GENCO EXPANSION INTO A NEW GLOBAL MARKET:

KAVA EXPERIENCE

PROBLEM STATEMENT

 What strategies may be implemented by Genco to establish its presence in the KAVA market?

AREAS OF CONSIDERATION

1. Geographical Location

Kava is an island country in the South Pacific. As such there may be problems in transporting some inputs that are only available in the home country. As an island, the market may only be confined to the place and expanding into sub-markets may be difficult.

1. Demographics

The possible source of human resources may not be that feasible because over 50% of the country’s population are under 15 years of age. At such a young age, they cannot be tapped as labour force for Kava yet.

The remaining 50% are either old enough to perform effectively or may not be that old but lack the necessary knowledge and skills for the job. This would mean either training them or getting people from the home country.

1. Economic condition of the place

The country is abundant with raw materials that may be utilized by the company in its operations. As such, the company could have an advantage in terms of cost and availability of raw materials. However, the possible threat is that the people (mix of indigenous tribes) may be indifferent or may consider the manufacturing activity of Genco as an intrusion to their privacy.

1. Natural environment

There are factors that are beyond the control of the company that would adversely affect its operations. These include the natural calamities and disasters. However, what the company may do is to be proactive or to prepare for such events.

1. Social /Peace and Order/ Health Situations

The company’s operations may be threatened by the activities of terrorist groups as well as the susceptibility of the people to some diseases.

1. Foreign regulations

Commercial laws, government ordinances, and other policies and regulations in the area must be taken into account to avoid future legal problems.

1. Support of government and non-government organizations

Government and non-government organizations have been very receptive of the business plan of Genco. However, it could be a cause for the company to be alarmed because of the possible expectations that these groups are hoping for in return.

1. Ethical Issues

Business standards and practices vary from one country to another. What may be ethical in one country may be less ethical or even unethical in another country (Kotler, 2001).

Genco may decide to either lower its standards or put its standards to a higher level to cope with the ethical standards in the area.

1. Global competition in the area

Competitive situation must be taken into account. This will not only include direct competitors (companies) but also indirect competitors (substitute products).

1. Genco Mission and Management Orientation

One of the company’s missions is, “To upgrade who we are, what we do, and how we do it”. This implies a strong determination of the company to pursue its plan as a way to further build its name.

Parallel to the company mission is the management orientation which is “Doing what is right for the people and for the company”. This connotes ethical behaviour and social responsiveness.

ALTERNATIVE COURSES OF ACTION

1. Exporting

This is either indirect or direct exporting. In the indirect exporting scheme, Genco may work through independent intermediaries. Domestic- based export merchants buy the manufacturer’s products then sell them abroad or to Kava. Cooperative organizations would engage into exporting, in behalf of its member producers.

The advantages of indirect exporting include: less investment and Genco does not need to develop an export department and overseas sales force (Kotler, 2006).

Direct exporting requires Genco to make a commitment to expand into a particular market. The company produces its goods in the home country and sells it to the foreign market. In this option, investment will be large and the risk involved will be high, relative to indirect exporting.

1. Licensing

In this structure, Genco would issue a license to a foreign company to use its manufacturing process, trademark, patent, or other items of value, for a fee or royalty (Kotler, 2006).

In terms of entry, it would be easier but there is a risk because the licensee would learn the production expertise and gain an opportunity to use a known product or brand name.

The disadvantages of this scheme include: the success of the business would not totally benefit Genco, a possibility that when the license contract is finished, the licensee may turn out to be a competitor.

1. Franchising

Under this structure, Genco would offer a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to Genco, the franchiser.

1. Direct investment

In this setup, Genco would have direct ownership of the manufacturing process in the foreign country and build its own facilities in the area.

The following are the consequences of this set-up

1. Genco could take advantage of economies of scale in terms of labour and raw materials.
2. It could build its relationship with Kava, the host country because of: job creation and additional revenue in the form of taxes.
3. Full control of investment and company operations
4. Genco may easily build a strong relationship with consumers, the government, suppliers, and other stakeholders.

The possible disadvantages of this setup include: high risk due to large investment requirement and other factors that may not be within the control of the company (e.g. natural calamities, indifference/rejection by the community members due to cultural and psychological factors).

RECOMMENDATION

Based on the above considerations and the evaluations made on the alternatives, the following is recommended:

1. Initially, Genco may tap the opportunity in the Kava market through direct exporting. This would mean that during the first two (2) years of its expansion activities, the company may go into direct exporting of its products to Java. This is to allow the company to put its initial presence into the market while continue preparing itself for more deeper and serious business commitments in the future. This would allow the company to get feedbacks on how well its products are accepted by the Kava market. Feedbacks would also serve as lessons to further improve its product offerings.

While the company is going into direct exporting to Kava, its facilities and equipment may be utilized in acquiring possible raw materials in the area at low cost, to be used in the home country.

1. During the 3rd year of having business with Kava, Genco may shift into direct investment, depending on its experiences during the first two years of marketing into the said foreign market.

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