin, et al, (1992) suggest that pioneering can only provide opportunities for gaining positional advantages. Actual competitive advantages depend on product-marketing contingencies and the actions of the first mover and later entrants. The real case for first mover depends on the ability of the firm to sustain its position and negate second mover actions. It is also organisational reality is that most firms are later entrants. Firms need to recognize that me-too/imitative strategy is legitimate and there is also scope for later entrants to be innovative.

Despite this, positional advantages can still provide significant benefits, such as high market share, customer relationships, and so on. The increasing speed of international business makes the overseas market entry timing decision even more important. In many cases, the ‘strategic window’ presented by first mover opportunities is very transient. While the ability to spot opportunities is important, this paper has shown how the ability to capture the opportunity, the capacity to implement the
strategy and create mechanisms to sustain this position, and the ability to create associated rewards represented an inter-related series of steps that may be presented as a decision tree. Given the importance of getting overseas market entry timing right, managers require a rigorous method for identifying, measuring, and codifying the entry timing decision. This paper provides a process to assist managers achieve this objective. Its contribution to the academic literature is to extend Kerin, et al’s (1992) model to include specific cause and effect relationships and a wider range of factors, and to develop ‘strategic scenarios’ that managers may use to guide their timing decisions. Managers may use this as a checklist to determine whether their competitive action meets to conditions making first mover strategy appropriate at each of the five steps or scenarios identified by the paper. Further research might examine the methodology necessary to code the factors proposed in the conceptual model (see Figure 1).
Figures

Figure 1. Preliminary conceptual framework on the decision making variables involving overseas market timing strategy
# Tables

<table>
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<th>Third mover</th>
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<td>Strong management experience</td>
<td>Moderate management experience</td>
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<td>Organizational culture that encourages innovation</td>
<td>Organizational culture that encourages innovation</td>
<td>Organizational culture that discourages innovation</td>
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| Industry-level characteristics | | |
| Rivals uncommitted to the market | Rivals are somewhat committed to the market | Rivals strongly committed to the market |
| Relatively small firm | Relatively medium sized firm | Relatively large firm |
| Not diversified | Somewhat diversified | Diversified |
REFERENCES


